

REVIEW OF FEDERAL FARM POLICY

HEARINGS

BEFORE THE
SUBCOMMITTEE ON CONSERVATION, CREDIT,
RURAL DEVELOPMENT, AND RESEARCH

OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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REVIEW OF FEDERAL FARM POLICY

MONDAY, MAY 1, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION, CREDIT,
RURAL DEVELOPMENT, AND RESEARCH,
COMMITTEE ON AGRICULTURE,
Harrisburg, PA.

The subcommittee met, pursuant to call, at 11:30 a.m., at the Farm Show Complex, Harrisburg, PA, Hon. Frank D. Lucas (chairman of the subcommittee) presiding.

Member present: Representative Holden.

Staff present: Josh Maxwell, subcommittee staff director.

OPENING STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. LUCAS. This hearing of the committee on Conservation, Credit, Rural Development and Research will come to order. Good morning and welcome. I would like to thank everyone for joining us today at the Farm Show Complex. I find it fitting that we hold today's hearing at this marvelous 25-acre facility that is dedicated to promoting Pennsylvania's diverse agricultural production. The Agriculture Committee is devoted to reaching out to all regions of this Nation, to listen to comments and concerns of producers that are affected by farm policy. The full committee has begun this process earlier this year and has already traveled to North Carolina, Alabama, Georgia, Nebraska and will be heading to Colorado and Texas, among other States, in the near future.

Mr. Holden and I have traveled here today so that Pennsylvania producers may voice their concerns on conservation, credit, rural development issues, as well as other important issues that must be addressed. The testimony we hear today and the information we gather over the remainder of this year will be used by the committee to draft legislation for the next farm bill. The shape of the next farm bill will be unclear until we receive a budget number next year. I would anticipate that the next farm bill will be written under much tighter budget constraints than the previous bill. This makes hearings such as this one today even more important as producers can make record of their priorities and improvements for the 2007 farm bill.

Many producers have also called for an extension of the current farm bill. While I agree that the 2002 farm bill is very successful and popular with the agricultural sector, many of my urban colleagues, perhaps, would not agree. With rising deficits and the goal

to reduce Federal spending, opening up the current farm bill would very well be a bulls eye to cutting funding, not to mention making it vulnerable to amendments on much more stringent environmental regulation. I will work with my colleagues in the Agriculture Committee to develop sound policy that provides producers with a safety net in the face of rising energy costs, unfair trade barriers and government regulation.

I ask that you inform your representatives of the importance of having a farm bill that provides you, the producer, with the ability to continue to provide food and fiber security to this Nation.

Before I begin, I would like to thank Mr. Holden for hosting the subcommittee here in Harrisburg, for the staff of the Farm Complex and the Pennsylvania Department of Agriculture for their hard work in making the arrangements for today's hearing. And I would also like to thank our witnesses, who have taken time away from their farming operations to testify before the subcommittee. With that, I most assuredly look forward to our testimony and I turn to my ranking member, the gentleman from Pennsylvania, Mr. Holden, for any comments he may offer.

OPENING STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PENNSYLVANIA

Mr. HOLDEN. Well, thank you, Mr. Chairman, and thank you for bringing the subcommittee here to Pennsylvania so we have a chance to, as you mentioned in your opening statement, look at what we were able to do in the last farm bill and what we need to do in the next farm bill as we look at all regions of the country and Mr. Chairman, I appreciate your leadership. We have been at this for some time now and it has been a great privilege and honor to serve with you as your ranking member, and I also want to thank you for your indulgence, as I mentioned last week, my opening statement might be a little longer than usual, so I appreciate that.

But Mr. Chairman, I look forward to hearing from our witnesses. Besides our well-qualified panel of witnesses, I would like to recognize Pennsylvania's secretary of agriculture, Dennis Wolff, who just had to leave for another meeting; the executive deputy secretary, Russell Redding; deputy secretary for agriculture and consumer protection, Bill Wehry; and deputy secretary for marketing and economic development, Cheryl Cook—Mr. Chairman, you might remember Secretary Cook testified at our rural development hearing a few weeks ago in Washington—who are here in attendance with us.

Mr. Chairman, agriculture is a vital component of the economic health of Pennsylvania and the northeastern States. The region's agriculture base is highly diverse; dairy, specialty crops, forest products and some traditional program crops form all the major part of the farm economy. The Northeast is home to more than 135,000 small and mid-size farms and has a total population of more than 60 million people. The livelihood of 4 million people in the region relies on agriculture, yet Northeastern farmers receive less than 1 percent of Federal agriculture subsidies.

The current farm bill has some successes we can point to; the dairy safety net, through the Milk Income Loss Contract Program and the largest investment in conservation in the history of recent farm bills. When we consider the next farm bill, I think we need to examine whether current conservation programs are working for all regions and the rising cost of energy and its effect on our farm families. Further, we should include specialty crops on our agenda. Pennsylvania is representative of the importance of specialty crops to the entire Northeast region. Specialty crops are taking on increased importance in Pennsylvania as more growers are producing for local and metropolitan markets in order to survive.

Specialty crops in Pennsylvania include everything from mushrooms to potatoes, from pumpkins to tomatoes. Jack Shafer is here today to talk about the variety of specialty crops that he grows. Specialty crops represent 32 percent of Northeastern agriculture, but only 21 percent in all of the United States. Generally, the industry has competed well with little Government intervention. However, our growers share problems with the rest of the Nation, including high energy prices and natural disasters. Production and sale of higher value specialty crops also offers a critical means of compensating for the Northeast high agriculture land values, which are 150 percent above the national average.

The Federal Government spends only about 3 percent of program crop dollars on specialty crops. Specialty crop producers across the Nation would benefit from the advancement of specialty crop programs to enhance production and marketing for this important industry. Specialty crop growers do benefit from conservation programs authored by USDA. Conservation programs assist our farmers and ranchers in strengthening their environmental stewardship, which is so important for looking after land and water that we will pass on to future generations. I look forward to hearing from Glenn Seidel about his experience with Federal conservation programs.

By investing in environmental protection of land and water, the public benefits from an overall improved quality of life. Our Nation's farmers and ranchers produce more than traditional food and fiber; well-managed agricultural land also produces healthy soil, clean air and water, wildlife habitat and pleasing landscapes, all of which are increasingly valued by rural and urban citizens, alike. The conservation title of the current farm bill has dedicated over \$17 billion for conservation, an increase of 80 percent.

During the farm bill debate, one of the major issues discussed was the original inequity of farm bill programs. Most farmers in the Northeast region do not benefit from traditional agriculture programs; they simply do not grow traditional crops in the numbers other regions do. Conservation programs offer them a way to continue in farming. The Farm and Ranch Lands Protection Program is a Federal farmland preservation program that reimburses agencies up to 50 percent of the easement purchase price. Pennsylvania lost 134,900 acres of prime farmland from 1992 to 1997. Since 1996, the program, in partnership with State and local governments and non-governmental organizations, has kept over 440,000 acres of productive farmland in agriculture uses across the Nation.

Farmland preservation is an excellent way of preserving farmland for many years to come and helps provide a means for maintaining a viable rural economy. Conservation programs such as the Environmental Quality Incentives Program are very important to dairy farmers in the Northeast region. The structure of dairy farms has taken a dramatic shift over the past decade. As a representative from a traditional dairy State in the Northeast, my biggest concern has been how to stabilize and keep small dairy operations in business. Pennsylvania is the Nation's fourth largest dairy producer. Dairy is the No. 1 agriculture industry in the State, representing 40 percent of revenue; and I am pleased to have dairy farmer Greg Hostetter here today to tell us about his dairy operation.

By some means, we must maintain opportunities for farmers like Greg to obtain credit. Congress created the Farm Credit System with the statutory mandate to serve agriculture as a permanent, reliable source of credit even in difficult times. There is inherent risk involving agricultural lending and the Farm Credit System plays an important role in agriculture risk management. I think we can improve the Farm Credit System to allow agri-businesses to better manage their risk and continue to provide food and fiber security to our Nation.

I look forward to considering any suggestions that the witnesses, especially Karl Laudenslager, may have to what Congress can do to ensure the Farm Credit System continues to be successful for farmers. In the way of encouraging success for our farmers, I am excited to be from the State that is leading efforts to lessen our Nation's dependence on imported oil. Pennsylvania is at the forefront of promoting renewable energy such as ethanol, biodiesel made from agriculture products like corn and soybeans. Biodiesel offers advantages to the United States since it is a cleaner burning alternative to petroleum based diesel. It is made from renewable resources like soybeans, reduces certain air emissions and it works in any diesel engine with few or no modifications.

Independence Biofuels has opened a biodiesel injection facility in Highspire in my congressional district, not too far from here. This fuel blending facility is the first in the Nation that can combine biodiesel with petroleum based diesel or other fuels before they are put into tanker trucks. I am also pleased to be able to attend the recent ribbon cutting ceremony for a new biodiesel plant here in my district in Middletown, also just up the road. AGRA Biofuels has the ability to process and produce 3 million gallons a year when operating at full capacity. The plant will employ approximately 50 people and Don Coccia, from AGRA Biofuels is here to offer his testimony today.

The new renewable standard in the 2005 energy bill, gasoline will be required to contain 7.5 billion gallons of renewable fuel annually by 2012, but I think we can do more to increase our use of these renewable fuels and become energy independent. Increasing use of biofuels will stimulate economic development in our rural communities. Rural development programs are vital to ensuring that our traditionally agriculture-based communities do not simply vanish because of farm and job loss. Rural development initiatives

help to advance our rural communities, develop new markets and provide for economic growth.

Keith Masser is here with us today to talk about his experience with the USDA value-added grant, which helped him to start a potato dehydration facility in Schuylkill County. Keith's terrific project was recently featured in USDA's Rural Cooperatives magazine. Value-added grants help producers add value to their products before marketing them, for example, by dehydrating fresh potatoes and increase the price paid to the farmer. USDA rural development importantly promotes economic development, helps communities undertake community empowerment programs and supports essential public facilities and services.

USDA's Community Facilities Program is vital for sound community development. It is probably the most successful USDA program in Pennsylvania. Increasing grant funds as well as direct loans available under Community Facilities Programs is a No. 1 funding need. The multi-year backlog is real and significant, currently with a waiting list of over 2 years. This program is essential for providing rural communities with the resources to prosper. When rural communities expand and improve drinking water and wastewater treatment facilities, they can provide cleaner water, protect the environment and attract industry to provide off-farm income.

Mr. Chairman, we have an obligation to enhance the quality of life in the Nation's farmers who are dependent on rural economies for their employment and economic support. We also have an obligation to the people of America to ensure a safe, affordable and abundant food supply. One major question we need to ask ourselves during the next farm bill is how do we structure and protect crucial assistance to our rural and farming communities and to our consumers. Mr. Chairman, again, thank you for coming here today and we look forward to the testimony from our witnesses.

Mr. LUCAS. Thank you, Mr. Holden.

A little background for our witnesses here; while Congress tends to be a place full of all sorts of partisan rancor, you will note, if you have ever been an insomniac and stayed up late at night and watched C-SPAN, that the House Agriculture Committee is one of the most bipartisan groups. We tend to work very closely together without regard to party or region; since we represent such a small part of America, we have to pull together. Isn't that right, Tim?

Mr. HOLDEN. Absolutely, Mr. Chairman.

Mr. LUCAS. And with that, I would like to invite our first panel who are seated at the table; Mr. Donald Coccia, founder and chairman of the AGRA Biofuels LLC, Middletown, Pennsylvania; Mr. John Shafer, specialty crop producer from Tamaqua; you would think with 39 Indian tribes in Oklahoma, I could pronounce that. Sixteen in my district and a few of yours, by the way, from generations gone by. And Mr. Gregory Hostetter, dairy producer from Jonestown, Pennsylvania. Mr. Coccia, start when you are ready, sir.

**STATEMENT OF DONALD COCCIA, FOUNDER AND CHAIRMAN,
AGRA BIOFUELS LLC**

Mr. COCCIA. Thank you very much. Good morning, Mr. Chairman, Ranking Member Holden and members of the subcommittee. It is a great pleasure to be here today.

It is a great pleasure to be here today to discuss the issue of agriculturally based alternative fuels and biodiesel production, in particular, with you. By way of introduction, my name is Don Coccia and I am the founder and CEO of AGRA Biofuels, where AGRA stands for America's Greatest Renewable Alternatives. I appear here today not long after accomplishing the surprisingly challenging task of building Pennsylvania's first commercial biodiesel production facility. The facility was dedicated in January of this year with the distinct honor of Representative Holden's presence at that event. Today my testimony is meant to support Representative Holden's leadership and to share ideas and concerns earned through my recent real-world experiences.

If I could leave just one thought with you here today, it is this: opportunity. There is just an unbelievable opportunity in developing this industry, both for the Nation and also for farmers. There are also a lot of challenges, though, that I want to talk about and specifically talk about in the production area that we are in. Without a doubt, my testimony really should say that it was just too hard; it was too hard to build a biodiesel facility. In an industry and a facility that the country desperately needs, it was too difficult, it was too uncertain, it was too expensive, it was too time consuming to build our facility, it really was.

I thought that we would be embraced with open arms by regulators, by communities, by financing institutions, by insurance institutions and in fact, we found just the opposite. Every step of the way was an absolute burden. In building what we thought was to be something that was to benefit the United States, was to benefit something that is very important and really the foundation, I think, of our economy, the energy situation. So why should that be important? Why should it be important that it was so burdensome for us to actually build this facility?

And on the one hand, there really is a lot of good that we can say about that because it is an extremely growing, fast-growing industry that provides a lot of opportunity, but the problem is that so many times when we confront anyone involved in the industry, it is an issue of first impression, whether it is a local regulator, State regulators, Federal regulators or anyone in-between in the private industry, it is always an industry of first impression and that is a result, really, of our growth.

So we began by building this facility in the hope that we could prove that alternative energy really served as an answer to the energy needs and the energy concerns that we have here in the United States today. We specifically researched all the alternative energies and came up with biodiesel; biodiesel because it provides opportunities immediately to actually help farmers, to create domestic production and has very few problems in actually introducing either alone, all by itself or in combination with regular petrol diesel in producing a fuel that we can use immediately.

We went about building the facility quickly so that we could prove that and in fact, we observed exactly what I talked about; uncertainty, problems at every turn that we still experience today. Our budget is actually 500 percent. We are 500 percent over budget as of today to build the facility and still waiting on some certain permits to get to full production. So my testimony today is to say this, there is a wonderful, almost unbelievable economic opportunity for us. And there have been programs that have been very helpful in getting the industry to its exponential growth in the last few years.

But what we need to now is to commit ourselves 100 percent, as the president, I think, has in the unbelievable, to me, even 2 years ago that I would see him in front of the Renewable Energy Association billboard, just last week. But to commit ourselves to developing the infrastructure, the administrative infrastructure that very much like we have in the State now, we have the Governor's Action Team and we have PennTech, that provides technical assistance.

The Governor's Action Team has the ability to bring together, with responsibility and authority, all of the regulatory bodies that are necessary to get something done and that is what we need to do at the Federal level. We need to create almost a new energy action team to provide one place, whether it is the authority, the responsibility and the information to actually get so that we are in a template position of building one new facility after another. This will lead to a number of different initial alternatives from financing, insurance ability, crop development and just a whole host of real benefits to the farming community and to our Nation, as a whole.

So in conclusion, I would just like to say it is an exciting time for alternative energy development. What we need to do now is to actually develop the infrastructure so that farmers can come and they can build these facilities and actually, we can take a large step forward towards American energy independence. Thank you very much.

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

Mr. LUCAS. Thank you. Mr. Shafer.

**STATEMENT OF JOHN SHAFER, SPECIALTY CROP PRODUCER,
TAMAQUA, PA**

Mr. SHAFER. Good morning, Chairman Lucas, Congressman Holden, members of the subcommittee. Thank you for the opportunity to testify here today on the topic of specialty crops. My name is Jack Shafer and I am a semi-retired farmer from Tamaqua, Schuylkill County, Pennsylvania. I say semi-retired, as I am very fortunate to be transitioning the farm over to my son, who will continue the family tradition. Forty years ago I joined the farm in a partnership with my father. Our farm raises pumpkins, as well as corn, soybeans and beef cattle. Our pumpkins are mostly retail, sold at a roadside stand during the months of August, September and October, targeting the autumn and Halloween markets. In our not-too-distant history, the farm also grew cabbage and other fresh market vegetables.

I take pride in my professional affiliations and in my agricultural accomplishments. I am involved in numerous agricultural organizations, one of which is the Pennsylvania Farm Bureau, and I am a member of the Board of Directors of the Schuylkill/Carbon Farm Bureau and in 1995 I was honored as the Soil and Water Conservationist of Schuylkill County. I have also served as an agriculture ambassador to China on a tour. The testimony I offer here today reflects my personal opinions, as well as features to be included in the farm bill legislation. But I would note that nearly all of my views are the same as the policy positions of the Pennsylvania Farm Bureau.

The 2002 farm bill, as a whole, wasn't too bad for farmers. It set a floor under prices and the larger farms had a really good safety net there. Unfortunately, in the Northeast, we do not have extensive farmland. A lot of the acreage is divided among many farmers and farmers that grow and raise vegetable and fruit crops, mainly the vegetable crops, have to rotate several years, 2 to 3 years, to produce their crops and this is where a mix of commodity crops fall into the scenario.

The idea of having limited crop or vegetables into large acreage is a great idea that was pursued many years ago. The main problem I see with agriculture today is in 1963, I could have brought a brand new Chevy car for \$2,300 and 2003 I bought a brand new Chevy car and it cost me \$23,000. It really leaves us in a limbo. It really affects our bottom line and we have to grow more crops in order to stay in the mix of things. A recent study I read about the other week that the farmer only gets 18 percent of the consumer's dollar; the average person consumes approximately \$3,500 worth of food, which comes to about \$10 a day; it is either prepared food or unprepared food. The 2002 farm bill, as it relates to the average consumer cost in agricultural USDA terms, \$70 for the year, which is very small.

CRP and CREP programs have a negative effect to producers and growers. The lands which are signed up in these programs are mainly under-funded, funded to the landowner, not to the producer. The producer is left hanging out there. In my area, we have a lot of smaller farms that other farmers took over and use them as an economic base and several of these farms have eroded and left us out there in limbo.

Regarding fruits and vegetables as a specialty crop, there is a lot of labor needed to plant these crops and harvest these crops; it is not mechanized, or to the point it should be. Here is where immigration, which has been a hot topic the last several months in Washington. Agriculture has been good to me over the years and if I ever had the chance to go around again, I would be a farmer all over again. The rest of my comments can be found in my submitted report and I thank you for the time allotted to me.

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

Mr. LUCAS. Thank you, Mr. Shafer. Mr. Hostetter.

STATEMENT OF GREGORY HOSTETTER, DAIRY PRODUCER

Mr. HOSTETTER. Good morning, Chairman Lucas, and my congressman, Tim Holden. It is an honor and privilege to address this

committee on the issues that affect my livelihood, farming. My name is Greg Hostetter and I am in the dairy business with my father. We have 90 head of dairy cattle and crop 150 acres of alfalfa, corn and soybeans. My wife and I have a 5-year-old son and we will be taking over the dairy farm in the next few years when my father retires. Presently, I serve on the Board of Directors of the Lebanon County Farm Bureau. My work on many proactive agricultural campaigns has led me to become chairman of the PA Farm Bureau Promotion and Education Committee, a member of the PA Department of Agriculture Agriculture Education Advisory Board, and the Lebanon County Farm Safety Committee.

I was asked to testify, as a dairy farmer, about the issues concerning my family. I will also speak about how we use these programs in the farm bill and their importance to farmers like me. I will start with MILC, M-I-L-C and currently, MILC-X. This is the most important program to me and all the dairy farmers I know. The current cost of production in Pennsylvania is \$18.11 per cubic weight. When the market price of class 1 falls below \$16.94, the MILC program kicks in and helps farmers like me to cover part of my expenses to produce milk without going into debt, but I still need to use my cash reserves during these low market periods. But it is because of programs like MILC and MILC-X, that my farm has been able to stay in business. Without the MILC program, it would be hard to ride out the low market, so yes, I strongly support continuation of the dairy price support program at the current level.

Many farmers are concerned about the National ID program. I share some of their concerns. Let me be clear; I know that providing safe, affordable food supplied to America's families is top priority, but my concern is that the National ID program needs to be easy to use and confidential with cost sharing from Government, industry and producers.

Johnes' Disease is still present in dairy herds today, according to my veterinarian. Our herd has never seen any suspicious animals, probably because we have had a closed herd since 1991, but you never know when things change. So I support some type of funding to help farmers who voluntarily want to test or think they should test for Johnes' Disease.

Direct Counter Cyclical and Loan Deficiency Program: in 2000 I started using these programs and have found them very helpful, especially LDP for when grain prices fall below the loan rate. I find being able to fax my request for LDP very farmer friendly because I don't have to make a trip to the office when we are busy; it is easy to sign the paper and send it in. I also like using DCP. The only negative comment I have is that we are paid on old history. For instance, I receive a wheat payment when I no longer plant wheat anymore. Instead, I plant more corn. It does not reflect my current crop information. And my local FSA office is very easy to work with and they do a good job helping us with the paperwork and everything else that needs to be done.

National Farm Policy must be balanced. Congress must take into consideration the regional differences that exist. The Northeast producers are the closest and most able to meet the agricultural demand of 25 percent of Americans who live in the mid-Atlantic and Northeastern States. Farm policy must reflect the unique needs

and limitations of the Northeast farmers. Congress must look into the green box and blue box programs that would protect the Northeast dairy farmers and ensure the availability of fresh, nutritious dairy products.

Mr. Chairman, thank you for holding these regional field hearings here in central Pennsylvania and allowing me to share with you and the committee how my family uses and needs these programs. Again, it is an honor to be part of this process for the next farm bill.

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

Mr. LUCAS. Thank you. Mr. Coccia, you talked about how tough it was to get in the biofuel industry. You mentioned everything from State and Federal regulations and just for my perspective, which was the most challenging part, explaining to your finance sources what you were going to do or dealing with State and Federal regulations or adopting technology that would cash flow well, it seems? What part of the process was particularly difficult, from your perspective, in making this happen?

Mr. COCCIA. The most difficult was, without a doubt, the regulatory concerns that we had. When you come into a new industry, which this really is, for the United States; we are actually 10 years behind Europe in implementing and producing biodiesel. Germany, for example, I think has almost 6,000 retail pumps and I was fortunate enough to travel throughout Europe, Mexico and Central America and see what the biodiesel industries are doing there. And what is happening is, and what I am very concerned about, is that we will be a distinct competitive disadvantage to these countries because of the regulatory concerns. It came at us from all directions, from Federal, which we still have a problem getting our hands around, to the State and now even, to this day, the local code enforcement.

You can't actually hold these people to what they tell you up front; they don't know what the industry is; don't worry about it, we are behind you 100 percent, the President is behind you, the Governor is behind you; go, go, go. We build, build, build and they come in with cease and desist letters, which we have received four of, to date. And I have actually had conversations with consultants who have talked with regulators and come to me in person because they didn't want to call or write to create a trail, to say I am not sure I gave you the right advice and they are taking a different track now.

And I don't know what you want to do about these issues of first impression to everyone, and it is not just regulators. It turned out that I actually, trying to find insurance, stopped us dead in our tracks. We actually had a verbal promise to have insurance and an insurer said I didn't realize you were doing that; the term is biodiesel, there is diesel there; unfortunately, we have to put you in a refinery category. I said it is vegetable oil processing; that is all we are doing. They pulled it and we actually had to stop the construction company, the laborers at the gate because we did not have insurance as required by our lease.

So it is a continuous educational process with everyone that we confront, and it is a great thing from the sense that the industry,

there is a lot of interest; people are really excited about it, but we have to build the, I call it the administrative infrastructure, when every step of this is not so painful, so that when a farmer says boy, I would really like to look into this, who do I contact, he doesn't have to recreate the will to find out who I contact or how do I figure out the economics of this; whether it works or whether it should be ethanol or whether it should be methanol digesters, what should I do?

He has a source to go to and find out all of this information and right now, it is just not there and we can attribute that to growing pains, which I would like to do, but we have to confront it head on to develop what I call a new energy action team, whether it is in DOE, at Department of Energy, or whether it is somewhere else, somewhere where all the resources are marshaled and anyone that wants to get in it, whether it is a farmer, a farmers' cooperative, private industry, they can go to it and they can go to this source and have all the information they need to do this.

I will give you one other example. We put on our website and on our brochure that we would be happy to give tours of the facility. If we had, I think, three full-time people, we could not keep up with the requests; from universities, from private industry, from investors, from farmers, from farmers' cooperatives. I can't understand why the Federal Government somehow is not helping to roll out this technology, even if it is with a partnership with potential producers, so that you say OK, we will give you a certain amount of money, but the quid pro quo is, what you give us in return is that you will let, because everyone is so secretive about their technology, you will let people come in and actually see it. We will have regional facilities to come and see how this is done and that is not being done, and we really don't have the wherewithal or the resources to commit three full-time people to just giving tours. That is how excited, I think, the American people are and industry is, to get involved in this.

Mr. LUCAS. Fair enough. Mr. Shafer, you mentioned the fact that the 2002 farm bill wasn't too bad. I appreciate that comment because all of my life as a farmer, by the time we made it to the end of a farm bill, it was "who were the dirty scallywags that wrote that dastardly document?" This is kind of an unusual set of circumstances, but within that farm bill there are a lot of policy questions to be discussed as we move forward, and you touched briefly on CRP and CREP and a number of other programs that are generating a lot of discussion across the country; CRP, in particular, because there are some in the committee who talk about adjusting or modifying the definition of what should qualify for the Conservation Reserve Program, which could, in effect, wind up moving acres around to different parts of the country.

That said, CRP, in areas where there have been substantial enrollments now for 20-some years, there are a number of feedbacks about how it has reduced the number of farmers, made it more difficult for young farmers to get into; it had an affect on small towns. Could you touch, for a moment, your opinion about how we balance the good that programs like CRP do with what they can do on the other side of the coin, too? Because you are talking about switch-

ing, moving your farm to the next generation. And then we will have a follow-up right behind you there on that topic, too.

Mr. SHAFER. Well, the way I see it, in our area it is the second, third generation off the farm that inherited the farm; their parents or their grandparents passed it down and so forth, and they are the ones that are participating in these programs. The active farmers want nothing to do with it. In fact, when this program came up, I looked into it myself, or during my own operation, I own 400 acres and it would have been a substantial amount given the going rate in our county, between \$90 and \$100 an acre.

And after I took off taxes and other mentionables, unmentionables, why I felt there wasn't enough there for me to even stay on the land. And if I wanted to pass it on to my son, who was interested at the time in farming and still is, there was no set plan on doing this, I couldn't see no end sight. Plus the machinery I had invested, close to \$150-200,000; in 10 years, when it came out of the program, it would be virtually worthless and if I sold it in the meantime, how would I replace it down the road 10 years hence?

So this was my big disagreement. The people that went into it, it is sort of marginal acres, sort of non-marginal acres; some of them, the whole farm went into it; others just picked out portions, and it was land I had farmed. This one farm, in particular, where there was a pasture; we used to mow it two times a year for the original owner; it was handed down two generations and now they got money for planting trees on this pasture and everything and in my way of thinking, it was growing up in trees, anyhow. Why did we have to have a program and pay these people who are just the landowners to come in and do it, so this is where I am coming from.

I am not against conservation at all, but I am for the producer; the producer has to be the end one to continue our viable situation.

Mr. LUCAS. So you are implying that money like this might be better spent on farmland protection programs, a slightly different way of going about it than CRP?

Mr. SHAFER. OK, yes. Is that satisfactory? OK.

Mr. LUCAS. Mr. Hostetter, you talked about the challenges of flexibility and if you had an acreage built up or history built up on one particular crop, shifting to another, that has been one of the challenges the 1996 farm bill and the 2002 farm bill, with its main focus on flexibility and ability to use those resources in whatever way, I don't think we have a good answer yet for how to address what you are talking about, but if you could, for just a moment, you are a dairyman, touch on the National ID program. How difficult is something like that going to be for you to implement on your farm?

Mr. HOSTETTER. It is probably not the difficulty of it. It would be a lot of the unanswered questions like our cattle stay on our farm until we are done with dairy production; they go to the livestock market, so do we just tag them just to go to slaughter house for a few days? Or we market calves that we don't need or send to the slaughter market, do we tag them and then some of those go for slaughter or do they go and somebody raises them, what would be the current cost of that system just for a few days or a few weeks versus one that would go on through their whole

lifehood and then maybe as far as how long is that animal going to be tracked, then, if we send it from our farm and somebody raises it and sells it to another farm, would it be their offspring that would come down with something? Is it going to get tracked back to our farm? And who would be controlling the records? Who would be keeping control of the information and just all the record-keeping of how you keep everything together?

Mr. LUCAS. Very good point. Mr. Holden?

Mr. HOLDEN. Thank you, Mr. Chairman. Mr. Coccia, you talked about the energy action team. How would that differ from the National Biodiesel Board that is already in place?

Mr. COCCIA. The National Biodiesel Board right now has done a fantastic job in taking an industry that basically did not exist and making it aware, making the country aware, now, of a product that has a real viable possibility of creating significant sources of fuel that are grown and produced domestically. So what the National Biodiesel Board has done is they have actually have been a consumer awareness; they have done a lot of lobbying and actually, through this committee, created some really successful programs; the CCC Bioenergy Program that produced additional production capacity; there is a blender's credit and a small producer's credit and then educational assistance. Those have been fantastic programs.

If you just look at the track record of the growth of the industry, which has been exponential, since just the first National Biodiesel Board Conference 2 years ago that I was in in Palm Springs, to see this industry grow up in 2 years has been unbelievable and the National Biodiesel Board really takes a lot of credit for doing that. But what is happening now is that we go from consumer awareness and the ability to make it economically feasible, to actually getting into the technical development of getting producers, three levels; feed stock research, which means that soybeans are bred to actually create more oil because right now soybeans will generate about 50 gallons of oil to an acre. I actually had a good year last year with 62 gallons. On the horizon, as foreign competition of crops that are exponentially more productive than soybeans, and I am talking specifically about palm oil and detropha, that grow very easily and instead of 50 gallons an acre, it is a thousand or more gallons per acre.

We have production, so you have the feedstock development, the oil that we need, we have the production and the technology, the real issues about how the equipment works and technical things like do we use ethanol instead of methanol in creating the biodiesel and centrifuges instead of gravity; all the technical issues. And the third thing is appliance development. Imagine homes that we could actually have that would be running off the grid and running on biodiesel so that the biodiesel, clean burning biodiesel domestically produced, off the grid, could actually be run in appliances developed for the home. It is possible and it is there.

The National Biodiesel Board does lobbying, it does consumer awareness and education. It does not take the commercial producer and give them that technical development and research backbone that the industry really needs now to go into the next development phase, which is across the board, across the country, thousands of

facilities to really make a dent on our foreign imports of liquid fuels.

Mr. HOLDEN. Do you see biodiesel catching up to ethanol?

Mr. COCCIA. I have actually had some very interesting conversations with the USDA and their trade policy folks about this competition between ethanol and diesel and the thing that I want to continue to stress is that ethanol replaces gasoline; diesel replaces diesel, which includes home heating oil. Home heating oil is just diesel fuel. The two are not substitutes for each other. And you get a situation I hear all the time and I have seen in a lot of these testimony where legislators are trying to find the winning horse. We don't want to invest in this technology or that technology because it may not be the technology that completely replaces oil.

And the way that I look at it instead is that energy is a mosaic and the more balanced we can make that mosaic; right now there is one piece in the mosaic and it is crude oil, and around the edges is a little bit of wind, there is a little bit of solar, there is a little bit hydroelectric. As we begin to develop each of these industries, each of these new energy forms, we begin to develop new industries. Biodiesel will be an industry; ethanol will be an industry; hydrogen will be an industry and what happens is in the mosaic, crude oil will shrink; all of these other energy sources will begin to build and we will have a nice balance so when you have a Katrina and it wipes out gas and oil production in the Gulf, there are other energy sources that takes its place. We are not so dependent on one energy source.

So the competition between ethanol and biodiesel, I don't see unless legislators and regulatory bodies artificially introduce it because it is two industries, it is two products and both of them can stand on their own and really contribute to our energy independence.

Mr. HOLDEN. Well, you are right on target. We are too much dependent upon foreign energy, 56 percent dependent upon foreign energy. I know the chairman is too young to remember, but I remember the Carter administration when we were having gas lines and we were only 32 percent dependent on foreign energy, so we certainly are going in the wrong direction and we need to turn that around and really appreciate your testimony. Just one final question for you, Mr. Coccia. Any reason farmers should be concerned with increased demand would drive up the cost for feed?

Mr. COCCIA. No. There are some questions about how the economics will actually play out because if you understand the way oil works now, soybean oil works now, you start with the bean; the bean is crushed and you get two products, meal and oil out of it. Right now the beans are crushed to get primarily meal and basically, on a contractual basis for chicken feed, because the chickens actually cannot tolerate well the oil content of the bean. The oil is actually a byproduct that adds icing on the profit cake. Now, what may actually happen, as we develop higher oil content in the beans, is that the market may actually change. If you could actually, and there is research that I read just recently as last week, that the oil bean, they can actually now genetically alter it or just selectively breed to increase the oil content by up to three times, from 50 gallons to 150 to 200 gallons.

And what you may see is that the market may actually be moved now, instead of by chicken production, which is what the price of our soybean oil most often is based on, you may actually see soybean markets moved by the oil content, which is very, very interesting, dynamic and really a source, I think, of some real profit opportunities for farmers. But I should also tell you and warn you about these competitive crops overseas that I studied extensively, and we will really have to be aggressive to keep American farmers and American industry on the cusp of new technology in developing feedstocks to supply the oil we need.

The real Achilles' heel to this whole system that we have enough oil. Farmers in the United States could not possibly produce enough and where will it come from? Well, it is either going to come from offshore sources or it is going to come from better crops, whether those crops are soybean, better soybeans, the dream of soybeans about the size of pumpkins all with oil in them or the really exciting research that I have seen is actually in aquaculture based feedstocks and that is a fancy word for micro-algae, that has an almost unlimited supply. You mentioned President Carter and unfortunately, I am old enough to remember the lines, too, but 20 years ago, he actually funded, or his administration funded, a micro-algae aquaculture based feedstock project that ended right before 2000 that proved now, with technology that has been developed since, that there is almost an unlimited supply of vegetable oil in aquaculture based feedstock.

So I am really not trying to oversell it, but there is a real significant opportunity here, between these agriculturally based crops, to supply a significant portion of our energy needs and we are either going to do it because it is going to be the large, and energy production now is the largest industry in the world; this is going to be the biggest job creator, the biggest economic driver for the foreseeable future and if we don't do it, China, India, Europe, Central America, Mexico and every other place I have seen research going on, facilities going up, is going to do it.

Mr. HOLDEN. Thank you. Mr. Shafer, the chairman and I were talking to Deputy Secretary Redding earlier about crop insurance in Pennsylvania, how we are pretty proud of what we have been able to get from 22 percent participation up to around 50 percent participation, but I know you know that it is not perfect and I just wondered if you could tell us some of the successes and some of the challenges particularly these specialty crops face in trying to obtain crop insurance here in Pennsylvania?

Mr. SHAFER. I guess it was about 4 or 5 years ago Schuylkill County was one of the three or four counties in the United States picked out to do insurance research, per se, on cabbage. I participated in the program, went along with it for 3 years. I gave them all the information that they wanted or needed to set down the rules and regulations for the insurance industry. By the third year we had a fairly good drought. In our vegetable operation I had enough irrigation to protect half of my crop and the other half of the crop was in limbo. I had insurance on what I thought, in the insurance industry, that would be, the insurance was for every farm that I rented or plot of land. And I had a loss on one farm, but I had very good successes on the other and when I applied for

an adjustment or whatever, they said no, these aren't the rules and regulations you have to go under and I was caught in the middle.

And at that time, the program that Pennsylvania had, I was over the limit for my gross income. I had to hook up with a major insurance supplier like Rain and Hail out of North Carolina. And anyway, until it all boiled down, my gross income for cabbage that year was still over \$300,000 and what they wanted to pay me was a merely \$14,000 for my crop loss. Well, I was way over and just by losing one farm to this crop, why it really turned them off, but or turned me off. The difference was, I figured, they should have at least boned up for this one farm, but they didn't want to hear about it. They threw everything into the mix and I went back and forth with the agent, went back and forth with the company and went back and forth with the adjustor to no avail, so that really turned me off against it.

Now, saying that, I was at a county board meeting the other night and I polled all the people that were there, and everybody had crop insurance and was well-satisfied. They weren't specialty crop farmers, they were mainly grain farmers, so I guess I am outnumbered on this situation, but I got—

Mr. HOLDEN. I knew how they felt about it.

Mr. SHAFER. Yes.

Mr. HOLDEN. So I wanted to give you the opportunity to get it on the record.

Mr. SHAFER. I advised my son, I said don't take the ignorance from your father and just separate yourself from it at all, because you are starting out and you do need a safety net someplace, so maybe I am just one in a thousand, maybe I am 1 in 5, I don't know, but I had a bad experience and I lived through it.

Mr. HOLDEN. Well, we are going to keep trying to work with you. We are pretty proud that we have got that participation up 30-some point, so we will—

Mr. SHAFER. Well, you have to work with my son now.

Mr. HOLDEN. OK.

Mr. SHAFER. But I support him. I turned the business over to him, but I still didn't turn the land over to him. He needs to the land to farm, so that is the one good or bad asset with agriculture; you still need the land to produce. Thank you.

Mr. HOLDEN. Mr. Hostetter, you mentioned the most important program you believe is the MILC program, the M-I-L-C program. How user friendly is it? How much of a bureaucracy is it? Was it a bureaucratic problem trying to resign up or was it a smooth transition or just give me your feelings about the whole program. I know in your testimony you said how important it is, but just give the committee a feel for how it works.

Mr. HOSTETTER. No, it is very user friendly and easy to do. You take in your milk receipts for the months that you want to collect and the county has it posted it what the payment rates are. You go in and you show them that and you sign and you get your check later on.

Mr. HOLDEN. And when we had the lots, there is no problem?

Mr. HOSTETTER. No, you just had to go in and resign up for the MILC-X.

Mr. HOLDEN. As we gather information across the country, and you alluded to some of this in your testimony and so did Mr. Shafer, anything besides the MILC program, as we write the next farm bill, that will be important to Pennsylvania, Lebanon County producers, that we need to look at?

Mr. HOSTETTER. No, none. Only the ones that I mentioned because in Lebanon County, I would say out of all my neighbors, they are all dairy farmers except for one hog operation, which I rent his land, and a chicken farmer, so the MILC program is pretty important to most of Lebanon County.

Mr. HOLDEN. I want to thank you, Mr. Chairman.

Mr. LUCAS. Indulge me, Mr. Holden, of the opportunity of one last question to Mr. Hostetter and Mr. Shafer. Tell me about land prices in your area, how they have gone over the last 10 years and of that, up, down, sideways, what is reflected in development versus one farmer, two farmers bidding at a public sale when those do occur? Thumbnail sketch. Nothing scientific, just a thumbnail sketch, gentlemen.

Mr. HOSTETTER. OK. Well, my grandpa paid \$17,000 for the farm we are at and then my father was in the \$200,000 range when he purchased it from his father.

Mr. LUCAS. How many acres?

Mr. HOSTETTER. That is 102 acres. And now we just had a neighboring farm that sold for \$1.2 something million. And that was to another farmer paid that; it wasn't for development, either.

Mr. SHAFER. In our area, thanks to rural development, should I say, why, we were blessed with a sewage system. That sewage system took 4,000 feet frontage of my farmlands. All my neighbors said boy, your farms are really valuable now. The acreage went from about \$3,000–3,500 up to \$20–25,000 for a half acre for a building lot because now they could go on sewage and they didn't need as much land to do it, so I guess it is a thorn in one side and a blessing on another, it all depends who you are. Anyway, right across from the farm there is a couple small developments. These entrepreneurs, why, put out or drew up land plots for half an acre and put them on 10 acres or so and they are right across the street from my main operation.

It is going slow at the present time and but about 10 years ago, I guess, there was a neighbor farmer had sold out across the other road from me and he has a whole line of houses going right up the main highway. And I know most of the new people now and I am the kind of person that can mingle with other people and they told me please, Mr. Shafer, do not sell that land behind our house for another development? It is really an irony that they want the good open spaces and so forth and so on. But getting back to the rural development act, why, it was a help for our smaller communities that have been established 80 to 100 years, sewage was running down the street and so forth and so on and it probably improved our quality of life in that area quite a bit.

Mr. HOLDEN. Mr. Chairman, I just want to take this opportunity to get on the record that we did at the rural development hearing, how important those projects are at rural America. Air Products is able to expand as a result of that, too, Jack; you know that.

Mr. SHAFER. Yes, I know.

Mr. HOLDEN. But we do have a serious budget problem that we need to look at, particularly with the grant end of the funding of it.

Mr. LUCAS. Very true.

With that, the subcommittee wishes to thank the panel for your insight, your testimony and all of your written testimony, also, will be part of the record.

I now call forward our second panel.

Mr. Karl Laudenslager, dairy producer, Halifax, PA; Mr. Glenn Seidel, livestock producer, Wolemsdorf, PA. Are you sure these are the same Indian names we have in Oklahoma? Mr. Keith Masser, president of Sterman Masser Potato Farms, Sacramento, PA. And whenever you are ready to go, Mr. Laudenslager, you may begin.

**STATEMENT OF KARL LAUDENSLAGER, DAIRY PRODUCER,
HALIFAX, PA**

Mr. LAUDENSLAGER. Mr. Chairman and members of the committee, my name is Karl Laudenslager and I have a 700 cow dairy in Halifax, Dauphin County, Pennsylvania. I am a customer and owner of the MidAtlantic Farm Credit. I became a member and owner of the Farm Credit about a year ago. At that time, I was working with a commercial bank for my financing. I was also in the midst of dissolving a partnership with my brother because of some management issue. We were having performance issues with our operation. At the same time, my lender decided that it no longer wanted to support agriculture in my area. I called Farm Credit and talked to one of the loan officers. He was very knowledgeable about farming and he understood the performance issue that my operation was having. He created a financial package that allowed me to refinance my debt and dissolve the partnership with my brother. I was very, very glad that Farm Credit was there to help me when I needed it.

MidAtlantic Credit is a farmer-owned cooperative and is a member institution of Farm Credit System. They have a portfolio of more than \$1.6 billion, with more than 15,500 loans. This year my association returned \$28 million of patronage to its members. I picked up my patronage check 3 weeks ago at the annual stockholder meeting and I can tell you that it was icing on the cake of a strong relationship with Farm Credit. At the annual stockholders meeting, one of the MidAtlantic board members gave us a presentation on the System's HORIZONS Project. As you know, Farm Credit worked hard to meet the mission that Congress gave them 90 years ago to help ensure the quality of life in rural America and on the farm.

Since Congress created the Farm Credit System, remarkable changes have taken place in agriculture. At that time 35 percent of the Nation's population lived on farms and about 60 percent lived in rural communities. Today, only 2 percent live on farms and the rural population represents less than 25 percent of the total U.S. population. Average farm sizes have nearly tripled during the same period from 150 acres in 1916 to about 440 acres today. Obviously, my own farm is a good example of this change. Ninety years ago no one would have dreamed about milking 700 cows. While my operation has changed because I have needed it to grow, it has also

been a challenge to continue to farm in an area that is more and more urban. That is why the HORIZONS Project is important to me, personally.

The HORIZONS Project was designed to help identify the changes that agriculture has faced and then looked at ways that Farm Credit needed to change so that they will continue to meet its mission and serve rural Americans like myself. Part of the HORIZONS Project included a great amount of research on agriculture and changes in rural America. Farm Credit recently released a report entitled 21st Century Rural America: New Horizons for U.S. Agriculture. With your permission, Mr. Chairman, I would ask that this report be made part of the official hearing record.

Mr. LUCAS. So ordered.

Mr. LAUDENSLAGER. The HORIZONS Project has eight key findings that I hope the Agriculture Committee will take into account as you consider approaches the 2007 farm bill. Those findings are explained in detail in the HORIZONS final report. One of the most revealing facts found during the analysis of the project was that less than 10 percent of all farms remain farming-only businesses today. The overwhelming majority of all farmers, especially small operations, rely on off-farm employment to stay in agriculture. Over and over, we have heard knowledgeable people from both inside and outside of Farm Credit tell us that rural America has changed dramatically. Where before, rural communities depended upon agriculture to survive, agricultural producers today depend on economic opportunities in rural communities to stay on the farm.

Mr. Drabenstott, an economist at the Kansas City Federal Reserve Bank, summed it up by saying, "The rural economy has been through tremendous change. It will undergo even greater change in the future. The old rural economy is fueled by commodities; agricultural, industrial, mineral, timber. Globalization creates a new imperative. The most successful regions will grow entrepreneurs, lots of them." To succeed in this new environment, agriculture and rural communities need reliable access to capital, financial services and the expertise necessary to sustain a strong economic future. Farm Credit can help ensure that access.

With small changes, Farm Credit can play an even more vital role in helping strengthen agriculture and rural America. As a farmer who relies on Farm Credit, I believe that the Farm Credit System should be able to serve the evolving financial needs of farmers. A year ago, I was grateful that Farm Credit could help me continue to farm in Dauphin County. I hope that you will work closely with Farm Credit in the coming months to explore policy solutions that will enable agricultural producers, rural businesses and rural communities to more fully access the financial resources of the Farm Credit System. I think rural Americans deserve a financial partner like Farm Credit. Thank you again, Mr. Chairman, for allowing me to testify here today.

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

Mr. LUCAS. Thank you. Mr. Seidel.

**STATEMENT OF GLENN SEIDEL, LIVESTOCK PRODUCER,
HEIDELBERG TOWNSHIP, PA**

Mr. SEIDEL. Good morning. My name is Glenn Seidel. My wife, Jane, and I own and operate a 118-acre farm along the Tulpehocken Creek in Heidelberg Township, Berks County, Pennsylvania. We live there with my mother, Grace. You committee members already know the farm bill and what is wrong and right concerning agriculture. I could give you statistics from now until the cows come home, which if milked twice a day, is about 10 hours. But I will be brief and discuss only two of my concerns.

First is farmland preservation, particularly in the Northeast United States. Unless something is done and done soon, a lot of our prime farmland will be lost. We talk about national security; we toss the term security about in a cavalier way, but I am here to tell you that if the preservation of prime farmland is not done now, it is right now an urgent national security issue. The following is a list of reasons why we need agricultural land preservation. (1) For food production so we can eat. (2) Biomass for fuel. (3) Carbon sequestration to combat global warming. (4) Water quality and quantity so we can drink and industry can thrive. (5) Nutrient reutilization/pollution control/recycling since our agricultural lands provide a natural recycling medium for all kinds of organic materials, including our own biosolids. (6) Oxygen regeneration so we can breathe. (7) Commerce so we have commodity products to pay for our trade imbalance. (8) Risk management in the event of a natural or a manmade catastrophe, productive agricultural land disbursed throughout the United States only makes good sense. (9) Fiber for clothes and (10) for open space to promote aesthetics and for sanity. Congress must prepare and implement a plan to preserve our farmland and now.

My second concern for Congress to address is conservation and technical assistance to promote the conservation practices. In the list mentioned above, for agricultural land preservation, every item requires conservation planning and technical assistance to conduct that planning. As increased demands are placed on every acre of farmland, the need for conservation and technical assistance only increases. Conservation is not a one-time capital occurrence. It is an annual necessity. As agriculture becomes more intense, the need for best management practices to be implemented for soil, nutrient, air quality and water resource management only becomes more demanding.

Congress should ensure that the best management practices strategies are developed and that these strategies are properly funded and deployed. Our Government agencies should review conservation plans and assist conservation plan implementation. Also, Government agencies function as a historical repository of information concerning the implemented farm conservation practices on agricultural land. Without NRCS, FSA and Conservation Districts, continuity would be lost as our farmland passes from one generation to another or from one landowner to another.

In summarizing, (1) Congress needs to urgently promote prime agricultural land preservation and (2) Congress needs to continue and to increase funding not only for conservation practices, but also

for the technical assistance to implement these practices. Thank you.

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

Mr. LUCAS. Thank you. Mr. Masser.

**STATEMENT OF KEITH MASSER, PRESIDENT, STERMAN
MASSER POTATO FARMS**

Mr. MASSER. Good afternoon, Mr. Chairman, and Ranking Member Holden.

Thank you for the opportunity to share my experiences working with the USDA Rural Development Programs and to provide input into the development of the next farm bill. I am an eighth generation in my family to own and operate a farming operation in western Schuylkill County, Pennsylvania. After receiving an agricultural engineering degree from Penn State, I worked for Proctor & Gamble as a project engineer at a nearby plant in Mehoopany, PA that converts hardwood trees into personal care paper products. In 1976 I joined and eventually purchased my family's farming operation, Sterman Masser, Incorporated. Today this company farms 3,600 acres of potatoes, hay and small grain crops. It also packages and distributes over 5,000 truckloads of potatoes, onions, sweet potatoes and sweet corn to supermarket chains annually.

In 2004 I developed and built a \$12 million potato processing facility, Keystone Potato Products. This company converts raw potatoes into dehydrated potato products using landfill gas as its energy source for the steam used in the dehydration process. I will talk more about this project through our rural development experiences.

The third company I operate as president is the Pennsylvania Cooperative Potato Growers located in Harrisburg here; organized in 1922, this cooperative is a non-profit organization helping growers market their potatoes. Nationally, I recently was the president of the National Potato Council, an organization that provides a voice for 6,000 growers making up the U.S. potato industry on trade, environmental and legislative issues. I also served as chairman of the U.S. Potato Board, a national promotional organization funded by all U.S. potato growers to create demand for potatoes and potato products.

Regionally, I share the agricultural advisory committee to the Susquehanna River Basin Commission. This committee provides input on agricultural issues related to the mission of the SRBC. Statewide, I serve on the board of directors of the Pennsylvania Vegetable Growers Association and the Pennsylvania Potato Research Program. Locally, I chair the Hubley Township Board of Supervisors since 1977. I chair the Schuylkill County Preservation Board and serve on the Schuylkill-Carbon County Pennsylvania Farm Bureau board of directors for the last 30 years.

When developing Keystone Potato Products, an application from the Pennsylvania Potato Cooperative was submitted to the USDA Rural Development Program. The Pennsylvania Potato Growers Co-op is part of this company and there were 90 percent of the funds were available to cooperatives versus 10 percent to private individuals; that is the way we went, in that direction. However,

we had to submit this application three times before a grant was finally approved. We started in, the first application was in 1999; it was not approved. The next application was in 2000; it wasn't approved and finally, in 2001, we had a \$450,000 grant application that was approved. We needed this seed money to initiate the development of this project.

After the third application, we got this grant and we eventually built this project and we created 25 full-time jobs in rural western Schuylkill County. It helped create a market for potatoes that otherwise could not have been used. Most of those potatoes are going for cattle feed which had a good use and we were competing, the mid-Atlantic growers were competing with western potato growers who had processing plants available to them to utilize their off-grade part of their crop. The value-added grant helped propel the utilization of methane gas from a nearby landfill to fuel a boiler to provide steam for this process which was previously flared to the atmosphere. This is the only monies we got granted to us for this portion of the project and this, truthfully, was the most technical and expensive part of our project, trying to convert this landfill gas into usable energy to generate our steam.

The project could have been implemented 3 years earlier, saving us construction costs. The project was initially estimated at \$6 million; by the time we got this grant and got the project going, it cost us \$12 million. And I only mention this, had the funds not been available or had they been delayed even one more year, this project wouldn't exist today and so it is crucial that these funds stay in place for this type of project. It would be very helpful if these monies were allocated to different States, so when we got this grant in 2001, we were, and you probably heard this from your previous rural development hearings, but Pennsylvania got 4 grants that year and since then we haven't been very successful in getting grants from that time.

So we need to continue this funding and we need to continue it at levels of the past so that these types of projects can continue. And we also got a USDA loan guarantee for our bank loan in this project and truthfully, it was a tradeoff whether we will consider it because it is a 2 percent, we got a \$5 million loan from the bank, 2 percent is, that is \$100,000 we had to pay for a guarantee and it is difficult to evaluate that as a good source, but we did it because of our investment portfolio the way we put this project together and we wanted to have a loan guarantee that was outside of our existing investors so that we wouldn't have to have any of our investors personally guarantee the project for that portion of the loan.

I want to talk a little bit about the Conservation Reserve Program and the Conservation Reserve Enhancement Program which have been useful in protecting sensitive farmland. However, we need to ensure that these programs do not have the Government compete with farm operators for productive farmland. In the past, farmland in Pennsylvania with good production potential and minimal environmental risk was accepted into these programs. With the ever-increasing energy costs, producing crops close to the markets will become more economical and we need to have this productive farmland available to do that.

The last article in Reader's Digest came out and there was an article in there saying that, discussing organic foods, fruits and vegetables and saying that if you have a preference between organics and locally produced fruits and vegetables, buy locally produced fruits and vegetables because the detriment to the environment is more harmful to buy organic produce grown in California shipped to the east coast because the hydrocarbon offset to the environment, so I thought that was very intriguing, as well as the ever increasing costs of our energy costs and the transportation costs going up, it is becoming ever more beneficial to be growing fruits and vegetables close to the markets. Here in Pennsylvania, we are on top of, well, we sent out within 3 hours 30 percent of the potato consumption in the United States here.

So as a member of the National Potato Council we have developed 2007 farm bill policy recommendations. These recommendations I have in my written statement; I won't go over those recommendations now, but those recommendations basically are developed for specialty crop producers and we support those, so thank you for allowing me to testify and I will be glad to answer any questions.

[The prepared statement of Mr. Masser is on file with the committee.]

Mr. LUCAS. Thank you. On the CRP topic, Keith, as we discussed earlier, and this is something that I have a great personal interest by the nature of the way the acres are scattered out; how would you propose doing a better job of allocating at the present time? No county can have more than 25 percent of its cultivatable acres in CRP. There is the index on environmental quality; there is a number of factors. Any suggestions on how you would tweak the program to do——

Mr. MASSER. I would—yes. We need to make sure that farmland that shouldn't be farmed would be put into that program. The buffer strips are on the streams, sensitive areas, I don't have a problem with that. But when nice level 50 acre strips that could be easily farmed are put into wildlife preserves and paid \$100 an acre when we were paying \$80 an acre for farmland, when that type of ground is put into the program, that is not very good use of our funds. And it puts us in competition with the Federal Government.

Like it was said previously, a lot of this farmland is owned by people who aren't farming anymore; they are owned by members of families who have jobs elsewhere and they are looking for the highest dollar volume, the highest return on their dollar for their farmland and if they are getting more money from the Government and the Government allows them to put fields that aren't highly rotatable or otherwise environmentally sensitive in the program, we need to rectify that.

Mr. LUCAS. Obviously, Glenn, you have a strong interest in a wide ranging number of these conservation programs. The 2002 farm bill with its 10 percent, basically, being set aside of the \$168 billion available to us over the life of the farm bill for conservation programs was the best funded farm bill on the conservation side in a long time, but if anything, as the new bill went into place and people realized that there was a potential opportunity to actually

sign up for the programs, the potential enrollment numbers exploded and once again, we are behind the curve.

As we go into a tough budget year next year to write this farm bill, from your perspective, can you give me a thumbnail sketch of where you would prioritize, if we have so many dollars and some people would say, in the true Federal spirit, we would just cut everybody a percentage to match up, but that is not always the most efficient use of resources. Are there particular areas, is farmland protection more of a priority than CRP or whatever? Just a thumbnail.

Mr. SEIDEL. With everybody who has testified here so far, if we don't have the farmland, nobody else is going to be able to function. And so I think the No. 1 thing that we have to do is some way get more public empathy for, and not that it is not there already, for maintaining our farmland. It is an ethical issue, really. We have to have the realization that we need this land. It is already developed its best potential. It took 200 years in this area to get the farmland to where it is; all the rocks that were picked and all the trees and the leveling. I am sure it is the same thing in your area. The prairies were not flat. And all at once we go in and develop it in a way that is not agricultural.

And in some ways, when the strip mall goes in, we need the same legislation with strip mining, that it has to be reclaimed eventually. There is a lot of land that is out there that has been used by development and it is just sitting there anymore and I think that is a real shame. Along with that, it does us no good to just have farmland if we don't do the conservation practices on it. We tried that before. We plowed everything up but didn't have conservation. The two go hand in hand. I don't know how you can separate the two out and that is why I chose those two things to talk about. There are lots of things you could talk about in agriculture, but if we don't have the land and the ethics and the conservation practices to go with that land, no one can have fuel or fiber or any of the things we talked about. A specific thing that you should concentrate on? I don't know if there is one thing because it is a diverse problem.

Mr. LUCAS. The reason I asked that question, of course, many programs like EQIP, which provide farmers, ranchers, livestock people, crop people with the ability to manage the challenges of their land universally popular. But in some areas, such as for instance, CRP and farmland protection, one is an easement program where, in effect, you are paying someone to commit to a certain course of action, maintaining production, but a certain course of action versus a program where you are, in effect, paying people not to utilize the property for a period of time. It just sometimes seems as though that they have a different net effect and if you are trying to achieve a little bit of what Keith was talking about, there may be farmland protection that would be more productive in areas like this, for instance, than perhaps CRP.

Mr. SEIDEL. I think the key word in the CRP is the letter *R*, it is a reserve, which means it can come out of production, too, and we sometimes forget that the land that goes to the CRP or CREP already did meet some very strict criteria. Some of the people that are opposed to the programs, I think do not fully appreciate the

stipulations that went into that for that land to go into the program to begin with. It is a matter of education, to a degree, why that land has been chosen.

Mr. LUCAS. Karl, you mentioned the HORIZONS Project at Farm Credit where they are looking at ways to improve, they say, the ability to meet producers' needs. Can you tell me how well Farm Credit has met your needs and do you think there are things they could be doing that would help you and other farmers like yourself that they are not able to do now that come to mind?

Mr. LAUDENSLAGER. I am a full-time farmer, but a lot of farmers now are part-time farmers and most of their income is coming off of other stuff and they can get out of their criteria at that point because a lot of farms are doing businesses on the side other than—

Mr. LUCAS. So you think the flexibility on the criteria would help part-time farmers greatly?

Mr. LAUDENSLAGER. Yes.

Mr. LUCAS. OK. Mr. Holden.

Mr. HOLDEN. Thank you, Mr. Chairman. Karl, you mentioned how Farm Credit served you and how pleased and satisfied you are with the job that they are doing. I am just curious. Are there any banks doing any agricultural lending in your neck of the woods now or mostly everybody just uses Farm Credit?

Mr. LAUDENSLAGER. Well, there are still some local banks doing some, but some are local.

Mr. HOLDEN. Small portfolios?

Mr. LAUDENSLAGER. Yes, small portfolios and the small banks, you can run out of money on them and they can't handle your loan.

Mr. HOLDEN. No stability, no long-term commitment, then, and therefore—

Mr. LAUDENSLAGER. Well, a bank can only loan 10 percent of their cash reserves or whatever it is and if you borrow a lot of money, they can't loan you the money because they can't do it. The Federal Reserve doesn't let them loan that much money to one individual.

Mr. HOLDEN. You told us your story how your farm has grown over the generations and just curious, you are probably one of the larger dairy operations in my congressional district. I am just curious, what are the most significant challenges you face in your operation?

Mr. LAUDENSLAGER. Houseing development.

Mr. HOLDEN. OK, developments. That is my next question for Glenn.

Mr. LAUDENSLAGER. Yes, and that is going to be a big problem where I am at because I am just 30 minutes from the north of town here and migrant help is a problem because I do have migrant help down on the farm, Mexicans milking, and we have to figure out what to do with them in this country.

Mr. HOLDEN. Glenn, you pretty much answered this with the chairman's question, but I remember in the negotiations for the last farm bill how we were trying to see that we get a significant investment for farmland preservation. I remember, Mr. Chairman, when you and I signed that conference report, we had a billion dollars in it. Going down Pennsylvania Avenue, we lost \$15 million

and we ended up with \$985 million, but it still was a very significant investment in farmland preservation and Glenn, as I mentioned in my opening remarks, Pennsylvania is the leader in farmland preservation in the country; a little argument between Berks and Lancaster County, which county is the leader. I am going to say Berks is the leader.

Maybe you could just, because it really does work, the program does work and maybe I realize the chairman probably understands this, does understand this, but for the record, maybe you could just tell us how it works in Berks County and why they have been able to be so successful. It is the third leading agriculture producing county in the Commonwealth, I believe, and at the same time we are doing such a great job at preservation.

Mr. SEIDEL. I think Berks County currently has the most land preserved under a State program, almost 50,000 acres. The way it works in Berks County, a certain amount is, there is a ranking system that is nonbiased as to who gets selected and then they pay only a specific amount for that land, which is \$2,500 now, up from \$2,000 last year. They have increased it a little bit. It is fixed, unlike some of the counties where the amount that they pay is very variable and much higher. So I think part of the success of Berks County's program has been that they did not make the amount very high, but they offered it to a lot of people and people have taken it. I don't know if that answers your question.

Mr. HOLDEN. Yes, it does. But there is still a significant, very significant waiting list, am I correct?

Mr. SEIDEL. That is correct. I think there is something like maybe 240 farms in Berks County which are—

Mr. LUCAS. Per farm, per acre?

Mr. SEIDEL. Yes, that is per acre. It is about \$2,500 per acre in Berks County.

Mr. LUCAS. And then that is a permanent easement?

Mr. SEIDEL. That is a permanent imperpetuity, yes, compared to maybe \$12,000, \$18,000 in some of the southeast counties; it is a lot higher. I am talking about Montgomery, Chester, places like that. It has been a very successful program.

Mr. HOLDEN. You say 240 farms waiting?

Mr. SEIDEL. I think there is something like 240 right now. It varies from year to year as they take farms in and out. The number of the waiting list hasn't particularly diminished over the years; it seems to stay about the same. A lot of people want to get into the program; the funds to do it just aren't available. And I think the other part of that is follow-up with this land that is going to be preserved some way. It is going to have to be monitored to make sure that it isn't developed on. When we make the big investment, there is a smaller investment in farmland preservation, which is follow-up to make sure that that land, indeed, is being preserved.

But I think it is very critical to everything about agriculture and this business about diversification throughout the country, I really think that the Northeast, which is blessed with the right amount of rainfall, the right type of soil, we shouldn't sacrifice that just to put all our eggs in one basket in the Midwest because, as I said, if we have a natural disaster or a manmade disaster, our goose is going to be cooked, just like it was with Russia and Chernobyl,

which its anniversary was just recently, where 40 percent of their agricultural land was wiped out in one event. We shouldn't be so stupid to concentrate our agricultural production in only a few areas.

Mr. HOLDEN. Keith, I want to get the statistic right. Within 3 hours 30 percent of the potato consumption in the country?

Mr. MASSER. Yes.

Mr. HOLDEN. Your 3-year process with USDA, was the delay, the bureaucratic delay, primarily a funding problem for USDA or was it—

Mr. MASSER. No, I think it was a selection problem, just not having the project selected and the third application round, I think the Rural Development offices got regionalized and we were able to present our project in a verbal format instead of electronic format only and I think we were able to promote the project better on the third application round.

Mr. HOLDEN. And you said the year you received the grant, three other grants were awarded in Pennsylvania, correct?

Mr. MASSER. I think that is correct. The deputy secretary can confirm that, but I am quite sure.

Mr. HOLDEN. OK. And to your knowledge, there hasn't been any since?

Mr. MASSER. Not to that level. There may have been some, but I followed it fairly close, but it definitely hasn't been 4 per year. There may have been one or two since then, but I am not sure of any.

Mr. HOLDEN. Well, Mr. Chairman, as you know, as we go through our annual process with the appropriators, but we do have a funding problem with a lot of the programs you and I care deeply about, value-added and rural utilities, as I talked about before and I know we will continue to address that. But I would just like to mention on the loan guarantee program, I know, Keith, you had some concerns about it, but that has been a very, very successful USDA program. You and I remember the days when USDA thought they could be direct lenders and we know what happened there. We had a 40-some percent default ration and now in the loan guarantee program it is less than 6 percent, so it has been very successful all across rural America, so with that—

Mr. MASSER. Just make it cheaper to access, that is all.

Mr. HOLDEN. Cheaper to access. Mr. Chairman, thank you.

Mr. LUCAS. Thank you, Mr. Holden, and you are exactly right and a brief comment about the challenges of funding; not only do we need to secure a number this time next year and how many dollars we have to work with and not only do we then have to work through our international trade agreements and craft a bill that all regions and all commodity groups can support, but then we spend the next 5 years, as Tim and I have spent the last 5 years, trying to protect what we have done, as he referred to rural development. The same could be said about agricultural research. We, in the last farm bill, pushed as many things as we could over into the mandatory spending side along with the commodity title under the assumption that that would assure us a stream of resources well after the farm bill. We discovered after that that our friends in the Appropriations Committee could, amazingly, under the right set of

circumstances, reallocate some of our mandatory money. So now Tim and I work on better ways to well off those important dollars and we are able to secure those. You don't have any additional questions?

Mr. HOLDEN. No.

Mr. LUCAS. With that, without objection, the record of today's hearing will remain open for 30 days to receive additional material and supplemental written responses from witnesses to any question posed by a member of the panel, and we wish to thank this panel and the previous panel. This hearing of the Subcommittee on Conservation, Credit, Rural Development and Research is adjourned.

[Whereupon, at 1:03 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF GREGORY E. HOSTETTER

Good morning Chairman Lucas, and my Congressman Tim Holden. It is an honor and privilege to address this committee on the issues that affect my lively hood: farming. My name is Greg Hostetter, I am in the Dairy business with my father. We have 90 head of dairy cattle and crop 150 acres of alfalfa, corn, and soybeans in the northern part of Lebanon County—just 25 minutes east, from where we are today. My wife and I have a five year old son and we will be taking over the Dairy farm in the next few years when my father retires. Presently, I serve on the Board of Directors for the Lebanon County Farm Bureau. My work on many proactive Ag campaigns has lead me to become Chairman of the PA Farm Bureau Promotion & Education Committee; a member of the PA Department of Agriculture—Ag Education Advisory Board; and Lebanon County Farm Safety Committee.

I was asked to testify as a Dairy farmer about issues concerning my family. I will also speak about how we use the programs in the farm bill and their importance to farmers like me.

I will start with MILC and currently MILC-X—this is the most important program to me and all the Dairy farmers I know. The current cost of production in Pennsylvania is \$18.11 per cwt. When the market price of class I falls below \$16.94, the MILC program kicks in and helps farmers like me to cover part of my expenses to produce milk without going into debt. I still need to use my cash reserves during these low market periods, but it is because of programs like MILC and MILC-X that my farm has been able to stay in business. Without the MILC program, it would be hard to ride out the low market. So, yes, I strongly support continuation of the Dairy price support program at the current level.

Many farmers are concerned about the National ID program and I share some of their concern. Let me be clear, I know that providing a safe and affordable food supply to America's families is a top priority, but my concern is that the National ID program needs to be easy-to-use and confidential with cost sharing from government, industry, and producers.

Johnes' Disease is still present in dairy herds today, according to my veterinarian. Our herd has never had any suspicious animals, probably because our herd has been a closed herd since 1991. But you never know when things change, so I support some type of funding to help farmers who voluntarily want to test or suspect they should test for Johnes' Disease. Helping farmers to test their herds will help to ensure a continued disease free supply to the American market.

Direct counter Cyclical and Loan Deficiency Program: In 2000, I started using these programs and have found them very helpful, especially LDP for when grain prices fall. I find being able to fax my request for LDP very farmer friendly because we don't have to make a trip to the office. I also like using the DCP. The only negative comment I have is that we are paid on old history, for instance, I receive a wheat payment when I no longer plant wheat—instead I plant more corn. It does not reflect my current crop information. My local FSA office is very easy to work with, they do a good job.

National Farm Policy must be balanced. Congress must take into consideration the regional and commodity differences that exist. Northeast producers are closest and most able to meet the agricultural demands of the 25 percent of Americans who live in the Mid-Atlantic and Northeast states. Farm Policy must reflect the unique needs and limitations of northeast farmers.

Congress must look into green box and blue box programs that would protect northeast dairy farmers and ensure the availability of nutritious fresh dairy products.

Mr. Chairman, thank you for holding a regional field hearing here in central Pennsylvania and allowing me to share with you and the committee how my family uses and needs these programs. Again, it is an honor to be part of this process for the next farm bill. I will be happy to try to answer any questions you and the committee might have.

STATEMENT OF CARL LAUDENSLAGER

Mr. Chairman and members of the committee, my name is Karl Laudenslager and I have a 700 cow dairy in Halifax, Dauphin County, Pennsylvania. I am a customer/owner of MidAtlantic Farm Credit.

I became a member/owner of Farm Credit about a year ago. At the time, I was working with a commercial bank for my financing. I was also in the midst of dissolving a partnership with my brother. Because of some management issues, we were having performance problems with our operation. At the same time, my lender decided that it no longer wanted to support agriculture in my area.

I called Farm Credit, and talked to one of their loan officers. He was very knowledgeable about farming, and he understood the performance issues that my operation was having. He created a financing package that allowed me to refinance my debt, and dissolve the partnership with my brother. I was very glad that Farm Credit was there to help me when I needed it.

MidAtlantic Farm Credit is a farmer-owned cooperative and a member institution of the Farm Credit System. They have a portfolio of more than \$1.6 billion dollars, with more than 15,500 loans. This year, my Association returned almost \$28 million dollars of patronage to its members. I picked up my patronage check three weeks ago at our annual stockholder meeting, and I can tell you that it was the icing on the cake of a strong relationship with Farm Credit.

At the annual stockholders meeting, one of MidAtlantic's board members gave us a presentation on the System's HORIZONS project. As you know, Farm Credit has worked hard to meet the mission that Congress gave them 90 years ago—to help ensure the quality of life in rural America and on the farm.

Since Congress created the Farm Credit System, remarkable changes have taken place in Agriculture. At that time, 35 percent of the Nation's population lived on farms and about 60 percent lived in rural communities. Today, only about two percent live on farms and the rural population represents less than 25 percent of the total U.S. population.

Average farms sizes have nearly tripled during this same period—from 150 acres in 1916 to about 440 acres today. Obviously, my own farm is a good example of this change—90 years ago, no one would have dreamed about milking 700 cows. While my operation has changed because I've needed it to grow, it has also been a challenge to continue to farm in an area that is more and more urban. That's why the HORIZONS Project is important to me personally.

The HORIZONS project was designed to help identify the changes that agriculture has faced and then look at ways that Farm Credit needs to change so that it can continue to meet its mission, and serve rural Americans like myself.

Part of the HORIZONS Project included a great amount of research on agriculture and changes in rural America. Farm Credit recently released a report, entitled "21st Century Rural America: New Horizons for U.S. Agriculture." With your permission, Mr. Chairman, I would ask that this report be made part of the official hearing record.

The HORIZONS project has eight key findings that I hope the Agriculture Committee members will take into account as you consider approaches for the 2007 farm bill. Those findings are explained in detail in the HORIZONS final report.

One of the most revealing facts found during the analysis of the project was that less than ten percent of all farms remain "farming-only" businesses today. The overwhelming majority of all farmers, especially small operations, rely on off-farm employment to stay in agriculture. Over and over, we have heard knowledgeable people—from both inside and outside of Farm Credit—tell us that rural America had changed dramatically. Where before, rural communities depended on agriculture to survive; agricultural producers today depend on the economic opportunities in rural communities to stay on the farm.

Mark Drabentstott, an economist at the Kansas City Federal Reserve Bank, summed it up by saying, "the rural economy has been through tremendous change. It will undergo even greater change in the future. The old rural economy is fueled

by commodities; agricultural, industrial, mineral, timber. Globalization creates a new imperative. The most successful regions will grow entrepreneurs "lots of them."

To succeed in this new environment, agriculture and rural communities need reliable access to capital, financial services and the expertise necessary to sustain a strong economic future. Farm Credit can help ensure that access.

With small changes, Farm Credit can play an even more vital role in helping strengthen agriculture and rural America. As a farmer who relies on Farm Credit, I believe that the Farm Credit System should be able to serve the evolving financial needs of farmers.

A year ago, I was grateful that Farm Credit could help me continue to farm in Dauphin County. I hope that you will work closely with Farm Credit in the coming months to explore policy solutions that will enable agricultural producers, rural businesses and rural communities to more fully access the financial resources of the Farm Credit System. I think rural Americans deserve a financial partner like Farm Credit.

Thank you again, Mr. Chairman, for allowing me to testify here today.

STATEMENT OF JOHN K. SHAFER

Good Morning Chairman Lucas, Congressman Holden, members of the Subcommittee. Thank you for the opportunity to testify here today on the topic of specialty crops. My name is Jack Shafer, and I am a semi-retired farmer from Tamaqua, Schuylkill County. I say semi-retired, as I am very fortunate to be transitioning the farm over to my son, who will continue the family tradition. Forty years ago, I joined the farm in a partnership with my father. Our farm raises pumpkins as well as corn, soybeans, hay and beef cattle. Our pumpkins are mostly retail sold at our roadside stand during the months of August, September and October, targeting the autumn and Halloween markets. In our not too distant history, the farm also grew cabbage and other fresh market vegetables.

I take pride in my professional affiliations and in my agricultural accomplishments. I am involved in numerous agricultural organizations one of which is the Pennsylvania Farm Bureau—and I am a member of the Board of Directors of the Schuylkill/Carbon County Farm Bureau. In 1995, I was honored as the Soil and Water Conservationist of Schuylkill County. I have also served as an agricultural ambassador on the China Tour. The testimony I offer today reflects my personal opinions of what features should be included in farm bill legislation. But I would note that nearly all of my views are the same as the policy positions taken by the Pennsylvania Farm Bureau on the farm bill.

GLOBAL TRADE AGREEMENTS

First and foremost, American agricultural policy must reflect the fact that American farmers are competing in a global market. In order to effectively serve our agricultural producers, Congress must strongly consider an extension of the current farm bill until the WTO comes to an agreement. Passage of a farm bill without a WTO agreement is putting the cart before the horse, and disarms U.S. trade representatives in global trade negotiations. In order for American farmers to compete in a global economy we need a level playing field. Formulating domestic policy prior to world agreements on trade would be terribly damaging to the American farmer and the U.S. economy.

REGIONAL AND COMMODITY DIFFERENCES CONSIDERATION

National Farm Policy must be balanced. Congress must take into consideration the regional and commodity differences that exist. Northeast producers are closest and most able to meet the agricultural demands of the 25 percent of Americans who live in the mid-Atlantic and Northeast states. Farm Policy must reflect the unique needs and limitations of northeast farmers.

IMPORTANCE OF SPECIALTY CROP PRODUCERS

It is important to note that specialty crop farmers produced nearly one half of the monetary value of all crops produced in the Nation. Yet, our national farm policy has long overlooked the needs of fresh fruit and vegetable producers. The farm bill must develop and sustain specialty crop programs and align them with the agreements made at the WTO. The allocation of Federal resources must be aimed at addressing the issues of concern to specialty crop growers, given the impact we have

on the agricultural economy. Specialty Crop growers do not want direct payments; rather we seek opportunities to participate more fully in farm bill programs.

RESTRICTIONS OF PLANTING FLEXIBILITY

Growers of specialty crops need continued protection when competing against producers of "program crops" who receive a subsidy whether or not that program crop is planted. The planting restriction for fruits and vegetables has acted as a safety net for specialty crop producers who do not receive direct payments. Researchers have predicted that even a one percent increase in fruit and vegetable planting would result in no less than four percent decrease in prices. The profitability, and ultimately—the survival, of fruit vegetable producers is put into jeopardy. Congress must look into "green box" and "blue box" programs that would protect specialty crop producers and ensure the availability of nutritious fruits and vegetables.

CROP INSURANCE

While there are about twenty different ways to obtain crop insurance for corn production through seven different crop insurance programs, very few specialty crops are even eligible for crop insurance coverage. It is difficult for me to find fairness in this situation. My personal experience with crop insurance has been anything but positive. Years ago, I participated in a pilot program on coverage for my pumpkin acreage, but was not pleased at all with the results. Since this experience I have not purchased crop insurance on any of my eligible acreage. That said, I do see the instances where it would be quite helpful, for specialty crop producers to be protected from natural disasters through affordable and effective crop insurance. I also feel there is a definite need for increased explanation and education of RMA practices and rules so that all involved—the agent, the producer and the adjuster—understand in practical terms the extent and limitation of insurance provided. I am aware of at least one instance where a fellow grower paid premiums for many years on a crop that was not eligible for crop insurance in the first place.

CONSERVATION PROGRAMS

Many non-farm interests are trying to use the upcoming farm bill as a vehicle for advancing their environmental views and interests. We as agricultural producers bear a large burden of stewarding the land—the source of our livelihood. However, we must remember that this is a farm bill and not a conservation bill. The conservation programs that are included in the farm bill must be directed toward production agriculture, and must be compatible with farmers' ability to use their lands in farm production.. Too often funding for conservation programs is being directed in places where agricultural producers are not benefiting. The number of agricultural conservation programs that go unfunded or without cost-sharing is extremely high.

Programs like CRP and CREP are well intentioned but are harming Pennsylvania agriculture in two ways. First, much of the CREP land in the Commonwealth does not fall in the category of "marginally productive" or "highly erodible." Farmers needing rented ground to remain viable and profitable are forced to compete with the Federal Government for access to rental acreage that is quality farming ground, but Uncle Sam is able to pay more in rent. What's worse, many of the CREP lands are not managed properly, particularly with noxious weeds control.

The Conservation Security Program (CSP) is quite effective, but is under-funded. It provides an incentive for producers to engage in positive conservation practices and is directed toward farmers. Conservation funding should promote active land management rather than land retirement programs like CRP and CREP. CSP promotes active land management. CRP and CREP can lead, unfortunately, to land degradation.

I want to thank the subcommittee for conducting this hearing and taking into account the issues that agricultural producers are facing. It is my sincere hope that Congress takes a balanced approach to the farm bill, recognizing the regional differences and commodity differences that exist in American agriculture. It is so very important to pass into law a farm bill that allows flexibility for state and local leaders to fund and implement conservation programs most beneficial and effective to that specific location. Specialty crop producers cannot be ignored or overlooked. We need viable risk management tools to ensure profitability and the survival of the specialty crop farmer. Most importantly, however, is the need to align our farm policy with that of agreements made on our behalf at the international level, and the need to delay in writing specific language of the next farm bill until we know the parameters by which global trade will occur. Thank You.

STATEMENT BY GLENN SEIDEL

My name is Glenn Seidel. My wife Jane and I own and operate a 118-acre farm along the Tulpehocken Creek in Heidelberg Township, Berks County, Pennsylvania. We live there with my mother Grace.

Committee members already know the farm bill and what's wrong and right concerning agriculture. I could give you statistics from now until the cows come home, which if milked twice a day, is about 10 hours. But I will be brief and discuss only two of my concerns.

First is farmland preservation, particularly in the Northeast United States. Unless something is done, and done soon, a lot of our prime farmland will be lost. We talk about national security. We toss term security around in a cavalier way. But I'm here to tell you that the preservation of prime agricultural land is right now an urgent national security issue.

The following is a list of issues and reasons why we need agricultural land preservation:

- Food production, so we can eat
- Biomass, for fuel
- Carbon sequestration, to combat global warming
- Water quality and quantity, so we can drink and industry can thrive
- Nutrient reutilization/pollution control/recycling, since our agricultural lands provide a natural recycling medium for all kinds of organic materials including our own biosolids.
- Oxygen regeneration, so we can breathe
- Commerce, so we have commodity products to pay our trade imbalance
- Risk management, in the event of a natural or manmade catastrophe, productive agricultural land disbursed throughout the country only makes good sense.
- Fiber, for cloths
- Open space to promote aesthetics, culture and sanity

My second concern for Congress to address is conservation and the technical assistance to promote those conservation practices. In the list mentioned above for agricultural land preservation, every item requires conservation planning and the technical assistance to conduct that planning. As increased demands are placed on every acre of land, the need for conservation and technical assistance only increases. Conservation is not a one-time capital occurrence. It is an annual necessity. As agriculture becomes more intense, the need for best management practices to be implemented for soil, nutrient, air-quality, and water resource management only become more demanding. Our current programs must not only continue, but must also expand. Congress should ensure that best management practice strategies are developed and that these strategies are properly funded and deployed.

Our Government farm agencies should review conservation plans and assist conservation plan implementation. Also governmental agencies function as a historical repository of information concerning the implemented conservation practices on agricultural land. Without NRCS, FSA and Conservation Districts, continuity would be lost as our farmland pass from one generation to another or from one landowner to another.

In summarizing:

Congress needs to urgently promote prime agricultural land preservation; Congress needs to continue and to increase funding not only for conservation practices, but also for the technical assistance to implement these practices.

STATEMENT OF DONALD A. COCCIA

Good morning Mr. Chairman, Ranking Member Holden and members of the subcommittee. It is a great pleasure to be here with you today to discuss the issue of agriculturally based alternative fuels and biodiesel production in particular from a truly grassroots perspective.

My name is Don Coccia, and I am the founder and CEO of AGRA Biofuels, LLC (AGRA, America's Greatest Renewable Alternatives). I appear here today not long after accomplishing the surprisingly challenging but gratifying task of building Pennsylvania's first commercial biodiesel production facility. Our production facility, named in memory of my father Joseph A. Coccia, and his now decades old dream of a national foundation dedicated to "Peace Through Energy" is located ten miles south of here in Middletown, Pennsylvania. The facility has an annual production capacity of nearly 3 million gallons of biodiesel and was dedicated in January of this

year with the distinct honor of Representative Holden's presence at that event. On behalf AGRA Biofuels and the entire biofuels industry I would like to thank Representative Holden for his leadership in first recognizing and now supporting the opportunities presented for both the Nation as a whole and the agricultural community specifically by the biofuels industry. Today, my testimony is meant to support his leadership and to share ideas and concerns earned through my recent real-world experiences to improve, promote and advance the cause of alternative energy and our nation's energy independence through the advancement of the biofuel industry.

The Importance and Commitment to America's Energy Supply There are two primary reasons that explain my dedication to participating in solving America's energy needs. The first was strictly a family financial decision and an experience I'm sure many Americans have or will have to unfortunately relive. I opened my heating bill in 1999, realized that heating oil had more than doubled in less than a year, and, I dedicated myself to finding something else. That quest soon led me to a 1-paragraph article describing the USDA Beltsville Agricultural Center and their use of vegetable oil based heating oil. My direct contact with them introduced me to biodiesel and began the journey, which led ultimately to the formation of AGRA Biofuels. It's fair to say, the USDA is directly responsible for introducing me to the opportunity of biodiesel.

While investigating the opportunities biodiesel presented, I also learned of the profound importance energy assumes in the United States. Energy, its availability, affordability and consumption are vital if not the foundation to the American standard of living and economic well-being. In fact, a host of reasons now convince me that energy related issues are perhaps the most important issues of my generation:

-First, the stability and strength of the U.S. dollar is closely tied to the oil market because of the fact that all oil contracts worldwide are denominated in U.S. dollars and because U.S. oil imports have a significant effect upon our balance of trade.

Second, while we are now importing nearly two-thirds of our oil requirements, those providing the oil are most often located in the most politically unstable and openly anti-American locales. To an increasingly larger extent we are effectively leaving the control of a large portion of our economy to foreign unfriendly control by relying upon foreign sources of energy.

Third, energy and its related activities underlie directly and disproportionately the majority of our environmental and pollution concerns.

-Fourth, energy is the world's largest market and new energy technologies being developed today will most likely prove the largest economic and job creation opportunities for the future.

And finally, there is a direct link between a country's standard of living and the availability and use of energy. As standards of living grow throughout the world and especially in large, extremely fast growing economies like China and India, the competition for limited crude oil reserves will grow with a resulting upward pressure on prices. It's no coincidence that President Hu Jintao of China left the United States last week and proceeded directly to Saudi Arabia and oil producing countries in Africa to sign oil development and supply agreements. We increasingly will be faced with stiff competition from other interests and nations for the available sources of foreign-based energy.

Based on these events and observations, and after years of industry related education, investigation and research I dedicated myself to participating in solving America's energy needs. America now, spurred on by currently historically high energy costs is likewise committing itself to the challenge of developing new domestic energy supplies and breaking, as President Bush has said, our "addiction to oil" which increasingly is being supplied from foreign sources.

Alternative Energy and Biodiesel Alternative energy provides the most promising opportunities for meeting or replacing a large percentage of our energy needs. However, it's unlikely that any one magic bullet exists today that will completely solve our energy supply concerns. The energy market itself is more akin to a mosaic with many components. Unfortunately, that mosaic currently is dominated by one piece, crude oil. The challenge now is to diversify that mosaic with new sources of alternative energy and to grow other currently available sources with the goal to significantly reducing that crude oil component and creating a balanced energy mosaic picture. The rationale of waiting until a "winning horse" can emerge to replace crude oil should instead be replaced by the idea that many technologies, simultaneously developed, can collectively diminish the primary role that crude oil now plays.

In our case, we investigated the most currently promising alternative energy technologies to determine which held the most promise for IMMEDIATE application and effect. We were keenly aware that alternative energy had developed a reputation for promising future benefits with little practical application now. After much research and investigation we concluded that biodiesel presented the best opportunity now

and went about educating ourselves on all aspects of the technology and an industry that in the United States had just begun.

Our education into Biodiesel revealed a promising technology that could be easily and quickly employed. In fact, the technology of making biodiesel was first discovered in 1865 and is theoretically very simple. To make biodiesel you simply remove soap (glycerin) from vegetable oil or animal fats to make it thinner. That's it. An alcohol like methanol or ethanol replaces the soap and the resulting product, biodiesel, can be used either alone or in combination with petrol diesel anywhere petrol diesel is currently used. The bottom line is, petrol diesel has the consistency of water, diesel engines have over the last 100 years been optimized to run on fuel of this consistency, biodiesel processing converts oils and fats into that same consistency so they can be used just like petrol diesel. Additionally, our research revealed that biodiesel's other benefits include:

- No additional infrastructure or equipment investment is required to use it, just "drop-in" or "fill and go",
- It can be produced domestically utilizing American farm inputs,
- Biodiesel use provides significant environmental benefits,
- Diesel technology is as much as 20-40 percent more efficient than similarly sized gasoline engines.

The only concern with biodiesel at that time was its pricing. This final hurdle was addressed through two programs that the Federal Government then provided and which we still strongly support today. The combination of the CCC bioenergy program to encourage additional production capacity and the blenders credit for the first time made biodiesel economically feasible and price competitive with petrol diesel.

AGRA Biofuels and the Production of Biodiesel In June of 2005 we organized AGRA Biofuels with the goal to construct a biodiesel processing facility in Central Pennsylvania. At the outset, we purposely wanted to site and construct a processing facility quickly so that we could demonstrate to consumers, investors, and, local, state and Federal leaders like you that biodiesel production can be accomplished quickly and contribute immediately to our crude oil supply concerns. Our message and goal became our marketing slogan "Right Here, Right Now, Right for America". Little did we know what we were in for.

We naively believed that a facility in an industry so desperately needed by the Nation would be relatively readily embraced and encouraged. We were wrong. The fact that the industry was so new made every activity one of first impression to whomever we were dealing with and most often a challenge for them to neatly place in an already established "protocol" or standard operating procedure. Every activity from leasing a facility, to insuring it, to obtaining financing, to permitting at every government level proved an unbelievably difficult, frustrating and expensive task. A few examples may explain our difficulties and why a six-month project continues nearly a year later today with over a 500 percent cost overrun and new regulatory surprises everyday:

-We initially envisioned utilizing used restaurant oils as a potential feedstock for our facility. Unfortunately, Pennsylvania is the only state in the union that regulates the processing of used restaurant oil or "yellow grease" for processing into biodiesel. Although a permitting process existed initially to utilize yellow-grease, the process was uncertain as to outcome, extremely expensive and likely to take years to complete. After much time, effort and expense, however, I am proud to say, that working closely with the administration of Governor Ed Rendell we have been able to at least provide an interim solution. In concert with the staff of Pennsylvania's Department of Environmental Protection (DEP), headed by Secretary Kathleen McGinty and the Department of Agriculture headed by Secretary Dennis Wolff, we provided extensive comments on a new general permit that now allows the commercial production of biodiesel using yellow grease under a DEP initiated general permit. We are hopeful that under that general permit we will be permitted to process yellow grease soon.

-In an effort to insure our facility we ran into serious roadblocks due primarily to a misunderstanding of the facility and the industry. Insurers classified biodiesel not as processed vegetable oil but rather as a hydrocarbon based fuel, especially since the name included the word diesel as in bio-DIESEL. In fact, insurers classified us most often as a crude oil refinery, even though the raw materials used and the environmental and processing risks are completely different and much less apparent. Our facility contains no crude oil and does not employ high temperatures or pressure in our processing. In the end, I was forced to conduct nearly daily conference calls for months with dozens of insurance companies and become an insurance expert before we were lucky enough to identify a broker and an insurance company that would work with us.

-Code enforcement officers and those responsible for applying and enforcing regulations are most often not familiar with the biodiesel industry nor have a procedure to process and accept a facility involved in a new industry. The exercise of interpreting regulations and obtaining permits then becomes an expensive and drawn-out procedure and I'm afraid an opportunity to open a never ending process where no one is willing to make final decisions or establish precedents. In such a vacuum, regulators regularly resort to the most restrictive interpretations to avoid repercussions thereby endangering the success of any project.

-Even though we now have millions of dollars of equipment in place in our facility, traditional lenders still have no incentive or inclination to put forth the effort to determine a valuation for our equipment or inventory. In the end, financing is still largely an exercise in obtaining private funding.

All of these roadblocks can be attributed to the growing pains of a rapidly expanding industry but to be effective quickly in establishing a vibrant alternative energy industry I believe that all of these issues and dozens more like them will most effectively be addressed by a central organization. In my mind the terms that will describe success in building the alternative energy industry is responsiveness and predictability when undertaking an alternative fuels project. This is especially true in the case of potential small producers that may not be able to absorb the cost and time commitments of developing alternative energy projects. New fuels, new technologies and new ideas and improvements will continuously be introduced and I believe that to be successful, we must build the infrastructure that embraces them, evaluates them, assists in developing them and gets them in production and to the consumer in the least amount of time and with the least amount obstacles.

The Biodiesel Industry Beyond Production Beyond the actual making or production of biodiesel which AGRA Biofuels now participates, the industry also consists of two other segments, feedstock supply which provides the raw materials for our facility and post production blending, distribution and marketing. The industry can be seen as a continuous energy supply system that begins with feedstock, which in turn supplies production, which in turn supplies the distribution to consumers. Therefore to build a successful biodiesel industry each of the three successive steps to biodiesel utilization must be developed. The feedstock must be made available, the production facilities must exist and the distribution infrastructure must be available to deliver the fuel wanted by consumers, consumer demand which in turn is developed through effective consumer awareness, marketing programs and state-of-the-art appliances, engines and vehicles.

BUILDING THE FUTURE

The future of America's energy independence I believe will be rooted today in the activities done now to create a foundation for implementing alternative energy technologies. We must continue the programs that have proven so successful to this point in really just a few years to creating exponential growth within the biofuel industry. These include the funding of the CCC bioenergy program and the small producers tax credit and blenders credit programs.

In addition to these existing programs, I also believe that we must support each of the industry's three segments to keep biodiesel in particular competitive and importantly domestically produced. Traditional feedstock like soybean oil, for example, which serves as the vast majority today of the biodiesel raw material is expected to soon experience significant competition from foreign oils that are vastly more prolific and therefore less expensive. The Nation must invest in ensuring that domestically grown feedstocks can compete effectively against this challenge and that new technology can be deployed quickly so as to encourage increasingly larger amounts of production to expand feedstock supplies. This not only will include research into developing more productive oil producing traditional crops, but also in encouraging farmers to grow the crops. In the end, the Nation will also have to invest in developing new and novel forms of feedstock of which aquaculture based feedstocks such as micro algae appear to offer nearly limitless potential. Additionally, although the feedstock may be grown, we must also ensure that the infrastructure exists to process the crops into oil and into a form that can be used to produce the biofuel.

Therefore, there is a definite need for Congress in the next farm bill to expand incentives for oil crop production and processing. For in addition to the obvious energy and environmental benefits provided by the production and use of biodiesel, there are tremendous gains that can be made for the Agriculture sector of our economy. Using soybeans and other feedstock and oil crops for biodiesel production does much more than use surplus agricultural commodities; it adds layer upon layer of economic value. Various economic studies have shown that increased use of fats and oils for biodiesel production increases the value that farmers receive for their crops,

at the same time making protein meal cheaper for domestic livestock producers and more competitive in the international protein markets for food and fuel. This could lead to actually increasing agricultural processing here in the United States, while at the same time making our farmers more profitable in the global food markets.

From a production prospective, I believe that the infrastructure must be developed to make the industry highly responsive. That is, organizations and stakeholder partnerships must be created and funded to marshal the resources that enable everyone willing to participate to have access to the knowledge and procedures to easily, efficiently and quickly institute any alternative energy initiative. In effect, we must create a reproducible template that family farms, cooperative or private entities can use to implement and sustain alternative energy projects. The template must provide access to the finances, knowledge, regulatory procedures and technical support necessary to make the industry viable, fast growing, responsive and competitive.

Finally, from a postproduction perspective, educational awareness, technical support and appliance development programs must be developed to ensure the adequate supply and increasing demand for biofuels. For example, less expensive equipment must be developed and additives researched that permit cold weather utilization of biodiesel with and without blending with petrol diesel. Additionally, I firmly believe that with the proper research and development funding, the technology exists and can be easily developed to significantly expand the use of biodiesel in traditional HVAC, and stand alone energy generation within the home. Imagine the positive effect of a home in the near future burning clean biodiesel that is completely off-grid and generates all of its energy needs through biodiesel and the utilization of highly efficient clean-burn diesel technology.

Conclusion Therefore, as a result of our experience, I am here today to ask for continued support of the biodiesel production industry as it relates to agriculture. As you consider the 2007 farm bill, please consider the Federal policy measures that have been successful in the progress made developing this industry. They include extension of the biodiesel blender's and small producers credits, extension of the bio-energy program for biodiesel and extension and expansion of the biodiesel fuel education program.

Beyond that, I would urge Congress to explore possible initiatives to increase soybean and other oil crop and feedstock production, deployment grants for new feedstocks, guaranteed loans for facility construction or expansion and greater incentives for end-use research development and deployment. Additionally, I would argue that all of these goals could be accomplished through a newly created organization that brings together government, research and industry participates in a partnership format and committed to the goal of technical development and technical support to each segment of the biodiesel industry.

Mr. Chairman, I appreciate the opportunity to appear before you here today to discuss this important issue. We welcome the opportunity to continue working with Rep. Holden and members of this committee as you move forward, and I'll be happy to answer any questions you might have. Energy independence is not beyond our grasp. In fact, it is with a certain irony that we sit here this morning in the same state that gave birth to the oil industry, discussing the potential of a re-birth of oil. Right here. Right now. Right for America.

Thank you very much.

STATEMENT OF THOMAS A. GILBERT

Thank you for the opportunity to submit comments regarding USDA farm bill conservation and rural development programs and their critical importance in Pennsylvania and throughout the Northeast. The Wilderness Society is a national non-profit conservation organization working to protect America's wildlands and wildlife. The farm bill is an important tool to conserve and maintain family farms and private forestlands, and to support rural resource-based economies, especially in the Northeast.

Productive farm and forest lands are essential to the economic vitality and quality of life of Northeastern communities. They are vital sources of farm and forest products, clean air and water, carbon sequestration, wildlife habitat, scenic beauty and opportunities for outdoor recreation. Unfortunately, private farm and forest lands are facing tremendous development and economic pressures that threaten their future ability to provide these goods and services to the residents of this densely populated region. Pennsylvania alone loses more than 49,000 acres of farmland every year, and the same phenomenon is occurring throughout the Northeast as development sprawl increasingly expands to suburban and rural areas.

While Pennsylvania leads the Nation in the number of farms and acres of farmland preserved, many of the state's most pressing environmental challenges—such as clean water—are left unmet because over 1,200 producers are annually rejected when they seek stewardship incentives from USDA. The next farm bill should significantly increase funding to the Farm and Ranchland Protection Program, and to USDA conservation programs, such as EQIP and WHIP, that provide technical and financial assistance to farmers for improved stewardship of their lands and the environmental benefits they provide.

The same pressures are facing private forestlands throughout the Northeast and mid-Atlantic, and many family farms are a mix of agricultural lands and woodlots. A recent USDA Forest Service report, "Forests on the edge" projected that over 40 million acres of private forestlands, primarily in the East, will experience increased housing density by 2030. The report warns that that these increases in housing density will result in "decreases in native wildlife populations, loss of biodiversity, increased opportunities for invasive species, reductions in water quality and aquatic diversity, decreases in timber production, increased fire risk and greater loss of life or property from wildfires, changes in scenic quality and recreational opportunities, and fewer options for timber management, recreation and other uses whose economic benefits rely on large forested areas."

The Forest Legacy program, authorized through the 1990 farm bill, has been an effective tool to assist states in conserving private forestlands through purchase of lands or development rights from willing landowners. But demand for the program far exceeds available funding, as participating states submitted over \$200 million in project requests for FY 2007. The proposed Suburban and Community Forestry and Open Space Program (S941/HR3933) could provide an important complement to the Forest Legacy Program to assist local governments and private land trusts in conserving threatened suburban and community forests, including family farms that are a mix of agricultural lands and woodlots.

The Wetlands Reserve Program should be expanded to 5 million acres to maintain wetlands that are vital for wildlife, filtering pollutants from our water supplies, and controlling floods. In general, easement and reserve programs should place greater emphasis on permanent and long-term conservation agreements, since this is a more effective use of public funds, and land values will only continue to rise resulting in higher costs to conserve critical lands and resources in the future.

Throughout the nation, rural communities are struggling with economic transition. Changing technology has reduced the labor needed for agriculture, forestry, and wood products production, and some resource-based rural economies are coping with mass out-migration of young people who see few opportunities. At the same time, rural places are attracting entrepreneurs and retirees seeking a high quality of life, and an influx of new residents is stressing the services and the traditional culture of some rural communities. Whether shrinking or booming, rural economies need assistance that matches their unique needs. Both technical assistance and funding offered by USDA's rural development programs are critical to helping rural towns diversify their economic base, provide critical infrastructure, and cope with change.

Thank you again for considering my comments on the critical importance of USDA farm bill conservation and rural development programs to the Northeast.

REVIEW OF FEDERAL FARM POLICY

THURSDAY, JULY 27, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION, CREDIT,
RURAL DEVELOPMENT, AND RESEARCH,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 1:03 p.m., in room 1300 Longworth Building, Hon. Frank D. Lucas (chairman of the subcommittee) presiding.

Present: Representatives Moran, Osborne, Goodlatte [ex officio], Holden, Cuellar, McIntyre, Herseth and Peterson [ex officio].

Staff present: Joshua Maxwell, Bryan Dierlam, Bill Imbergamo, Pelham Straughn, Tyler Wegmeyer, Callista Gingrich, clerk; Jamie Weyer, Nona Darrell, and Anne Simmons.

OPENING STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. LUCAS. This hearing of the Subcommittee on Conservation, Credit, Rural Development and Research to review conservation issues will come to order. And I would note for all of our witnesses and friends in the gallery that we had a rather exhaustive full committee hearing on the joys and wonders of horse slaughter-related issues in a markup earlier this day, so don't be surprised if it takes a little bit for some of my colleagues to work back in after a 3½ hour process.

With that, good afternoon and welcome to the subcommittee's hearing to review conservation issues.

Today's hearing is the first of several that this subcommittee will hold to review the conservation title in preparation for the next farm bill that will be written by the House Committee on Agriculture.

The 2002 farm bill is the greenest one to date. This legislation created new voluntary incentive programs and increased funding for conservation programs by more than 80 percent. This historic legislation increased the acreage allowed for sign-up under land retirement programs such as CRP, WRP; also dramatically increased the annual funding for the Environmental Quality Incentives Program and other incentive and cost-share programs.

In addition, the 2002 farm bill created a new Conservation Security Program, further moving the trend of the conservation title towards more working lands programs. Farmers and ranchers, through the assistance and incentives of these programs, have vol-

untarily worked to help reduce soil erosion, increase wetlands, improve water quality and preserve farmland and wildlife habitat. The environmental gains produced are a testament to our producers who are truly the most dedicated conservationists.

However, as we have learned throughout the past 2 years, the conservation title is not without its challenges. I have had my doubts about CSP from the very beginning, and it comes as no surprise that this program has not been implemented as Congress intended it to be.

CSP was meant to be a flexible national program, but due to constraints, yes, imposed by Congress and the administration, this program has been a very targeted and complex program. I intend to take a very serious look at this program during this and future hearings.

To ensure the future relevance of conservation programs, we must make sure that they meet the ever-changing needs of producers. Contracts for over 28 million acres in CRP are set to expire before 2010. The FSA has worked diligently, reenrolling much of the acceptable land. This brings to mind a few questions. At what acreage should we cap CRP? What will be done to the land that comes out of retirement? And how do we ensure that our truly sensitive lands remain in the programs to meet our soil, water and wildlife habitat conservation goals?

There are already many ideas floating around on how conservation programs can help solve our Nation's energy crisis. I have even heard members of the subcommittee state that they will advocate the planting of switchgrass on CRP acres.

Let me be very clear. I am not advocating any change in the way CRP or any other conservation programs work. Many of these ideas will be put forth today, and I will be open to discussing the many policy options that will be brought to the table in today's hearings and in future hearings.

I cannot speak about conservation without the issue of technical assistance rearing its ugly head. I suspect we will hear much about that today. Providing the participants of conservation programs with the necessary financial and technical assistance is essential to the success of conservation programs. I have worked hard to make sure that each conservation program has adequate TA funds, and I will continue to examine the progress of using technical assistance, technical service providers in lieu of NRCS and FSA staff, as well as working to streamline the application process. The delivery system is the lifeline to ensuring the success of conservation programs.

The final picture of the next conservation title is still very unclear. It comes as no surprise to anyone inside and outside the Beltway what the budget situation is. It remains very tight. Writing a farm bill and a conservation title within our existing budget constraints is a reality we must face. So before we start developing new programs and looking for ways to spend additional dollars, we must first look at—look within the current programs to make sure they are producing the environmental benefits we intended.

Programs must be examined for common goals and, if necessary, combined to prevent overlap and redundancy. Combining programs does not mean that their activities conducted by the present pro-

grams will cease. It simply means we are streamlining the process, the implementation, the administration of programs to make more money available for on-the-ground activities.

Most importantly, it is imperative that we allow these programs to be accessible to all qualified parties by reducing backlogs. Programs under Title II had a sizable reduction after budget reconciliation; however, proponents of these programs must do a better job of making their priorities known—and I want to say that I use this phrase loosely, but I will not say that—known to the appropriators.

Today Mark Rey, the Under Secretary for Natural Resources and the Environment, and Teresa Lasseter, the Administrator for the Farm Service Agency, will testify about the implementation and management of the conservation programs. We will also hear from conservation producers and wildlife groups that represent the very constituents these programs affect.

When preparing for this hearing, I gave my witnesses a very simple task: Tell us what in the 2002 farm bill is working, what is not working, and what priorities you have for the conservation title of the next farm bill. Today's testimony will be broad, but extremely helpful as we continue to work to outline the next conservation title. And I most assuredly look forward to today's testimony.

And with that I would like to turn to the gentleman from Pennsylvania for any opening comments he might have.

OPENING STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PENNSYLVANIA

Mr. HOLDEN. Thank you, Mr. Chairman. I would like to thank you for holding this hearing today, and I look forward to hearing from all of our witnesses, but especially Berks County Commissioner Judy Schwank. Commissioner Schwank is involved with many conservation issues in my district and hails from the leading county in Pennsylvania for farmland preservation.

Mr. Chairman, the current farm bill was the largest investment in conservation in the history of recent farm bills. The conservation title of the current farm bill dedicated over \$17 billion for conservation, an increase of 80 percent. We funded the most significant programs in order to preserve farmland and to improve water quality and soil conservation on working lands. We addressed environmental concerns and sought to make conservation a cornerstone of agriculture for producers in all regions of the country.

We are also able to address some of the farm bill's inequities for regions that do not benefit from traditional agriculture programs, such as the Northeast. Conservation programs offered farmers in those areas a way to continue farming. Conservation programs assist our farmers and ranchers in strengthening their environmental stewardship. That is important in looking over land and water that we will pass on to future generations.

Our Nation's farms and ranches produce far more than traditional food and fiber. Well-managed agricultural land also produces healthy soil, clean air and water, wildlife habitat and pleasant landscapes, all of which are valued by rural and urban citizens alike.

So, Mr. Chairman, I commend you for having this hearing today, and I look forward to hearing the testimony from our witnesses.

Mr. LUCAS. Thank you, Mr. Holden.

Any other statements for the record will be accepted at this time.

[The prepared statement of Mr. Cueller follows:]

PREPARED STATEMENT OF HON. HENRY CUELLAR, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF TEXAS

- Chairman Goodlatte, Ranking Member Peterson, thank you for holding this hearing on USDA's conservation programs.
- These programs are some of the most important administered by USDA because they not only directly benefit individual farmers and ranchers but also protect our shared natural resources.
- Through technical assistance from NRCS, farmers and ranchers in my district have protected declining species on over 13,000 acres and established wildlife as a primary resource concern on nearly 344,000 acres.
- NRCS technical assistance programs have also permitted district farmers to increase irrigation efficiency saving some 1,046 acre feet of water.
- But despite these achievements, I am concerned that without an adequate number of staff or technical service providers, delivering technical assistance will become increasingly difficult.
- Because of their importance and size, conservation programs, whether administered by NRCS or FSA, deserve a close and careful examination to ensure they are delivering expected results.
- I look forward to hearing from our distinguished witnesses.
- Thank you again, Mr. Chairman for holding this hearing.

Mr. LUCAS. We are pleased to have at the table our first panel, the Honorable Mark Rey, Under Secretary for Natural Resources and Environment, the U.S. Department of Agriculture here in Washington, DC; and Ms. Teresa Lasseter, Administrator, Farm Service Agency, USDA,

Dr. Rey, please begin when you are ready.

**STATEMENT OF MARK E. REY, UNDER SECRETARY, NATURAL
RESOURCES AND ENVIRONMENT, U.S. DEPARTMENT OF AG-
RICULTURE**

Mr. REY. Thank you, Mr. Chairman, and thank you for the opportunity to appear here today to discuss the conservation programs included in Title II of the farm bill. The 2002 farm bill committed more than \$17 billion over 10 years for conservation and emphatically demonstrates your commitment to working agricultural land.

Working lands conservation programs are unique among agricultural programs in that they are specifically designed to produce multiple benefits. First, farmers or ranchers who install conservation practices improve their land and enhance their natural resources. Second, the public also receives many benefits through a cleaner environment, increased biological diversity and a scenic landscape. Conservation investments also lead to stronger rural economies.

Since 2002, NRCS has provided assistance to 1 million farmers and ranchers. Working with our partners we have applied conservation on more than 130 million acres of working farm and ranchland under EQIP alone, plus 60 million acres enrolled in land retirement and easement programs. We have also helped farmers apply for more than 14,000 comprehensive nutrient management

plans, and over the past 4 years we have invested \$6.6 billion directly with farmers and ranchers, matched by landowners and partners who have added an additional \$2.8 billion for a total investment of more than \$9.4 billion through 2005.

The 2002 farm bill brought us new programs and new opportunities. NRCS has responded with new tools and streamlined agency management to serve farmers and ranchers more effectively and efficiently. For example, from 2003 through 2006, we have worked with over 2,100-plus technical service providers providing the equivalent of over 1 million hours of assistance to supplement our staff in serving our customers.

Let me briefly review our achievements in the major farm bill programs.

Under the Conservation Security Program, we began with 18 pioneer watersheds in 2004, and now serve 280 watersheds nationwide, covering 14.6 million acres and rewarding nearly 19,000 stewards.

From the Wildlife Habitat Incentive Program we have invested more than \$165 million in 9,500 agreements covering 1.4 million acres of improved wildlife habitat.

Our portfolio of easement programs, designed to protect and preserve prairie grasses and wetland systems and preserve working farms and ranches, has provided protection for nearly 380,000 acres through the Grassland Reserve Program, 750,000 under the Wetland Reserve Program, 450,000 acres in the Farm and Ranch Lands Protection Program; and, of course, our biggest program, the Environmental Quality Incentive Program, where we have invested nearly \$3.1 billion, has benefited close to 185,000 participants from fiscal years 2002 through 2006 alone.

NRCS has also worked to help livestock producers meet their environmental challenges, applying more than 14,000 comprehensive nutrient management plans since 2002.

Undergirding all of these programs is our mainstay program that provides planning assistance and conservation technical assistance to a wide variety of landowners.

I want to touch also on some management reforms that have either increased our efficiency or helped us direct more dollars and better service to our customers.

First and foremost, we have increased transparency, resulting in greater accountability and a better understanding of our programs by our customers and those who evaluate the efficiency of our programs.

We have streamlined payment processes and reduced paperwork for customers, saving nearly 330 staff years alone.

We have established a process for rapid watershed assessments, reducing that process from several years to 6 months. And in addition to the efficiencies of the new tools, we have developed the Web Soil Survey. Our soil survey data are now available over 24/7 via the Web. We have provided as much information in the last 10 months through the Web as we have done through the last 5 years via printed copies.

We have also developed a trio of 3-click Web tools to help farmers save dollars and energy by determining how much they could save by switching from no till, improving fertilizer management, or

increasing irrigation efficiency. Conservation programs on working agricultural lands benefit both producers and the public, supporting sustainable agriculture and enhancing the environment.

As we move forward, NRCS will emphasize cooperative conservation, a watershed approach, and market-based approaches to helping people help the land, in addition to those that I have summarized and those efforts that are included in my statement for the record.

Thank you, Mr. Chairman and the members of the subcommittee, for the opportunity to testify.

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

Mr. LUCAS. Thank you, Secretary.

Administrator Lasseter, whenever you are ready.

STATEMENT OF TERESA C. LASSETER, ADMINISTRATOR, FARM SERVICE AGENCY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON

Ms. LASSETER. Thank you.

Mr. Chairman and members of the committee, I appreciate the opportunity to review the operation of the farm bill's conservation programs as implemented by the Farm Service Agency.

I am pleased to report to the committee that there have been significant accomplishments under CRP since the 2002 farm bill. FSA implemented the President's directive to reenroll or extend contracts on more than 28 million acres of land. These are contracts scheduled to expire between 2007 and 2010.

With regard to the contracts expiring in 2007, CRP participants elected to reenroll or extend more than 88 percent of the acreage. Almost 77 percent reenrolled or extended those acres expiring between 2008 and 2010.

Earlier this year the Department announced that it accepted 1 million acres in this spring's general sign-up. This was added to the 2.9 million acres accepted since 2002. Total enrollment now stands at about 36 million acres, with annual rental payments totaling \$1.8 billion.

The country clearly gains from CRP. CRP annually reduces soil erosion by 454 million tons, stops the escape of nitrogen, phosphorus and sediment from fields by well over 85 percent, sequesters more than 48 million metric tons of carbon dioxide from the air we breathe.

CRP also contributes to increased wildlife population. More than 2 million additional ducks survive annually in the northern prairie because of CRP. Sage and sharp-tailed grouse populations are increasing in eastern Washington because of CRP, and ring-necked pheasants are again abundant in many parts of the Midwest because of CRP.

CRP is building upon these successes with several initiatives, including enrollment of 100,000 acres in the Presidential Quail Initiative to create habitat for quail, upland birds and other species. To foster further goodwill, we will have executed agreements with Pheasants Forever, Ducks Unlimited, the National Wild Turkey Federation and the Quality Deer Management Association.

Fourteen new Conservation Reserve Enhancement Program agreements, better known as CREP agreements, were signed recently with State Governments. We are after mutually beneficial results, such as improved water quality and quantity, better habitat for wildlife, and additional erosion controls on more than 800,000 acres.

Recent agreements with Colorado, Idaho and Nebraska should create a combined enrollment of up to 235,000 acres. Our projected water savings from these agreements is 360,000 acrefeet of water annually.

Additionally, FSA is fully engaged in the sign-up and distribution of \$504 million in emergency forestry CRP funds. Our hope is to restore more than 700,000 acres of private forestlands damaged by the 2005 hurricanes. Likewise, the Emergency Conservation Program provides emergency funding to help farmers and ranchers rehabilitate farmland damaged by natural disasters, including drought.

Since the 2002 farm bill, FSA has allocated more than \$500 million in ECP assistance, including funds appropriated by Congress for the 2005 hurricanes.

Overall, environmental indicators suggest that we are making progress in resource conservation. Still there is plenty of work to do, especially as new issues emerge. For instance, we have shown that additional trees and CRP grasses help reduce greenhouse gases through carbon sequestration.

Is there more that we should be doing? Can we produce environmental benefits and grow bio-based fuels on the same ground? Do we pay farmers to do that?

Other broad policy considerations include identifying specific goals for water quality, wetlands, wildlife habitat, air quality, soil erosion, recovery of threatened and endangered species and increased flood control. Attention should also be given to resources needed to accomplish these goals.

Other program considerations that could be examined are whether land expiring from a CRP contract should be considered eligible for reenrollment even if that land is no longer capable of being cropped due to an easement, conversion to trees or other factors.

Also, should certain conservation practices such as wetlands and buffers be exempt from the 25 percent county cropland limitation? Should the statutory standards for a waiver of the 25 percent county cropland limitation be modified? Should CRP be modified to support specific biofuels initiatives?

In concluding, as Congress debates the upcoming farm bill, we hope consideration is given to improving existing programs, funding WTO-consistent green payments that enhance environmental benefits, encouraging private sector markets to enter environmental services, and emphasizing voluntary tools for conservation over a more regulatory approach.

We look forward to working with you on these critically important issues. Thank you.

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

Mr. LUCAS. Thank you, Administrator.

Mr. LUCAS. Let us begin with a discussion about CSP. Mr. Rey, you said we were going to spend how much money this year on CSP?

Mr. REY. We will spend, I believe, somewhere in the neighborhood of \$239 million on CSP this year.

Mr. LUCAS. And that money goes to, you said, 200-some cooperators?

Mr. REY. It will be more than that; 19,000 cooperators.

Mr. LUCAS. What percentage would you say of the potential people who might be eligible for the program does that 19,000 represent if—what I am saying is if CSP were available to everyone who would be eligible in the country, how many dollars would that \$239 million have to become, speculating, of course, from an educated guess position?

Mr. REY. If we are talking about the nationwide application of it as opposed to everyone within the targeted watersheds being eligible, our estimates would be that CSP would cost us somewhere in the neighborhood between 9- and \$10 billion a year to administer.

Mr. LUCAS. OK. Because as you noted from my opening comments, I am always very sensitive about having programs that not everyone, for budget restraints or whatever other reason, are not able to participate. So probably an additional \$9 billion, say, to make it open to everybody else.

Mr. REY. That is about right.

Mr. LUCAS. Let us touch for a moment on that 25 percent crop limitation. In the third district of Oklahoma, I have a number of counties that long ago on CRP met that number, and enrollment was stopped.

Based on your experiences, both of you, in working to administer these programs, does that seem like a rational percentage number? Should it be raised? Should it be lowered? From your observations.

Ms. LASSETER. From my observation, we have been able to accept pretty much what is offered for CRP, and maybe perhaps our 25 percent is working. We certainly need to consider what influence that has on the county and the economy.

Mr. LUCAS. Most assuredly.

Tell me, if you would, for a moment about how GRP has been implemented. Initially in this committee, in 2002, when it was discussed as a part of the farm bill, it was viewed as a working lands program perhaps either to transition CRP property out of—or leases out of and over into, or as a way to provide opportunities to expand conversation in the rangeland areas, and from some of the numbers I have seen, it almost looks like a program now that has been become more of a green zone farmland protection perspective-type program. Is that a fair assessment of how the actual implementation has gone?

Mr. REY. I think there is some similarities in the results that occur, but I don't think that is necessarily an accurate assessment of how the program has been administered.

I think the way the program has been administered is that it has become one of the preeminent conservation programs in the grazing land or rangeland area, and it has been very popular, particu-

larly in some of the intermountain Western States that are facing pressures right now from subdivision development.

Mr. LUCAS. Tell me a moment then from the perspective of the programs that you implement, are there particular areas perhaps of overlap where we have programs now that exist that seem to do very similar, if not the same things in the conservation title?

Mr. REY. I don't think that there is so much overlap in the functionality of the programs. Where we see some opportunities and will likely be making some recommendations as the subcommittee and then the committee considers the 2007 farm bill is ways to coordinate these programs so that we are targeting their net effect at a watershed level. But I don't see them as necessarily overlapping. I see them as programs that could be better coordinated to achieve larger conservation objectives.

Mr. LUCAS. Before I turn to my colleagues, Secretary, you and I have had lots of discussions about technical assistance cost issues around the country as a whole. And I have had various concerns about that.

Do you believe we have made progress on addressing those across the Nation, making sure the resources are there, able to deliver those programs?

Mr. REY. I believe we have. As the year has progressed and we have realized some benefits through efficiencies, we have reallocated money back out to States to provide additional assistance for technical assistance, to provide additional funding for technical assistance work.

In Oklahoma, for instance, those efficiencies allowed us to produce additional—those efficiencies, I should say, allowed us to produce an additional \$4 million for Oklahoma over the last several months.

Mr. LUCAS. Thank you.

I now turn to the gentleman from Pennsylvania.

Mr. HOLDEN. Thank you, Mr. Chairman.

I guess, Mr. Secretary, I should address this question to you. As you well know, the Agriculture Committee has been traveling throughout the country preparing for the next farm bill. And we heard from numerous specialty crop producers that the current conservation programs are just not flexible enough to meet their needs.

I am just curious. Do we know who is applying and who is receiving conservation assistance? And what is your reaction to the allegations by specialty crops producers that the program is not really meeting their needs?

Mr. REY. We do have data on who is providing, who is benefiting from these programs. And there is a significant participation by noncommodity crops in these programs, upwards of over 6 million acres.

I think that part of the problem with specialty crop producers is because they are not as used to some of our programs broadly as some of the commodity producers are, that the—the learning curve for sign-up to some of the conservation title programs is a little higher.

Mr. HOLDEN. They are not familiar enough.

Mr. REY. Right. But they have been coming on line now with some increasing rapidity, so we feel pretty good now about the fact that we have got blueberry, citrus, coffee, cotton, grass seed, oilseed, just about every manner of specialty crop participating to one degree or another in the conservation title programs.

Mr. HOLDEN. Thank you.

I guess this is also for you, Mr. Secretary. As I mentioned in my opening statement, Commissioner Judy Schwank, who is from Berks County—and I mentioned that she comes from a county that leads Pennsylvania in farmland protection, and we like to say Pennsylvania leads the country in farmland preservation. I learned on my recent trip that Maryland does. But no one from Maryland is on the committee. So I will still claim that——

Mr. REY. You are a close second.

Mr. HOLDEN. We are No. 1.

The question I have is I learned in a field hearing of the full committee in New York that farmland preservation in New York is not working as well as we anticipated. And I also know that on the Senate side, the junior Senator from Pennsylvania has introduced a farmland preservation bill that is going to correct some problems he see in the Commonwealth. And through staff I understand that there was a change made in the decision about the appraisal and title review of the Farmland Preservation Program.

I am just wondering, why do we make that decision, and who made it, and is that affecting the areas that we anticipated was going to benefit from farmland preservation?

Mr. REY. I don't think it has had an effect in one State relative to the other. It has had an effect in that it is a new provision or a new requirement in the program, and so our partners and the farmers who want to benefit from the program are going to have some learning curve time associated with adapting to it.

Essentially the change was made as a consequence of audits of the program that were done by both our own inspector general as well as your general governmental accounting office, and the net effect of it was the view that we ought to be using standard yellow book appraisal procedures in executing this program.

Mr. HOLDEN. Is there a problem getting certified appraisals in some States? Is that it?

Mr. REY. No. I think the appraisal process outlined in the yellow book is well enough known so that we are not having problems locating certified appraisers.

One of the problems we may be experiencing in some areas, however, is that applying the yellow book standards, as both the GAO and the OIG said we should, is decreasing the value of the easements that we are purchasing. So the amount that we are offering to farmers is less than would otherwise have been the case had we stayed with the previous system.

But that overpayment, as the OIG and GAO considered it, was a bone of some contention. So it may be we are getting some farmers backing away because the incentive we are offering isn't as big as it once was.

Mr. HOLDEN. Finally, Mr. Chairman, before my time expires, Mr. Secretary, as you well know, there has been flooding in the Mid-

Atlantic and Northeast in June. Is there any emergency conservation funding that has been on the way there to help out?

Mr. REY. There is nothing in the Emergency Watershed Protection Program at present. There is, however, money in the Senate version of the fiscal year 2007 agricultural appropriations bill that is devoted to that purpose. I think it is about \$53½ million earmarked for recent flooding in New England, New York and Pennsylvania. Assuming Congress enacts that legislation, we will put that money to good use.

Mr. HOLDEN. Unfortunately it will probably be after the election. I will yield back, Mr. Chairman.

Mr. LUCAS. The Chair turns to the gentleman from Texas, if he has any questions.

Mr. CUELLAR. Thank you, Mr. Chairman.

Mr. Secretary, I was looking at your written testimony on page 2 where you talk about new programs, new rules. Basically if we pass some legislation, then, of course, you have to develop the rules, you have to publish those program rules, you have to complete the companion policy guidance documents, you have to develop the program manuals, you have to train and update your workforce, and then, of course, you have to deliver that information down to the consumer, the farmers and other folks down there.

My question is in order to make sure that when you look at all the rules and all the regulations—I would like to have very efficient Government. Are you all doing anything to actively reduce, eliminate, modify any unnecessary rules that we shouldn't have out there?

Mr. REY. The short answer is yes.

One of the challenges that was presented by the 2000 farm bill was to get the regulatory framework out fast enough to get conservation work done on the ground, and I believe we succeeded in doing that.

Now, what we are doing is going back and looking at some of those rules to see where we can do streamlining and add some efficiencies. And some of those are indicated in my written statement later on in the later pages. We just cleared yesterday a set of revisions to the Farm and Ranch Lands Protection Program not only to deal with the appraisal issue that Mr. Holden asked about, but also to add some additional efficiencies as well, so that we are gainfully involved in a second round of looking at these regulations to see where we can simplify and streamline them.

Mr. CUELLAR. Could I ask you a follow-up on that? Let us say you had a pie that had 100 percent of all the rules and regulations. In your effort or your endeavor to reduce those unnecessary rules and regulations, what would you say you have done already, 5, 10, 15 percent? A rough estimate.

Mr. REY. Probably somewhere in the neighborhood of 15 percent, 12 to 15 percent, would be my guess. It varies from program to program.

Mr. CUELLAR. What is your estimate to finish the rest of your evaluation and elimination of any unnecessary rules and regulations? Because I want to see efficiency in Government. I want the yellow book test, which is something I support, the yellow pages, I am sorry; certainly want to get rid of any duplication, unneces-

sary rules. I certainly want to simplify paperwork. If you can put it in one page instead of 10 pages, I would rather have that.

And certainly when you talk about grants, anybody that has worked with grants will tell you it is one of the most challenging jobs out there. And I have to understand that you have to have protection and checks and balances, but at the same time we have to find that balance.

What would you tell me as to what sort of time frame you feel that you can finish the other 85, 87 percent?

Mr. REY. Well, we are going to continue to work on that right through your enactment of the next farm bill. So there are still efforts that are under way and are going to continue to be under way through this year and well into next.

We may come forward in our recommendations to you for the 2007 farm bill with some recommendations for streamlining that we can't achieve administratively, that will require future legislative authority to be allowed to do that.

But I think with the efforts that we have under way in efficiency measures, that we are probably going to reduce some of the paperwork by another 10 percent to—10 to 12 percent, between now and the enactment of the next farm bill, and if the committee is disposed to accept some of our recommendations about other statutory authorities for streamlining, we can buzz past that threshold and hopefully continue on with the new authorities in the next farm bill.

There are many areas, though, like consultation with Fish and Wildlife Service where endangered species are at issue, or consultation with a State historic preservation officer where there are cultural resources involved, where we don't have the authority to really streamline or simplify anything under existing law. So we will have to make some recommendations to you about where we think that might be modified.

Mr. CUELLAR. Mr. Chairman, I would ask for you and the committee and, of course, our staff to certainly work with the Secretary. I know it is a very difficult issue, but if you do the math, 12 to 15 percent, and then by the next time we do the farm bill might be another 10 percent. It means we certainly do a lot of work. So whenever you do that, I will be ready to work with the committee, to work with the Secretary to reduce that paperwork reduction and give them any authorities that they need to get the job done. Thank you very much for your work.

Mr. LUCAS. Gentleman's request is meritorious.

We turn now to the gentlelady from South Dakota. Thank you.

Ms. HERSETH. Thank you, Mr. Chairman. Thank you for having this hearing today. I think it is very beneficial for us to supplement our field hearings across the country, one that will occur in South Dakota on Monday with a focus on livestock producers and conservation programs. And I appreciate the testimony and leadership of our witnesses today.

I was just in Miller, South Dakota, and some the folks that work with you, both with FSA and NRCS, joined us for a tour of the very severe and devastating drought conditions that are plaguing a good part of South Dakota, really the whole State, but most severely, according to the drought monitor, the exceptional drought conditions

we have in north and central South Dakota. And I appreciate the working relationship that we have had with both of you and with our FSA folks in particular to work out some of the initial confusion that may have existed in opening up some of the CRP acres and how that has been extended within 150 miles of those designated and eligible counties.

But let me direct my first question to Mr. Rey. What programs within NRCS or under your purview as Under Secretary can you identify that might be tapped to assist farmers and livestock producers to deal with severe weather events like drought, and what additional authorities do you think might be helpful? And the question to both of you is have you started to engage in discussions about the need for a permanent disaster program in the next farm bill? And do you think that would be helpful to sort of have some automatic triggers here, working with our State technical committees, of course, as we have done for the recommendations to FSA in opening up CRP acres?

Just wondering again what might be available in addition to the ECP funds that become available—however, there is a need for more—dealing with some of the confusion that results when we have to on an ad hoc basis, year to year, season to season deal with drought conditions, and how we might be able to utilize and find some flexibility within the CRP program to assist livestock producers.

Ms. LASSETER. Within FSA, of course, we have the ECP fund when they are available; the Emergency Loan Program, the NAP program, which is a Noninsurance Crop Disaster Program, Emergency Hay and Grazing Opportunities and the Managed Hay and Grazing Opportunities. So those are the programs that are currently available when the circumstances warrant those come in, as we have worked with you with the hay and grazing most recently.

In regard to disaster programs, certainly the Secretary has held listening sessions, and those comments are being put together, and we are willing to provide information and work with Congress on the next farm bill development.

Mr. REY. With regard to NRCS, you have asked about extreme weather, so that means both too much rain and too little. When it is available, we use Emergency Watershed Protection funds to deal with the aftereffects of flooding, and we use EQIP, the Environmental Quality Incentive Program, to provide some assistance to farmers in drought situations.

Ms. HERSETH. Just to follow up, can you share with me and remind me what, if anything, the Secretary heard at some of these listening sessions about proposals or ideas about a permanent disaster assistance program built into the next farm bill?

Mr. REY. To my recollection, that wasn't a major issue of discussion, although it is something that we are reflecting on, and that may have been in part because most of our listening sessions were in the fall last year, and there were somewhat less areas effected by drought at that moment in time than is probably presently the case. But I don't think that we got a lot of dialogue on more permanent disaster relief measures as compared to a number of other things that we heard about in the rural development conservation areas and also in the area of new entries into agriculture.

Ms. HERSETH. My time is almost up, so I will follow up with one additional question for Ms. Lasseter. The NAP Program came up in my conversations with the folks that I toured these drought areas with on Sunday, and there was some sense of that it wasn't all that helpful; they didn't find it to be the most effective program in part because of the yields or the determinations of how much coverage they could actually get for grass and pasture.

Can you give me some thoughts on how effectively you think the NAP Program has worked for producers across the country and whether or not we need to look at modifications or looking at how we supplement that program through reforms to the Crop Insurance Program?

Ms. LASSETER. To be honest with you, I am not prepared to talk the details of NAP with you, but I will be glad to get my staff to put together any information you would like to have on the NAP Program.

Ms. HERSETH. I would appreciate it, because I would like more information from your perspective nationwide how it has worked for producers, because, again, I got the sense, at least in these counties that I visited recently, that wasn't something people found that they could utilize very effectively. And it would be nice to get some more details from your perspective how it might be working elsewhere, and what might be the reasons it might be utilized, and how we might go about modifying that.

Thank you, Mr. Chairman.

Mr. LUCAS. Thank you. The subcommittee is extremely pleased to have both the chairman and the ranking member from the full committee here today. We are finishing our first round of questions on the panel. Would the chairman have anything he would like to state or question?

The CHAIRMAN. Thank you, Mr. Chairman. I appreciate you holding the hearing. If I may, I will defer to my colleague from Minnesota that just arrived.

Mr. LUCAS. Mr. Ranking Member.

Mr. PETERSON. I am glad to be here, and I won't delay proceedings, because I don't know what has been asked.

Mr. LUCAS. Fair enough, Mr. Ranking Member.

And with that, I think since we have a very elite and focused group of committee members here today and such an outstanding panel, I would like to ask a couple more questions, and if any of my colleagues do, we certainly can pursue that.

But for a moment, Secretary Rey, back to the CSP question about the cost. If we were to provide enough resources to make it available to everyone, that \$9 to \$10 billion number you used, would that be per year?

Mr. REY. Correct.

Mr. LUCAS. So over the course of a 5-year farm bill potentially, if it was fully implemented, \$45 to \$50 billion for a 5-year cost number—making sure I understand.

Mr. REY. Correct. That assumes we implement it in the fashion of the current regulations.

Mr. LUCAS. In the fashion of the current regulations. And that would include the TA cost of implementing the program?

Mr. REY. That is part of the estimate, although we would have to remove the statutory cap on TA that exists in the current farm bill, obviously, to deliver a program of that size.

Mr. LUCAS. Exactly. Administrator, for a moment, you mentioned, as we are all aware, of course, the initial enrollment in the mid 1980's, reenrolled in the mid 1990's, now coming up, and instead of a giant enrollment, we are breaking this up into smaller periods of time. Could you visit with me for a moment about the criteria for determining what is 2-year and 3-year and 4-year? How did we break up this substantial block of CRP into smaller units? What was our decision about which should come out, or contract for shorter periods and which would get longer? How do we determine that?

Ms. LASSETER. I am going to talk about the difference in reenrollment and extensions, and if I need support from my staff behind me, I hope that will be OK.

The reenrollment is a new contract where it is a 10- to 15-year period, and updated rental rates apply.

The difference between a reenrollment and extension, an extension is 2- to 5-year contract. It is the same contract with no update to the provision.

Bob would you like to—

Mr. LUCAS. I would be most pleased if—yes. Tell us, Bob, how did we decide what should be extended and what should be reenrolled or given the option to reenroll?

Mr. STEPHENSON. For each year that those contracts were expiring, we took the entire group, and when we initially enrolled them, we collected a series of environmental data that we used to rank them at the time. We used that same data, and we broke them up into 5 equal groups, the top group—

Mr. LUCAS. Equal group in number of acres or—

Mr. STEPHENSON. Equal group in number of acres. We—the top group—

Mr. LUCAS. And the reason I asked this, I am fixing to do town meetings in western Oklahoma, and I promise you I will get to explain this.

Mr. STEPHENSON. And the top group on each sign-up or each year of expiration got a new contract. The next group, the next 20 percent, got a 5-year extension; next group, 3-year extension; and our next group, 4-year extension; then a 3-year extension; and then the lowest 20th percentile got a 2-year extension.

Mr. LUCAS. So the lower environmental score, the shorter the term and the extension or—

Mr. STEPHENSON. Correct.

Mr. LUCAS. And the extensions now for the 2 years will expire when? Remind me.

Mr. STEPHENSON. They will begin to expire in 2009.

Mr. LUCAS. In summer 2009 probably.

Mr. STEPHENSON. September 30 of that year.

Mr. LUCAS. And when my constituents say to me, Congressman, I wound up in that first 20 percent, my contract is going to expire on the 30th of September 2009. Does this mean, Congressman, that because of my score I will probably never get back in? I will look them in the eye and say what?

Mr. STEPHENSON. You can tell them that depending upon what the new farm bill says, they will probably have some opportunities to make their offer more competitive.

In the past they have been able to do that by adopting wildlife covers that have been more beneficial for wildlife. The more beneficial for wildlife, the more points you get. They also can make their offer more competitive by only offering the most highly desirable land in the program rather than whole fields. And then the other thing they can do is be willing to accept less than the amount we are willing to pay, and they will get credit for that, too.

Mr. LUCAS. Thank you.

Any of the subcommittee members have any additional questions?

Mr. HOLDEN. In your opening statement you mentioned something about the CRP with biofuels, and the timing of that is pretty good. The chairman and ranking member just had a hearing in the ranking member's district in Minnesota, and we had a very interesting hearing and a good working session the next day talking about all the opportunities we have in agriculture, ethanol, and soybeans, and switchgrass, and even alfalfa was brought to our attention. And as we tried to figure out how much money is going to be on the table and what we can do for energy independence, it was interesting to hear you mention on the conservation side. So I wonder if you would elaborate to what you had in mind in there.

Ms. LASSETER. Well, my staff tells me that we have the authority to harvest CRP acreage for biomass production under the Managed Hay and Grazing provision, and switchgrass on CRP is used for biomass.

Mr. HOLDEN. Mr. Chairman, I notice that is the ranking member's cup of tea, so he might want to ask further questions about that.

Mr. PETERSON. What is the current status—thank you, Mr. Holden—the EBI—as I understand it, if you plant switchgrass, you don't get very many points. I was hunting in a place where they had a beautiful stand of switchgrass, and the only way they could get in was to plow up that switchgrass and plant some kind of native stuff with flowers that somebody wanted that they knew would not grow, and that is what ended up happening. They plowed up the switchgrass, planted other stuff. It didn't grow, but ended up being weeds, but they got into because it did that.

Is that still the same situation, or is the switchgrass—you probably get more points for planting this songbird mix than you do switchgrass. Is that true?

Ms. LASSETER. My staff tells me that is true for switchgrass, that you get less points, but they are looking to change that for the next sign-up.

Mr. PETERSON. When you say they are looking to change it, what is the process? What are you doing, and what would be the time frame and so forth?

Mr. STEPHENSON. Here very soon we are going to be looking at the environmental benefits index we used for the last sign-up to see if we want to make any changes.

One of the changes that have already been identified that has come to mind is looking at whether we could use the benefits index

to support biomass production. We haven't started that review yet, but it will occur this summer.

Mr. PETERSON. How long will that take?

Mr. STEPHENSON. From my little world, my perspective, I would like for it to be finished by this fall, September, October, that time frame.

Mr. PETERSON. So you would have some information for us before we are into the next farm bill?

Mr. STEPHENSON. I am sure, well, we would announce it for the next general sign-up, whether we—

Mr. PETERSON. You have the authority to make these changes?

Mr. STEPHENSON. Yes.

Mr. LUCAS. If the ranking member would yield, sounds like a hearing all in itself on that one point.

Mr. PETERSON. When will the next sign-up be?

Mr. STEPHENSON. We have not announced that yet, but there is one in the budget scheduled for the next fiscal year.

Mr. PETERSON. Thank you.

The CHAIRMAN. Thank you, Mr. Chairman. I think that is an excellent observation. I would encourage you to do just that. I think we should use—we could use a whole hearing on this issue.

Just to follow up a little bit on Mr. Peterson's question, is it your intention, too, that this land would produce various types of biomass and remain in the conservation program or be taken out of the conservation program for that purpose?

Mr. STEPHENSON. That is an interesting hypothetical. I suppose for us to be able to support it, in some regards we—and I am not an authority by any means, but from what I understand, they need some additional financial support at the beginning to make a go and to make it viable.

If there was no CRP contract there, we would not be in a position to provide that support. So that suggests to me we would look at ways under the contract to see how we could support biomass, biofuels.

The CHAIRMAN. And you think that could be done to encourage the use of that land and still participate in conservation?

Mr. STEPHENSON. I think we are prepared to take a look at it to see how CRP can do that and if it can. It may not, but we want to look at it to see.

The CHAIRMAN. Ms. Lasseter, has the Department done any studies on the economic impact of significant cropland being put into the CRP in a particular community?

Ms. LASSETER. Not that I know. I will have to ask Bob.

The CHAIRMAN. Do you have any—what impact it has in that particular area?

Mr. STEPHENSON. In the 2002 farm bill there was a requirement for the Department to prepare a report on the impacts of enrollment in CRP on local communities. The Economic Research Service last year, I believe in the past few months, has published a report that addresses that question.

Ms. LASSETER. We can make that available for the record.

The CHAIRMAN. Mr. Chairman, I do have one other question I want to ask, but we are in the process of formulating it, so if other Members have questions, it might allow me—

Mr. LUCAS. Mr. Peterson.

Mr. PETERSON. I spent a fair amount of time with these folks that are experimenting on switchgrass. Some people are growing it, and from my understanding, there is not a great supply of seed available. And apparently it takes different kinds of seed depending on where you are in the country and what your soil is and so forth.

Are you going to take that into account? Because I hopefully wouldn't get into a deal where we ended up driving up the price of switchgrass seed 20 times what it is today because when we switch to these native grasses, there was a shortage of seed, and it got out of control.

And they are working on this stuff, but they tell me they don't have enough seed to plant a significant amount.

Mr. STEPHENSON. We do try to work with the seed trade, and you are right, there is sometimes disruptions caused by some of our actions, at least temporarily.

I think we would be happy if there are people, experts that have been talking to you, we would be happy and excited to talk to them so we can learn and glean.

Mr. PETERSON. I know of four places that there are ARS scientists that are actually growing switch grass, a couple of places they have been growing it for 5 or 6 years. They have got a fair amount of information. But those same people were concerned that if we did something to create any significant sized program it may cause a problem. When I talk to them again, I will mention that maybe they should try to connect up with you guys.

Mr. LUCAS. Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Chairman.

Under Secretary Rey, this may come at you a little from left field but when you saw Mr. Umbergamo come into the room you probably realized that I wanted to talk about another type of conservation issue and that is forestry. When we wrote the last farm bill we intended the EQIP program to reach the Nation's over 9 million forestland owners. I wonder if you can tell me whether you feel they are getting adequate attention and cost share in the EQIP program.

Mr. REY. I think the rate of participation among forestland owners is increasing but it has been some time in the development. Part of that is training our folks to look more broadly at the opportunities for cost-sharing practices on forestlands under EQIP. Part of it is attracting the interest and the attention of the forestry community; and part of it is having the forestry community active and involved and at the table with our State technical committees as they have talked through what kinds of priorities they want to try to recommend to us on a State by State basis should be.

So it is happening. It is not happening as fast as some forest interests would like, but there are some States—for instance, a State like New Hampshire, where the forestry community has been pretty active and engaged and are acquitting themselves pretty well in accounting for a substantial amount of EQIP spending.

The CHAIRMAN. Do you feel that forestland owners are aware of the possibility of participating in the EQIP program, or do they

think that is simply something that is not available to them but only available for agricultural——

Mr. REY. I think it varies from State to State and it is a function of how active our State and area conservationists have been in promoting those opportunities; and it is also a function of whether there is a vibrant and active State Forestry Association that has identified that as an opportunity and pursued it. The one thing about EQIP is that we have large backlogs, so to some extent we do not have to go out and find problems. They find us. But we have been making an effort to try to reach out to the forestry community to explain to them that there are opportunities here.

The CHAIRMAN. The other question I have relates to the Hurricane Katrina disaster. As you know, we provided \$550 million for the Emergency Forestry Conservation Reserve Program in response to the hurricanes last year. I know the most recent emergency supplemental included language instructing you to give equal weight to pine and hardwood sites. And I am curious as to whether you have issued additional guidelines to the field as a result of this language and whether this has delayed the sign-ups for the program.

Mr. STEPHENSON. We have implemented the language and it did delay sign-up for 3 to 4 weeks. However, we have since started sign-up. It began July 17.

The CHAIRMAN. And you feel that it is going well now?

Mr. STEPHENSON. Actually the very initial data is a little bit slow. However, since this is land that not normally would have been in FSA records, they have to go through a process of loading all the basic farm records in the system before they can get to applying for EFCRP.

All indications are, beginning next week we will begin to see some significant increases in interest.

The CHAIRMAN. Thank you, Mr. Chairman.

Mr. LUCAS. Thank you, Mr. Chairman. I believe the gentleman from Kansas has a question now.

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

Administrator, I would like to compliment FSA in their efforts in regard to haying and grazing. We are experiencing a significant drought in Kansas and much of the high plains, and I am complimentary of FSA both at the county and State level but also here in Washington, DC, and I appreciate your assistance in that regard. I think the timing was better than it has been in some years in which we were able to provide this opportunity for initially a grazing, and now haying, much earlier than previously we were able to do, and the reduction in the penalty from 25 percent to 10 percent is a significant benefit. I just want to express that to you.

I had a conversation with members of your staff this morning in regard to the 150 miles and a couple of pockets in which we have one county that is surrounded on all four sides and it has not yet been accepted. And I appreciate the potential flexibility that we learned about today so my compliments to FSA and I thank you for that.

Mr. Secretary, I want to talk to you just a minute about EQIP. I have a copy of a letter that my constituent sent me, and the basic crux of the letter is that he is telling me that he applied for EQIP program funding back in January 2006 for no-till farming. He was

denied his application because he had used no-till farming practices in his farming operation previous to that. He then had a conversation with his neighbor, and his neighbor applied for EQIP funding for no-till farming and his neighbor was accepted. So his point that he raises to me is about the inequity of one neighboring farmer to another in the enrollment process.

Is this a topic of conversation within the USDA, the Department, and anything that we ought to be doing to help to accommodate a level of fairness? And I have discovered this in both EQIP and CSP, particularly where a farmer tells me my neighbor is in the CSP program. He is getting benefits that I am not. We go to the same land auction. We are competing for land. He has got a better financial ability to succeed at that auction than I do, and now I am hearing this in regard to EQIP. One neighbor in, one neighbor out.

Mr. REY. Well, the difference in CSP may well involve one neighbor being in one of the targeted watersheds.

Mr. MORAN. That is a watershed issue.

Mr. REY. Right. And one not. So that goes to the issue the chairman raised with us earlier.

Mr. MORAN. Which I assume you would tell us is a funding issue?

Mr. REY. Correct.

Mr. LUCAS. For \$9 million we can fix that.

Mr. MORAN. I want to give the chairman an opportunity to express his thoughts one more time.

Mr. REY. It is a funding issue and it is a priority issue. The watersheds that we picked, we picked because there are environmental priorities associated with installing the CSP program within those watersheds. The inequity in EQIP is one I would like to look into a little bit more deeply, because I think the short answer is probably neither of those owners should have gotten EQIP money if they were previously involved in no-till farming.

Mr. MORAN. I do not have any names here.

Mr. REY. But you may have disadvantaged one constituent in trying to help another. Because the way we look at it generally is that EQIP is remedial and CSP is for ongoing work. So if these were in CSP watersheds, they would have been eligible for CSP funding for the continuation of no-till. But we would not normally fund no-till if it is already being done.

Mr. MORAN. We may explore this a bit further with you with blacked-out portions of the letter.

Mr. REY. We can redact the names to protect the innocent.

Mr. MORAN. Thank you, Mr. Chairman.

Mr. PETERSON. Mr. Chairman, can I follow up on that?

Mr. LUCAS. Yes, Mr. Ranking Member.

Mr. PETERSON. I am getting reports that there are people that are taking grassland, spraying it with Round Up, planting no-till soybeans and establishing base acres. Is that going on?

Mr. REY. I have not heard that but we can look into it.

Mr. PETERSON. You haven't heard it. I mean, I have heard it for 3 or 4 years, and we had an issue with people doing this and then establishing a base and then putting it into CRP once they got the number of years. We changed that, and I think we largely stopped that happening. But there is still a fair amount of land that is get-

ting broken and some people tell me that they are not really expecting a crop. They are getting payments and they are getting crop insurance for one thing or another. I do not know for sure exactly what is going on there, but you might want to check into it.

Mr. REY. I have not heard that with respect to CSP but we can check into it.

The CHAIRMAN. If the gentleman would yield. The gentleman's comments were a little redacted, too. You might want to share afterwards the States that we have heard that information from. I do not know whether there is truth to them or not, so I do not want to cast any aspersions.

Mr. LUCAS. I am just sure it is not Oklahoma.

Mr. PETERSON. It could be.

Mr. LUCAS. The Chair now turns to the gentleman from North Carolina for a more pleasant subject.

Mr. ETHERIDGE. Thank you, Mr. Chairman, I hope it is.

I will be very brief, Mr. Rey. I had a question related to EQIP because obviously we know EQIP was about producing non-point pollution and helping impaired watersheds and really eliminating groundwater contamination where we can, and ground conservation, water resources, et cetera, et cetera.

But my question is a little broader and I am sure part of it has to do with funding, but some of it we may need to explore a little later in detail because in my State, in addition to being North Carolina, we have an awful lot of land that would fit that. We also have a large concentration of livestock, poultry, pork, some beef and dairy.

My question is, as we look to the new technologies, and in a lot of cases the new technologies are far better than the current technologies, but we are not currently recognizing that with the grants that we make or the matching funds—which means if the producer would move to the new technologies, it may cost a little more, the benefit would be substantially greater. But our EQIP funding does not yet recognize that.

We recognize the lower level of technology which means for the farmer or the producer out there, what they are going to use, the one they get the most money on for the product. And if we raise that a little bit, all of us would benefit and we would save substantial money.

I recognize that is probably a funding issue, but I think that is something I would like to explore further because I think it makes a lot more sense to be able to move their new technologies, especially in some of these areas where there are blocks, and we may need to find a way to help really advance the pollution issue in quantum leaps.

Mr. REY. At present over 60 percent of EQIP goes to livestock problems and we fund a lot of waste storage facilities and nutrient management plans. We try to in EQIP deal with proven technologies so that we are spending the money as wisely as possible.

We do, however, have other programs through the Conservation Innovation Grant Programs and a couple of others to facilitate new technologies. We have given out \$60 million over the last 3 years in conservation innovation grants. We have funded new methane digesters and technologies of that sort.

So sometimes it is a matter of matching the problem to the program. And I think as far as new technologies that are not yet broadly established, the Conservation Innovation Grants Program is the place where we have been steering producers, as opposed to EQIP where we are trying to broaden as much as possible the use of already proven technologies.

Mr. ETHERIDGE. I appreciate that and I look forward to meeting with somebody from your staff to follow up with that, if we could, and share that with our folks.

Thank you, Mr. Chairman. I yield back.

Mr. LUCAS. There is one additional question from the gentleman from South Dakota.

Ms. HERSETH. Thank you, just a quick question.

Ms. LASSETER, I have heard a few questions raised by a few cattle producers in South Dakota targeted in just a few counties so far about the generous incentives to entice landowners to enroll acres in the CP-30 practices under the CRP program, and, because of these incentives they claim that grazing land has become very scarce in certain parts of eastern South Dakota. Have you heard any similar concerns, and do you think the incentives in the program are too generous?

Ms. LASSETER. No, I have not heard the concerns. I would have to ask my staff if they have, but our data does not show that South Dakota rental rates are above the market rate. And certainly they should not be. They should be at the market rate but not exceed the market rate. So if you would like for us to work with you to review these rates and get more information, that can certainly be adjusted.

Ms. HERSETH. I appreciate that. Thank you.

Mr. LUCAS. Seeing no other questions, the Chair wishes to thank the Secretary and the Administrator for their participation today and to note that there is a very intense level of interest in this subcommittee, and obviously with both leadership, Ranking and the chairman, we intend to help you do the good things that you are attempting to do. Thank you.

With that I would like to invite our second and final panel to the table. Mr. Bill Wilson, president of the National Association of Conservation Districts, from Kinta, Oklahoma; Mr. David Nomsen, vice president of government affairs, Pheasants Forever, Incorporated, Garfield, Minnesota; Mr. Dale Schuler, president, National Association of Wheat Growers, Carter, Montana; Mr. John O'Keeffe, cattle producer, National Cattlemen's Beef Association, from Oregon; and Judy Schwank, county commissioner, county of Berks, Reading, Pennsylvania.

Whenever all of are you ready and seated we can begin.

STATEMENT OF BILL WILSON, PRESIDENT, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS, KINTA, OK

Mr. WILSON. Mr. Chairman, thank you for inviting the Conservation Districts to be able to present our view on the current conservation title of the farm bill and how it is working and where we see some problems. Before I go any further, I want to congratulate you, Mr. Chairman, on your successful election 2 days ago back home in Oklahoma in the primary. It was good numbers.

Mr. LUCAS. I still have the general, but yes.

Mr. WILSON. I know you still have the general, but we got past the primary. But let me get into the testimony, and you have my written testimony, so I just want to kind of highlight that and hopefully we can get into some discussion.

Certainly our members up here at NACD are not telling us that there is any need for any broad expansion program-wise in another farm bill. We are happy; and who would not be? It would be foolish for us to say we are not happy with the outcome of the 2002 farm bill with the unprecedented increases that we saw in that conservation title. So my members are very happy. That is not to say that they do not recognize some problems in program delivery and some areas where we perhaps could improve, but we are hoping that in the next farm bill that we can hold something close to the authority that we have in the current farm bill, and we would like to see those programs fully funded through the appropriations process which we recognize this committee has little control over. But certainly the conservation title has grown a lot, and we appreciate the efforts of this committee and you, Mr. Chairman, and you, Mr. Ranking Member, in your leadership.

We have seen—and I might talk just a little bit about your State and mine, Mr. Chairman, just as an example; but one of the good results of the 2002 farm bill, in addition to the programs, was an increase in technical assistance funding to our State. It rose from a little over \$24 million in 2001 to a high of almost \$34.5 million in 2004. And through July 13 of this year, Oklahoma has been allocated almost \$31 million for technical assistance. And certainly we appreciate your efforts, and my members in Oklahoma made sure that I would thank you for working with Chairman Bonilla on the Appropriations Committee with some problems that they had earlier in the year. And as Mr. Rey addressed, there have been improvements in that area. So I extend the thanks from back home for your efforts in that.

Beyond that, my members really look at the working lands. We are strong supporters of CRP, the Grasslands Program, but we would like to see as much emphasis as possible put on the working lands. We know that in fact there are more acres of wildlife habitat on working lands than there are on the set-aside lands, and we think that is an important part we should look at.

Since you talked about CSP in your opening remarks, Mr. Chairman, in my remaining minute and a half I would just like to say that CSP, in our view, is a good program. The problem is the agency was slow in getting the rules out and the implementation has been somewhat sporadic. And the watershed issue aside, in some watersheds NRCS staff have done a good job, in our view, of implementing the program, and in some watersheds not so good of a job.

I would suggest to you in our home State this year, we have an example that can be used all across this country for a successful implementation of CSP in a watershed, and that is the Poteau River watershed in eastern Oklahoma where we saw—I believe it was 434 contracts came out of that effort, and it was really largely because the NRCS staff at the grass-roots field office level, working with the conservation districts, made the program work. They saw that there were problems in some other areas. We have some ex-

amples in Oklahoma where it has not worked as well. But in that particular watershed, I am proud to say there that we do have a good example. And there are others in the country that we are aware of, Missouri, Minnesota, and there are probably some we are not aware of where successful implementation has actually occurred.

So we would like to encourage the committee to not abandon CSP, but let's take a very serious look at how we can improve implementation of that program, and obviously we will not be able to come up with \$9 million a year. I do not think we will support that number, but I am not sure that has to be that number for it to make a successful program.

So with that, Mr. Chairman, I thank you again for being here and I hope we get into some discussion.

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

Mr. LUCAS. Thank you, Bill.

David, whenever you are ready.

STATEMENT OF DAVID E. NOMSEN, VICE PRESIDENT, GOVERNMENT AFFAIRS, PHEASANTS FOREVER, INC., GARFIELD, MN

Mr. NOMSEN. Thank you, Mr. Chairman. It is a pleasure to be here this afternoon. My name is Dave Nomsen. I am the vice president for governmental affairs for Pheasants Forever.

Let me first say, Mr. Chairman, I want to thank you and the many other members of the committee for coming to southwestern Minnesota last weekend. I enjoyed the opportunity to visit with many of you and I hope you got to see a part of the country where it is my view that conservation programs are very much working hand in hand in harmony with agriculture and farmers and landowners in that area.

I reside in Garfield, Minnesota, and I appreciate the opportunity to be here today to offer these shared views on behalf of many of our Nation's leading wildlife conservation organizations. The groups that I represent today include the Archery Trade Association, the Association of Fish and Wildlife Agencies, Bear Trust International, Bowhunting Preservation Alliance, Campfire Club of America, Congressional Sportsmen's Foundation, Delta Water Fowl Foundation, Ducks Unlimited, Isaac Walton League of America, North American Bear Foundation, North American Grouse Partnership, Pheasants Forever, Quail Forever, Quality Deer Management Association, Safari Club International, Texas Wildlife Association, Theodore Roosevelt Conservation Partnership, and Whitetails Unlimited.

It is our view that the conservation title of the 2002 farm bill represented the most comprehensive array of conservation programs ever enacted in conjunction with Federal farm legislation. We recognize and appreciate the strong support from you, Mr. Chairman, and your subcommittee in providing for this authorization.

Allow me to talk briefly about several of our favorite programs. First is the Conservation Reserve Program. CRP is currently celebrating 20 years of success as this Nation's and USDA's most suc-

cessful conservation program. It has been a documented success for wildlife, and the program is responsible for in excess of 15 million pheasants and 2.2 million water fowl produced annually. It is popular with farmers and landowners.

I have appreciated listening to the discussion we have had this afternoon, and feel I should offer the view that since 1996 when CRP was reauthorized, it became a much more targeted program. And it is our view that CRP is very much a working lands program. The Conservation Reserve Program works for farmers and landowners, it works for wildlife and the environment, and it works for society as a whole. We support continuing the vast documented benefits of CRP and urge reauthorization of 45 million acres.

The Wetlands Reserve Program has been a program that has seen incredible demand and support since reauthorization in 2002, and it is one of our favorite programs. It restores and protects wetland habitats, provides significant wildlife habitat. It has seen strong demand by landowners, and we support enrollment of 250,000 acres per year.

The Wildlife Habitat Incentives Program authorized in the 1996 bill and funded in 1998, a program administered by NRCS, helps landowners promote healthy wildlife populations by developing upland, wetland, riparian and aquatic habitats. We feel the program is particularly valuable in States in the Northeast where land values and acreages in working lands render other conservation programs less applicable in those situations. We have supported WHIP at \$100 million annually during negotiations over the 2002 billion bill.

We are also strong supporters of the new Grasslands Reserve Program. We thank you for your leadership, Mr. Chairman, in putting that particular program in place. We see it as a real opportunity to work with ranchers toward our common interests of protecting wildlife and conservation on working farms and ranches, and we urge that that program be continued and receive additional funding.

Several other issues I would like to mention very briefly. The first is the issue of land conversion. We are concerned about the continuing conversion of lands, especially native prairies and non-cropland that are brought into production for subsidized commodity crops. It is an issue that we hope to work with the committee and staff to resolve as part of the next farm bill.

We are also concerned about diminishing access to privately owned lands for our Nation's hunters. We support provisions similar to the open fields provisions that would provide financial assistance to States to develop and augment existing or developing new programs to help landowners with wildlife management, habitat development, and access for fishing and hunting.

Lastly, I would like to express our desire to work on program administration. There is a great deal of expertise in private non-governmental organizations like Pheasants Forever and others. Also, the State Fish Wildlife Agencies that we feel that we can bring to the table and be part of a more effective and efficient delivery system for programs.

In the next few months many of our groups, Mr. Chairman, will be developing detailed plans on each of these programs in other

areas, and we look forward to providing that to the committee. Thank you for the opportunity to testify here today.

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

Mr. LUCAS. Thank you.

The Chair turns to Dale now. Whenever you are ready, sir.

**STATEMENT OF DALE SCHULER, PRESIDENT, NATIONAL
ASSOCIATION OF WHEAT GROWERS, CARTER, MT**

Mr. SCHULER. Good morning, Chairman Lucas, Ranking Member Holden, and members of this committee. My name is Dale Schuler, President of the National Association of Wheat Growers. I am a wheat grower from Carter, Montana. I appreciate this opportunity to appear before this subcommittee, and I want to thank you for your attention to a critical part of our future farm programs, the conservation title of the farm bill.

Before we take a look forward and discuss what the future might hold, it may be helpful to take a look back and see from where we have come. From our Nation's earliest founding, agriculture and wise stewardship were linked together in the minds of the leading thinkers of the day. Our first President, George Washington, may have been considered the first farmer as well. His botanical experimentation and technical innovations were matched with his keen sense for the need for soil stewardship. He saw how continuous planting of a single crop like tobacco was depleting his Piedmont soils. And was an early advocate of crop rotations.

Of course, Thomas Jefferson is also well known for his lifelong devotion to the scientific approach of agriculture and stewardship. Jefferson's ideas about government also are the philosophical underpinnings of our country and were based closely on a relationship between the land and the people.

President Roosevelt was also widely believed to have been a great conservationist. He delivered a speech in 1910 that captured the attitude shared by many if not most of my fellow farmers:

I ask nothing of this Nation except that it so behave as each farmer here behaves with reference to his own children. That farmer is a poor creature who skins the land and leaves it in poorer condition and worthless to his children. The farmer is a good farmer, who, having enabled the land to support himself and provide for the education of his children, leaves it to them a little better than he found it himself.

I provide this review not as some tedious history lesson, but, rather, to illustrate the principle that a strong conservation ethic has always been rooted in American agriculture and has manifested itself in the promotion of such practices as no-till farming, the use of filter strips and buffer zones to reduce sedimentation, and the maintenance of wildlife habitat.

The 2002 farm bill provided the most robust conservation title of any previous legislation, both in terms of funding and also in programs. It also created the new Conservation Security Program which helped create promise, but also has created some uncertainty that accompanies any new program.

So what happens when the 2002 farm bill is reauthorized? The National Association of Wheat Growers will not be pressing for any radical restructuring of the program. We will be looking for opportunities to ensure that existing conservation programs are more ef-

ficiently coordinated, utilizing shared information and data. For example, we could ask the question of why should each program have a separate sign-up. Why could producers not participate in a single sign-up indicating which program or programs they are interested in, submitting the necessary information, and then allow NRCS or FSA to determine the program or programs for which they qualify?

Also, the baseline funding for certain conservation programs was extended out through 2010 or 2011 in the budget reconciliation bill enacted this year. Therefore, we will be working to see all conservation programs and particularly CSP adequately funded, and work to remove the priority watershed barriers to participation.

I realize funding is always going to be an issue, but if we can maintain the extended budget baseline it may be something that we can accomplish.

Finally, in my written testimony I referred to utilizing CRP for dedicated energy crop use. I should point out that this is not one of the National Association of Wheat Growers' official positions, but we have had discussions with several groups and companies that are working on this issue and think that there is potential in the future.

Again, thank you for this opportunity to speak with you. We look forward to working with this committee in reauthorizing the conservation title of the farm bill.

[The prepared statement of Dale Schuler appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you.

Mr. O'Keeffe.

**STATEMENT OF JOHN O'KEEFFE, CATTLE PRODUCER,
NATIONAL CATTLEMEN'S BEEF ASSOCIATION, ADEL, OR**

Mr. O'KEEFFE. Mr. Chairman, members of the committee, my name is John O'Keeffe. I am a rancher from Adel, Oregon.

In 1961, my father signed a ranch conservation plan with the soil conservation service. Today I benefit from the implementation of that plan. In 1995, I received the first ever annual Lake County Stock Growers Stewardship Award. In 2005, I signed a contract, a CSP contract, with the NRCS. The day before I left to come here, the final draft drawings came in for the O'Keeffe ranch sage grouse, sage brush wildlife habitat incentive program, project.

I mention these things because I want you to know, I not only talk the talk, I walk the walk. Conservation of our national resources is incredibly important. Our livelihood is made on the land, so being good stewards of the land not only makes good environmental sense; it is fundamental for our industry to remain strong. We strive to operate as environmentally friendly as possible, and conservation programs are an important tool.

The goal of conservation and environmental programs is to achieve the greatest environmental benefit with the limited resources available. USDA has numerous programs that are currently utilized by cattlemen, and we know that these programs will be a highlight of the 2007 farm bill. A popular program among cattlemen is the Environmental Quality Incentive Program or EQIP.

Although popular, EQIP has a few problems. One small problem which you might address is to direct USDA to grant more flexibility to NRCS to adjust the cost-share requirements because sometimes portions of these conservation plans may have significant benefits for wildlife species but contribute little to the economic viability of the ranching operation, making it difficult for the landowner to justify the expense.

In addition, many ranchers have complained that the intense administrative paperwork and time allotment for receiving funds make EQIP an unattractive and burdensome program. We understand that the verification of records in order to ensure that appropriate qualifications are met is very important, but achieving a more efficient application method and accountability system would result in more dollars that can be spent on actual conservation.

Also we feel the custom feeders should have access to the EQIP program. They have the same environmental issues as feeders that own cattle.

One of the reasons that EQIP is so popular among ranchers is the fact that it is a working lands program. We believe that conservation programs that keep land in production and do not limit its use is best for the ranchers and the actual goal of conserving our resources. Other working land programs that we support include the Wildlife Habitat Incentives Program, Conservation Securities Program, and the Grassland Reserve Program. WHIPS cost-sharing and technical assistance provision provide assistance to conservation-minded landowners who are unable to meet the specific eligibility requirements of other USDA conservation programs. Likewise, the GRP has been very successful in helping landowners restore and protect grasslands while maintaining the acres for grazing and haying.

This is in huge contrast to programs such as the Conservation Reserve Program or CRP. Considering the fact that 28 million CRP acres will expire over the next 5 years and considering the fact that the 2007 farm bill will be dealing with less funding than in 2002, we believe that the CRP is one of the programs that should be considered for reevaluation and saving.

With the current program, NCBA is opposed to haying and grazing on lands enrolled in the CRP program except under a few limited conditions, such as the case of drought or other emergencies including cattle being displaced by wildfire. We discuss these conditions further in our written comments. There has been discussion within the agricultural industry of allowing a portion of producers' enrolled acreage to be grazed annually. If this program were to evolve in this direction, a number of issues must be addressed because the program was not designed to be a subsidized grazing program. One of these issues is this program could create herds that were not in existence prior to the program. Introducing a potentially large number of animals into production with lower production costs would be problematic. How would this program be managed considering this factor and the overriding goals of the program?

The goals of conservation programs should be to maintain a balance between keeping good, well suited working lands in production and providing for conservation of species in natural resources.

Many producers would like to enroll in various USDA programs such as CRP to reach environmental goals. However, to enroll in these programs requires a producer to stop productive economic activity on the land in rule. We believe that economic activity and conservation go hand in hand. As such, we support the addition of provisions that would allow more working lands programs.

USDA's conservation programs are great assets to cattle producers. We want to see them continued and refined to make them more producer friendly and more effective in protecting the environment in a sensible way. Thank you for the opportunity to express our views here today.

[The prepared statement of Mr. O'Keeffe appears at the conclusion of the hearing.]

Mr. LUCAS. Thank you.

Commissioner, whenever you are ready.

**STATEMENT OF JUDITH L. SCHWANK, COUNTY
COMMISSIONER, COUNTY OF BERKS, READING, PA**

Ms. SCHWANK. Thank you and good afternoon, Mr. Chairman, and members of the committee. I am honored to have the opportunity to speak to be here today, and if you will pardon the pun, to speak on conservation ideas from the grassroots level.

As mentioned, I am a county commissioner in Berks County, Pennsylvania, and currently, I serve as chair of the Energy, Environment and Land Use Committee For the County Commissioners Association of Pennsylvania. I have been a proud member of our Berks County Conservation District for 6 years serving as commissioner/director, and prior to my role as commissioner, I was a county agricultural extension educator. And I also lived on a dairy farm for 7 years, so agriculture is my thing.

And it is a big business in Pennsylvania and in particular in my county. Our cash receipts for the State total over \$4 billion from production agriculture, and the entire food and fiber system, which includes food processing, marketing, transport, farm equipment, contributes almost \$45 billion to Pennsylvania's economy. Our farms are small by midwestern and western standards, but our production rivals any other major agricultural State. We have permanently protected over 300,000 acres of land and preserve almost 3,000 farms in Pennsylvania. And I am proud to say, in our county, we are first in the State protecting over 45,000 acres of land just as of today. And we have borrowed \$36 million so we can protect more land. Our agriculture is diverse. While dairy predominates, we are leading mushroom growers as well as poultry and egg producers. From small organic vegetable production to a growing equine industry, there are many agricultural opportunities in our State, and I want you to know that past Federal programs have worked, and the benefits can be seen in a resurging rural economy as well as better environmental impacts for our farmers.

Just yesterday at our conservation district meeting, a watershed specialist was telling us about improvements at a water plant in Philadelphia as a result of techniques that had been used in Berks County. Those are incredible impacts to us.

Our farmers can be productive, and they can make a living. However, we can do that without degrading our natural resources, and

that is why these programs are so important to us. Travelling to today's hearing, I crossed the Susquehanna River Basin, which I am sure you know is part of the Chesapeake Bay Watershed. I passed through wonderful farm fields with 13-foot high corn, lots of creeks and rivers complemented by acres of forests. Conservation efforts to protect our soil and waterways are visible even to people who do not know much about farming. However, we know that those practices are not once and done events. And they are costly. We have to continue to encourage farmers and provide them with the resources so they can do those things.

Agriculture in the eastern United States and particularly in my State is facing intense scrutiny from the public regarding farming practices. The connection between farm practices and the decline of water and air quality is very visible and noticeable to the nonfarm rural and urban population. If I get back tonight early enough, I will be attending a township meeting where the township has been sued by the attorney general because their zoning ordinances are more stringent than the ones that the State has for farm buildings. These are very critical issues in our county.

Consumers are very aware that their tax dollars are being used to support agriculture, and they are demanding a role in determining how those dollars will be spent, and they do have a right to ask those questions. Past efforts to support conservation measures have worked very well to varying degrees, as you have heard, but I must say, for far too many years, our national agricultural policy has neglected the unique needs of the farmers in the eastern half of the Nation. Farm operators, as I told you before, in Pennsylvania are highly productive on limited acreage located in the middle of concentrated population areas. Their primary need is not so much for commodity payments but for funding on conservation practices that will enable them to be competitive yet at the same time protect our natural resources.

Here are some of our most urgent needs of consideration in the 2007 farm bill: First, expand conservation technical assistance efforts to farms of all sizes and types. I heard someone mention forest land, and I want to underscore the importance of that as well. Each farming enterprise has unique impacts on the environment that can be mitigated by best management practices, but we have got to have the funding to implement them. Increased funding for technical assistance. I can tell you that our Farm Service Agency, Natural Resources Conservation District, and Conservation District staff are working as hard as they can, but in many cases, they are very understaffed, so we rely quite a bit on outside contractors. And what we need to do is communicate better with those outside contractors, so we are all working together cooperatively, much better than we are. Give us a little bit more flexibility on the spending so that we can tailor programs to precisely what we need in different regions of the country.

Integrate the conservation programs and provide better training for our staff. I saw this as an extension agent. In many cases, different agencies do not talk to each other. You need to help enforce that. Monitor the implementation of conservation practices and document the results. Emphasize their impact on all residents, not just the rural population. Encourage small- as well as large-scale

practices that can make a long-term difference in resource conservation. And might I add, open those conversations with local government officials such as myself as well. We have a role to play in this.

If something works, build on it. Expand the conservation security program to include more critical watersheds. If better funded, this program has the opportunity to dramatically improve farm sustainability and natural resources helping farmers but also helping our general public as well. The implementation of conservation efforts on a watershed basis makes possible the connection of farm practices to municipal efforts to mitigate storm water run off for one example.

Enhance the technical assistance through the use of biomass for fuel and energy generation from animal waste. There is opportunity for farms of all sizes throughout the country in energy generation, and we should be encouraging those practices but at the same time being careful of environmental issues.

And I could not end without saying that the Chesapeake Bay program is taking a long time, but we are seeing the impacts, and I would suggest that that be funded as a part of the farm bill rather than a special project so that continues to be an important environmental effort.

Farm policy that successfully integrates modern production practices without degrading our water, soil and air is imperative, and it is possible if we have a firm commitment by Congress to fully fund conservation efforts.

The future of our agricultural economy and the well being of our natural environment are at stake. Again, thank you all for allowing me this opportunity.

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

Mr. LUCAS. Thank you, Commissioner.

To that end, let's talk about the environment and energy. As, obviously, the panel realizes from listening to the committee's discussion with the previous panel, that is a topic that has come up rather frequently in our meetings across the country and stirred the imagination and enthusiasm of the committee.

Let me—again, with you, Dave, talking about CRP and the potential for switch grass and biomass and all these things, one of the big issues of concern in the last farm bill and the farm bill before that in regards to CRP was the nature of mono culture grass, I believe was the phrase, and the potential impact on wildlife. If we were to go down the course of creating or attempting to help encourage a substantial creation of switch grass acreage across the country, how would your groups react to that? What is the impression that they would have on the effect on wildlife and just your observations?

Mr. NOMSEN. Thank you, Mr. Chairman.

Please let me do kind of a two-part answer on this. First, I would like to refer to a June 14 letter that many of our groups have provided to the committee and to leadership where we talk about and support the use of biofuels in diminishing this Nation's dependency on fossil fuels. Specific to CRP, our groups talk about how altering the existing CRP priorities on millions of acres could dramatically

reverse many of the gains that we have realized to date, particularly with relation to wildlife. We also believe that biofuels production will provide a viable alternative income source and additional revenue stream for American agriculture. I would like to provide this letter as part of the record please.

Mr. LUCAS. So ordered.

Mr. NOMSEN. Let me speak specifically as Dave Nomsen from Pheasants Forever. I see some intriguing opportunities here with the future of biofuels in this country. I am particularly interested in the use of perennial crops here adding perennial crops like switch grass or like alfalfa, especially into traditional row crop environments, we may have the opportunity to address some very serious water quality issues and concerns that continue, and from most habitats, we can benefit a wide array of wildlife.

Specific to your thoughts about monocultures versus mixed grass stands, it is very true that monocultures are not as diverse for wildlife as mixed grass stands. And the vast majority of our current CRP acres are not in monocultures. At Pheasants Forever, we did support sign ups a number of years ago through CRP that provided for a portion of the contracts to be in the monocultures of switch grass and Indian grass. We did that because our members, just like Mr. Peterson, we know the value of those grasses to Ring Neck Pheasants. And those covers in the appropriate areas and amounts can provide an important winter cover habitat for pheasants and a wide array of species.

Generally, I think the mixed grass stands as enzyme cocktails become available to harvest a mixed grass for mix; I think we will have opportunities to discuss things that are much more beneficial to wildlife and conservation.

Mr. LUCAS. So the bottom line is, our friends in wildlife preservation most assuredly sound like they are willing to support an effort to contribute to the Nation's energy supply as long as there is not a dramatic impact on our wildlife base.

Mr. NOMSEN. No question, Mr. Chairman, we would like to be part of the discussion, yes.

Mr. LUCAS. Let me turn to your neighbors there, Dale and John. I know there is some concern out across the countryside from the perspective of swine and beef eaters, even some of the poultry people, that if the ethanol continues to take off with the expansion of plants, and it is not just corn ethanol but barley and a variety of other things as well as the cellulose, that demand for grain will bring up grain prices. I guess my question to you two gentleman, from your perspective, do you believe that CRP in the fashion it is now, voluntary enrollment and reenrollment, do you think there will be enough acres of perhaps more highly productive land that would come out if grain prices rise sufficiently high that would come back into the production to offset that loss in material from the feeder area?

Mr. SCHULER. Well, certainly, we think high grain prices are a good thing for our producers.

Mr. LUCAS. As a fellow wheat farmer, I agree with you, yes.

Mr. SCHULER. And certainly, if grain prices were to rise to a higher level and be sustained at those levels, it would certainly draw some land out of CRP and probably back into grain produc-

tion. Although we are certainly also interested in the development of these dedicated energy crops and those being produced on CRP acres, and we also have been in discussions with the Pheasants Forever and Ducks Unlimited as well as a company that is developing switch grass for dedicated ethanol production to make sure that these contracts would be sensitive to wildlife concerns and habitat so that they would be harvested only if a producer had a conservation plan in place and also the harvest of those crops would be done at a time where it was not detrimental to wildlife. But certainly, taking land out of production does have the potential of raising prices, and it probably would draw some of that land out and back into grain production.

Mr. LUCAS. From your perspective, John, can we have the kind of environmental situation we need and generate the kind of energy we need and also still meet our traditional needs of food and fiber for livestock and consumers?

Mr. O'KEEFE. I think we can, Mr. Chairman, we are very concerned about grain prices. They can extremely affect the bottom line of our industry. But at the same time, this is a huge program, and it involves lots of things, and I would hope that at the end of the day, we would have a new balance where we have energy production, grain for livestock and conservation as well. I think it can be done. It will require some attention, but we will definitely support the research and effort it takes to do that.

Mr. LUCAS. My time has expired. Hopefully we will have a second round.

Mr. Holden.

Mr. HOLDEN. Thank you, Mr. Chairman.

I have a few questions for Commissioner Schwank.

I know that the chairman and members of this subcommittee and the members of the full committee are tired of hearing me talk about farm land preservation, but, Commissioner, we are getting ready to write a new farm bill, and now is the time to sound a broken record or maybe after this morning I should say beat a dead horse. So we need to talk a little bit about the importance of farm land preservation because, quite honestly, Commissioner, I have talked about it around the country, and in areas out west and Colorado and Texas and the part of Minnesota that we were in, there really isn't much interest in it. And I remember the hearing that the chairman had in Harrisburg; I asked a dairy farmer from Dauphin County what his biggest challenge was, and he said houses. And I know it is the same thing in Berks County. I wonder if you would take a moment on how real the developmental pressure is and what you have been able to do with your colleagues in Berks County for a great farm and preservation program?

Ms. SCHWANK. Thank you, Congressman Holden.

Yes, it is very much a problem for us, and it always amazes me when I travel as well and understand that those types of pressures are not the same in other areas of the country.

At each of our conservation district meetings, we outline the number of acres of farm land that have been lost in our county on a monthly basis, and we know that we have lost over 100,000 acres of farmland within the past 12 years, which is a significant amount of land. Our goal is to preserve 200,000. As I mentioned in my tes-

timony, we are in the middle of a major population center. In fact, in our county, we like to say we are on the urban-rural interface where of the suburbs from Washington, DC, as well as Philadelphia and New York City are closing in on us and as folks from urban areas find that land values and the price, the cost of living in our area is so much less, commuting does not seem like such a bad idea even with the high gas prices that we find. We are one of the few counties in Pennsylvania that experienced population growth, as a matter of fact, in the past few years, even since the 2000 census. So very much, we are facing that pressure and at the same time trying to maintain agriculture as our No. 1 industry in our county.

What we have done and what has really been helpful from the Federal Government has been that we have been able to apply for funding for farmland preservation to supplement what the county is contributing as well as what the State has contributed. And I believe last year it was almost \$800,000 that we received from the Federal Government for our farmland preservation efforts which were very much appreciated.

Mr. HOLDEN. Thank you.

You mentioned the diversity of agriculture in Pennsylvania and the Northeast. In Berks County, you can find anything from livestock to fruit and vegetables to our local market for Christmas trees.

Ms. SCHWANK. That is correct, and even mushrooms.

Mr. HOLDEN. Does that diversity as far as conservation programs, does that make it harder for our farmers to participate in traditional conservation programs? Do you want to elaborate on that?

Ms. SCHWANK. I think what it does, it makes us on the agency side, speaking as a conservation district, we need to be that much more proactive, to reach out to farmers. Many of those small-scale producers, they have no association with commodity programs, and actually, we have a large old order Mennonite population what would not participate in those types of programs. Yet if we can offer them assistance on manure management—for instance, issues of run off, even on mushroom compost where they store the compost, there are great issues with run off and possible degradation of streams and actually reservoirs because of the lichen that comes out of that material. We have been very proactive in trying to reach out to those different producers and different commodities so that they understand how we can help them. I would only ask that we continue to enhance those efforts.

Mr. HOLDEN. Thank you, Mr. Chairman.

I would yield back for now.

Mr. LUCAS. The Chair now turns to the gentleman from Kansas.

Mr. MORAN. Mr. Chairman, thank you.

I think we have a vote momentarily so I will try to be very brief.

Mr. Schuler, you in particular mentioned the necessity of modifications in the CSP program. Would you like to elaborate upon your thoughts?

Mr. SCHULER. Well, as it was expressed earlier here, there are some concerns about the implementation of program. We are very happy to see that we have a program that targets working lands

rather than a program that takes land out of production and retires that land. The problem is at this point that this program does not reach all of our producers, and even in some of those dedicated watersheds there seem to be some concerns within those watersheds about which producers qualify and which do not mainly because how NRCS is implementing those or determining how they are qualified. But the biggest concern is that this program reaches such a limited amount of our producers, and even now there is concern whether it ever will because of funding. We support this program and hope that it gets proper funding to reach all of our producers.

Mr. MORAN. So your issues are level of funding, and my impression is the kind of bureaucratic issues that are associated with that program?

Mr. SCHULER. Exactly, yes.

Mr. MORAN. You are representing your members of Kansas very well. I would say the same thing.

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

Mr. LUCAS. The Chair turns to the gentlewoman from South Dakota.

Ms. HERSETH. I would yield to the ranking member if he has questions that he would like to pursue.

Mr. PETERSON. I thank the gentlewoman.

Mr. O'Keeffe, in your testimony, it looks like your organization has moved a little bit on some of these issues of CRP haying and grazing and so forth, but I am still curious, if we are going to manage this stuff and make it worthwhile, you cannot just let it sit there. You have got to hay it every couple, 3 years, or it is not worth anything to anybody. We keep hearing that the cattlemen are worried about this because we are going to create additional cattle and one thing or another because we are being subsidized, but I do not know if you have any Federal land that you are grazing on or not where you are, but there is all kind of cattlemen out there that have got grazing rights on Federal land that I think you can argue is just as subsidized as CRP is.

Now, how does that get squared within your organization? I get feedback from my cattlemen that they do not like this pushback that they get from the western cattlemen. Is that a tension issue within your organization, or am I way off base here?

Mr. O'KEEFFE. Well, actually, it continuously amazes me how supportive our organization is of the western ranchers. I think one of the reasons for that is because while the actual grazing fee on the western Federal lands is fairly low, the noncash costs associated with running livestock on the Federal lands really bring the cost back into balance. So, there is, your cash outlay for your feed might be lower, but your other production costs are higher, so there is really no big production advantage to running on the Federal land. I do run on Federal land, and I leave AUMs on the table every year. I leave the BLM, come in by private pasture because the quality of the range and other issues that are involved with the actual realities of being out on the Federal lands.

Mr. PETERSON. Well, I have supported whenever there have been attacks or they have tried to raise your grazing costs and so forth, I have been on your side to keep them down. And I just hope that

people would recognize that I do not think we are at a lot of cattle because we are haying and grazing CRP in certain other areas because you have got to pay for it.

Mr. O'KEEFFE. We appreciate your support extremely as far as the support on the attacks to our grazing fee, and we do recognize that these places need management, and we are just concerned that the program could evolve into something that would create a large number of herds.

Mr. PETERSON. I do not think any of us want that. We just want something that will make sense. We do not want to disturb the wildlife. We do not want to do it early in the season. It just seems to me that there is a way to make this work for everybody.

Mr. O'KEEFFE. I think there is. We do recognize that we need management. We support management, and our written comments reflect that.

Mr. PETERSON. The other thing I think that was in your testimony, you were talking about the big tract CRP is hurting counties and economics and so forth. I have seen studies where, the study that I saw says that that is not true. And I just would point out that if you didn't have big tracts of CRP, to some extent, you would not have the wildlife that you have today. But the one thing it does is it spreads the predators out. It would be like the WRP lands and so forth where when you have got the government coming in and buying a little piece of property, and it has some wetlands and so forth, you normally do not see any wildlife on it because the predators zero in there and wipe them all out. The one thing CRP has done for wildlife is spread that out. I do not think we can go to just buffer strips and so forth. Those are good, but the reason we have so many pheasants and ducks and deer and other wildlife that have developed in my opinion because of CRP is because we have had enough of this big tract CRP to spread out the pressure and to give these species an opportunity to make it. So I think that was in your testimony.

Mr. O'KEEFFE. We did call for reevaluation and perhaps savings, but we would recognize that there is probably a need for big tracts as well as buffer strips, and hopefully, when this is all settled, and there is a new farm bill, that will allow for those needs to be met.

Mr. PETERSON. Thank you.

Mr. LUCAS. The Chair turns to the gentleman from Nebraska.

Mr. OSBORNE. Mr. Chairman, as a courtesy, do you have anything to ask?

The CHAIRMAN. I thank the chairman, but I do not have any questions of this panel.

Mr. OSBORNE. I am not sure I have got a real good question, but I do have something I would like to ask you.

I know there is about 39.2 million acres of CRP that is currently established or authorized, but we never hit it. We always get around 35, 36 million acres actually being utilized. And I have often thought that maybe we would have greater utilization if the rules for CRP were more liberalized. It seems like it is all or nothing. We have a drought, and all of the sudden, we let it be hayed or grazed or whatever. But I am wondering if we did not do something to allow limited grazing, limited haying, eventually obviously, the switch grass issue is going to be big and cellulosic ethanol, and

allow some of that to be, maybe not all of it certainly, but some of it planted into switch grass and then harvested in ways that it would still be good habitat. So I wondered if you had a thought of how we could more efficiently use the CRP and any thoughts that you would have as to how maybe CRP should be modified in terms of how it is utilized. This is a general question if anybody wants to answer it.

Mr. NOMSEN. Mr. Chairman, Congressman Osborne, let me take a crack at that one from Pheasants Forever's perspective. We talked earlier today about the managed haying and grazing provisions that are within the current CRP program. It is our view that it is one of the tools that we have to make CRP a working-man's program for farmers and ranchers. We have struggled, frankly, nationwide to get that done, and I would look forward to more ideas about how to do that.

Congressman Peterson was correct that idle stands of grass over time are just not productive for wildlife and we do need to manage those acres. We are just saying, let's manage them with wildlife provisions as the objective, but that does include grazing; that does include haying, controlled burns and a number of other options. And we would look forward to more discussion about how to do that on a larger scale.

Mr. LUCAS. The Chair now turns to the gentlewoman from South Dakota.

Ms. HERSETH. Thank you, Mr. Chairman.

Mr. Nomsen, thank you for addressing some of the previous questions of the subcommittee members today. I want to follow up with you a little bit, but I thank all of the witnesses for their testimony today. It has been very insightful and helpful as we do prepare for another subcommittee field hearing out in South Dakota in just a few days to explore some of these issues further with our livestock producers and some of our grain producers who have participated in the various conservation programs.

But let me direct two quick questions to Mr. Nomsen, and I appreciate your point about the need for additional funding in the Grassland Reserves Program. I could not agree more. We have far more applications in South Dakota to enroll acres in South Dakota in GRP than there is funding. I think that if we did fully fund that program, it would help address some of the other issues that have cropped up in certain parts of north and central South Dakota here recently.

But does your organization, the coalition of organizations that you are testifying on behalf of today, support an increase in CRP acreage in the next farm bill.

Mr. NOMSEN. Congresswoman Herseth, we have stood by the 45 million acre figure for a number of years in the last several farm bills. The number is the original authorization, when the program was first initiated in 1985.

Ms. HERSETH. And then to follow up on some of the questions that were posed, beginning with the chairman here on the energy crops, and I know you initially mentioned the letter that you are submitting for the record as it relates to the concern that a switch there could reverse some of the gains that we have experienced for wildlife, the current utilization of CRP program, but can you tell

me, speaking for Pheasants Forever or even the coalition if you would like, would you be supportive of a review and possible modification of points in the EBI for biomass production as Ms. Lasseter and a member of her staff discussed in the first panel?

Mr. NOMSEN. Congresswoman Herseth, let me answer on behalf of Pheasants Forever, and yes, I would be interested in participating in that discussion.

In your State in South Dakota, prior to the conservation reserve program, the pheasant population in 1986 was around 2 million birds. Today, this fall, it is probably going to be 12 million birds. And the South Dakota pheasant harvest, just in South Dakota, is worth about \$155 million annually, as you well know. I try to help and participate in that aspect, as many of our members do, but again, we just want to work with you to make sure that we protect the objective of the program. I do see a future for a biofuels program for South Dakota and other areas, yes.

Ms. HERSETH. I appreciate your response. And back in 1980 and 1981 and in 1982, I agree with you that CRP and other conservation programs that have now been with us since the mid 1980's have certainly helped improve the pheasant population. Before we had that trend moving in a better direction, it was incumbent upon me and some of my friends when we were 10, 11, 12, to raise pheasants and let those out in the refuge and on our private property to improve conditions for our hunters that enjoy coming to South Dakota for that reason, so I appreciate the additional comments about how important these conservation programs and CRP in particular have been to restoring to more average and better levels of pheasant population that has contributed significantly to the State's overall economic health. So thank you very much.

I thank you, all of the panel, and yield back.

Mr. LUCAS. Thank you.

Since we have just a bit more time before the next, well the beginning of the vote, Mr. Wilson, let's touch for a moment once again on the technical assistance cost from the perspective of your group. You work with conservation, and your group does at every State in every level in every way. Just touch on a moment on the technical assistance issues, and have we made success; are we doing better in making sure the resources are available to implement these programs?

Mr. WILSON. Well, I think the short answer is, yes, but I guess a longer answer is not as much as we would hope, if that makes any sense. I think there is still a lot of room for improvement. It has been mentioned I think by Under Secretary Rey that we would have to change the cap on CSP for instance, if we expanded the funding and all the programs. Although they support their own technical assistance—thanks to your leadership, we got that done—there still seems to be a backlog in technical assistance and the more pressing issue in our mind and our Members tell us is the nonfarm bill technical assistance which is not a part of the farm bill, but there are a lot of people being turned down. We can give examples of individuals that have been refused service from their field office because of NRCS and district staff simply did not have the time to do that and deliver the requirements that they have to deliver within the mandatory programs.

So there is certainly still a very severe need for technical assistance across the country. We see CSP driving that agenda to some extent, farmers and ranchers are anticipating that they may at some point be in a watershed, and they are actually installing best management practices, conservation practices on their own farms and ranches at their own expense, that they need to do that with good technical assistance, good scientific knowledge, and it is unfortunate that some of those folks are being turned away because they cannot get that assistance.

Mr. LUCAS. I think at that point I would like to offer an observation. I know I seem very focused on the cost of CSP, but I have always been very committed that whatever we offer, whatever we provide should be available to everyone across the country who is eligible. And I look at that number, \$9 billion, \$10 billion a year more, \$45, \$50 billion over the life of a farm bill, and I think about how far that would go towards funding a cellulose reserve program or how far that would go towards doing so many of these other things or dam rehab or EQIP or just a variety of things, how far it would go. So I am not philosophically totally opposed to CSP. I just see the good things that are not quite completely being done and think, if we had the resources to make the commitments, that \$9 million would do so much. But that is my personal observation.

Any additional questions from members of the subcommittee?

Mr. WILSON. Mr. Chairman, could I remind the committee that I think Mr. Rey said that was an estimate. They don't know exactly what the cost would be. So I don't think it is quite that high personally, and I hope it isn't. I agree with you, we would like to see it be available to all producers.

Mr. LUCAS. And, sadly, I know by historic record, most agencies of the Federal Government tend to guess a little bit low, but that might be a little bit high; we will give them a benefit of the doubt.

Mr. PETERSON. Mr. Chairman, I think we have a minute.

Mr. LUCAS. Yes, Mr. Peterson.

Mr. PETERSON. I agree with you. We have the WRP program is probably producing the best wetlands that we have got in this country better than what we are getting from what the government buys with their Duck stamp money and so forth because people are managing it, and we are not doing anything close to what the backlog is. We have got successful programs that I think we need to fund first because they work.

Now the CSP I think has potential, but the problem I have with it is I think it is too—we are kind of paying people for what they are already doing. I don't think we can afford that. I think we have got to if we are going to ramp up this program, people are going to have to make significant environmental benefits before they get payments. and I think if that was the way it was structured more than an open-ended deal where everybody got money just because they got something here, it wouldn't cost near that much money and I think we would get a lot more benefit out of it. And I think one of the things that I really agree with the way they have done this is to focus by watershed because a lot of these problems are in the watershed, and it is different from one to another. So there are some real good aspects of it. But I think it is a little bit too open ended, and that is why you have got these kind of estimates.

And I am not sure how much we are getting back for some of that, for whatever it is worth.

Mr. LUCAS. And if we are spending \$1.8 billion a year on CRP, that makes me think that we do need to rather aggressively look at your concepts on switch grass for a few dollars to a major potential return. With that, seeing no other comments, without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplemental written responses from witnesses to any question posed by a member of the panel. This hearing on the Subcommittee on Conservation, Credit Rural Development and Research is adjourned. Thank you.

[Whereupon, at 3:05 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF BILL WILSON

Good Morning, I am Bill Wilson, president of the National Association of Conservation Districts and a rancher from Kinta, Oklahoma. I have served as a district official from the Haskell County Conservation District since 1980 and have been working with the national association since 1994. I am also a founder and past president of the National Watershed Coalition.

I own and operate a 650-acre cow/calf, horse and mule ranch in East Central Oklahoma and am a registered land surveyor in Oklahoma and Arkansas. I work to restore Dust Bowl era farm fields into productive pasture land and on my operation; my conservation practices include grazing and nutrient management, tree planting, erosion control drainage structures, cross fencing, and sediment collection structures to improve water quality.

Across the United States, for over 60 years, nearly 3000 conservation districts are helping local people to conserve land, water, forests, wildlife and related natural resources. We share a single mission: to coordinate assistance from all available sources—public and private, local, state and Federal—in an effort to develop locally driven solutions to natural resource concerns. More than 17,000 volunteers serve in elected or appointed positions on conservation districts' governing boards. Working directly with more than 2.3 million cooperating land managers nationwide, their efforts touch more than 778 million acres of private land. NACD believes that every acre counts in the adoption of a conservation practice. We work with landowners across the country, urban, rural, row crop farmers, ranchers, forest landowners and specialty crop producers in the plains and on the coast, so we know that no one program, practice, or policy will work for everyone. We support voluntary, incentive based programs that provide a range of options, providing both financial and technical assistance to guide landowners in the adoption of conservation practices, improving soil, air and water quality providing habitat and enhanced land management.

Among other things, conservation districts help:

- implement farm conservation practices to keep soil in the fields and out of waterways;
- conserve and restore wetlands, which purify water and provide habitat for birds, fish and numerous other animals.
- protect groundwater resources;
- plant trees and other land cover to hold soil in place, clean the air, provide cover for wildlife and beautify neighborhoods;
- help developers and homeowners manage the land in an environmentally sensitive manner; and
- reach out to communities and schools to teach the value of natural resources and encourage conservation efforts.

The conservation title has grown over the last decade to now represent significant funding and meaningful technical assistance to farmers and ranchers across the country. This commitment allows farmers to not only protect their soil and water but also to be a better neighbor and citizen. Districts believe that every acre of conservation counts, including row crop, range, forest or livestock operations, and the growing rural/urban interface. To meet the needs of all areas of agriculture, the committee should consider the impacts of the current regulations that restrict participation in conservation programs. The 2002 farm bill has also resulted in new

participants coming to the conservation “table” and has created new partnerships, both at the local and national level.

Another result of the 2002 farm bill can be seen in technical assistance (TA) funding for Oklahoma. TA rose from a little over \$24 million in 2001 to a high of almost \$34.5 million in 2004. Through July 13 of this year, Oklahoma has been allocated almost \$31 million dollars for technical assistance. TA related to farm bill programs must be earned each year, based on the specific program demands in each state. I believe an additional \$2.1 million remains in the account to be earned this fiscal year. All of the remaining funds are connected to farm bill programs. Oklahoma has established a good “track record” for getting conservation work done. I am hopeful the remaining work can be completed in time to earn those funds.

Mr. Chairman we would like to thank you for your national leadership on conservation, both in writing the current farm bill and your continued oversight of implementation of the bill. As you well know, two of the programs you championed are of particular interest of us in Oklahoma, the Watershed Program and the Grasslands Reserve Program. We look forward to working with you on refining conservation programs in the next farm bill, increasing participation in programs, access to technical assistance and ensure that Federal dollars are spent wisely to provide the greatest conservation benefits.

The 2002 farm bill authorized increases in conservation funding that by 2007 will be double those of the last decade. About two-thirds of the new funds authorized in 2002 target programs emphasizing conservation on working lands that are still used for crop production and grazing, as opposed to conservation spending prior to 2002, in which the bulk of conservation spending was directed toward land retirement programs. According to USDA’s Economic Research Service (ERS), conservation programs for working lands will rise from less than 15 percent of Federal expenditures on agricultural conservation over the past 15 years to about half of the total conservation spending by 2007. The use of the term “working lands” is defined differently by groups, so to clarify; NACD defines working lands as those lands in economic production of food, feed or fiber. We believe that a producer must have an economically viable farming operation to be able to make an investment in conservation practices on their operation. Conservation districts support the increased emphasis on conservation spending for private working lands and hope these trends continue. While NACD supports maintaining land retirement programs such as the CRP and WRP, keeping our remaining cropland in production while funding conservation practices on that land may be a more cost-effective and environmentally viable option for existing working lands.

A recent ERS report assessing the 2002 Census data reports that of the 2.3 billion acres in the U.S., agriculture land comprises 52 percent and grassland, pasture & range comprise two thirds of those agricultural lands. Urban and rural residential acreage in the U.S. is increasing with rural residential increasing 29 percent from 1997 to 2002. Over the same period, cropland decreased by 3 percent and grassland increased one percent. These numbers demonstrate the continued changing landscape that Conservation Districts are serving. We see greater pressure on the rural/urban interface as cities and suburbs continue to grow, creating new and different resource problems and new landowners/mangers. As residents move out of the city to that rural residential area, they may not have an understanding of which conservation practices or habitat is appropriate for their land—or even that their management style is causing an environmental problem. The rural/urban interface, forestry, public lands and grassland management are all areas that have not fully benefited from the 2002 farm bill conservation programs.

Recent press reports have highlighted this change. A report focusing on Maryland and Virginia stated:

Hobby farms—also called “farmlets,” “farmets” or “lifestyle farms”—appear to be popping up locally more often. In 2002, according to the most recent figures from the U.S. Department of Agriculture, Maryland had 3,633 farms with sales of \$0-\$1,000, a 54 percent jump from 1997. In Virginia, they were up 31 percent to 11,418. (Washington Post, 7/16/06, C01)

As these statistics demonstrate, the customers that conservation districts, NRCS and FSA service are changing. Working with these new landowners and manager takes more time than those that have grown up farming the same land that has been in their family for generations. NACD is committed to conservation on all acres and we are ready to work with all landowners, but we need the tools and resources to do so in this changing landscape.

The comments we are providing to you today are based on our work at the local level as part of the USDA program delivery system. We are talking with the landowners and those using the program, providing education, outreach and working to focus programs on the local resource needs, whether it is water quality, soil erosion,

endangered species habitat management or other local priorities. Our goal is to provide you with the “real world” perspective of how the programs are working across the country.

As with any program, the implementation of each of the 2002 conservation programs varies from state to state. Not all programs impact each region of the country in the same way—some are just not options for producers in a specific state, so we must continue to focus on a menu of options for conservation assistance. Local priorities should be integrated into conservation programs. No conservation program can be successfully implemented from a national level and participation in work groups at the local level best direct program implementation to the greatest resource need in the community.

The continuation of the locally-led process is critical to identifying natural resource concerns, setting priorities, and meeting the resource needs of the county or watershed. Conservation Districts are instrumental in the locally-led process, utilizing natural resource planning, working with landowners, Federal, state, and local governments to priorities conservation efforts in the area to address the natural resource concerns. A local natural resource concern can be driven by regulatory demands such as Total Maximum Daily Loads (TMDLs) or Concentrated Animal Feeding Operations (CAFOs), or can be another county, state or watershed priority identified through local input. This prioritization based on local input allows for increased conservation benefits and more efficient utilization of financial and technical assistance.

USDA conservation program implementation utilizes Local Work Groups to assist in targeting funds and programs to address local resource needs and priorities. Local Work Groups, convened by Conservation Districts and comprised of Federal, state, county, tribal and local government representatives coordinate local program delivery. Participants could include FSA county committee member, cooperative extension agents and state/local/tribal officials. The work groups establishes program delivery priorities and can recommend eligible conservation practices, and recommend cost share levels and payment rates. The local work group is utilized to aid in the implementation of several conservation programs. As with most of our comments here today, utilization of this method of local input for implementation of the programs as required by the farm bill varies from state to state.

NACD was pleased with the overall funding commitment provided and conservation program options in the 2002 farm bill, but is concerned with alterations to the funding of the programs since the passage of the 2002 bill. Program authorization levels have been repeatedly reduced through the appropriations process, administrative program limitations, and budget reconciliation. We agree that during times of increasing budget deficits, all programs are subject to reductions, but we must also stress those alterations of the programs from their original design in the 2002 farm bill impacts the intended results of conservation programs. I would also like to mention the devastating disasters that impacted much of the southern United States from Florida to Texas last year through repeated hurricanes, as well as other parts of the country that suffered from natural disasters. Although we may not personally feel the impact that agricultural producers felt in those areas, we know that Federal assistance is critical to their recovery. Frequently, Federal assistance comes from redirecting existing program funding and staff and several states have felt the shift of conservation resources. These funding and personnel shifts made at the national level further complicate program delivery. NACD would hope that a better system could be developed to provide emergency aid and disaster assistance without redirection of these resources.

I am the third generation of my family to farm the land my wife and I now operate. My family was farming here in the ‘30’s. The last two summers we have recorded less rainfall than in the in those years, yet we have not experienced another “Dust Bowl”. We are not seeing neighbors leaving the land and moving as they did then. The profitability of our farm is still suffering but erosion is not nearly as bad as back then. Our farming practices have changed over those years partly because of technical and some financial assistance from conservation programs. We believe that the American taxpayer has received “good value” for their money spent on our farm.

Conservation programs provide benefits to the landowners and the general public through increased soil quality, air and water quality and improved habitat. Increased adoption of conservation practices through the 2002 farm bill Conservation programs resulted in improved nutrient management with decreased nutrient and sediment runoff, increased pesticide management, and increased wildlife habitat benefiting both duck and wild turkey populations. Notable results from the adoption of conservation practices include a reduction in soil erosion and increasing wetland acres. In May, USDA released soil erosion numbers highlighting a 43 percent de-

crease in soil erosion on cultivated and non-cultivated cropland between 1982 and 2003. farm bill conservation programs have also increased the restoration of wetlands across the country and we are now marking net gains in agricultural wetland acres. Programs have protected farmland from development and protected wetland areas through easement programs.

Conservation financial assistance provided through the farm bill programs is an important component in achieving agricultural sustainability both economically and environmentally. But Mr. Chairman, let me assure you that every time you hear NACD members talk about the farm bill we will talk about conservation technical assistance. Technical assistance allows NRCS offices at the local level to work with Districts, landowners, and state and local agencies to address local resource concerns. Technical assistance is utilized to work with landowners on conservation plans from design, layout and implementation, helping landowners understand highly erodible land and necessary compliance for participation in farm bill commodity programs. Technical assistance is also used for evaluation and maintenance of conservation practices. Once a conservation practice is installed, it must be maintained to ensure we continue to see the benefits of the practice. Funding for technical assistance allows NRCS and district employees to meet face to face with landowners, visit their operation and help them design strategies to the resources needs of their individual agricultural operation. Through these discussions, a comprehensive conservation plan can be developed and then financial assistance programs such as EQIP, CRP or any other program in the conservation "tool box" can be utilized to help meet the goals of the conservation plans.

Technical assistance has been a key component in working with livestock producers to understand the EPA AFO/CAFO regulations. District staff and NRCS personnel helped to conduct workshops and demonstration projects so producers could see first hand the changes that needed to be made to avoid enforcement actions under the Clean Water Act. Some producers went on to seek EQIP assistance to make these changes, some producers just needed to know what was required and made the improvements on their own.

Conservation technical assistance is also used to assist local watershed planning groups to address impaired water bodies—working to provide these groups with the technical information they need to determine locally how best to address water quality issues. Technical assistance is necessary to help producers to install and maintain complex conservation practices on the landscape. The technical assistance from NRCS field staff, along with the resources conservation districts and state conservation agencies provides is critical to the success of conservation in the United States. The bottom line is that producers need quality technical assistance to maximize the effectiveness of the financial assistance they receive. Even without financial help, many producers still rely on technical help to ensure that they are putting quality practices on the land. But it's the combination of the two that makes America's conservation delivery system efficient and effective.

A concern from many local conservation districts is focusing conservation technical assistance only for specific farm bill programs therefore not providing general technical assistance. NACD understands the need to fully implement each of the farm bill conservation programs, which we support, but feel that conservation technical assistance at the local level should not strictly be tied to a farm bill program. Districts across the country engage landowners that may not seek Federal cost-share programs or financial assistance, but would like technical assistance. Whether they are limited by acreage, size of operation, or have sufficient funds to make capital conservation investments without Federal cost-share or program dollars, local offices must be able to serve all landowners. We acknowledge that there is a backlog of contract implementation through Federal farm bill conservation programs where contracts are approved but need technical assistance for complete implementation. This backlog should be addressed, but not at the loss of providing more general technical assistance. We cannot lose the ability to provide this critical technical assistance to meet the needs of local landowners.

NACD worked to provide recommendations on the Technical Service Provider initiative and strongly believes that the use of third party public and private sector technical assistance to help implement conservation programs should be seen as a complement and supplement to, not a replacement of, the existing delivery system. Districts believe that private sector participation in the TSP initiative has been hampered by issues of liability, reimbursement rates, and local expertise. The liability surrounding a private entity vs. the Federal Government providing assistance has resulted in high liability insurance costs. The reimbursement rates provided by NRCS are calculated as the costs for the Federal Government to complete the work and are not sufficient in all areas to cover the additional costs to the private sector. When this initiative began three years ago, there was not a private sector capacity

that understood NRCS' conservation planning requirements and the field office technical guide, but NRCS is beginning to require more certification in this area and offers web-based training for these registration requirements.

Conservation Districts participate in the TSP initiative through contribution agreements and a 50/50 Federal & non Federal match. Contribution agreements can be with individual Districts, state associations or state agencies and specify the work to be carried out by the District in delivering technical assistance. Not all districts have the non-Federal match, but NACD is working to help all districts identify non-Federal funding sources to participate these agreements. USDA is continually working to meet some of the challenges in implementing the TSP initiative and we support continued flexibility that allows state conservationists to meet the need of their state, working through private entities and agreements with Conservation Districts

Mr. Chairman in our state NRCS has worked very closely with the Oklahoma Conservation Commission to provided some funding, through a cooperative agreement, to enlist local district employee's assistance in carrying out its responsibility of delivering conservation programs. That arrangement is state wide and has worked very well both for NRCS and conservation districts. Without that agreement Oklahoma would be facing an even larger back-log of work remaining. Another agreement was with the Oklahoma Department of Wildlife Conservation. It provided technicians to assist landowner with education and implementation of wildlife and wetlands programs.

In 2004, thanks to your efforts Mr. Chairman, Congress passed legislation to ensure that each conservation program provides technical assistance for implementation of the specific program. This legislation specifically corrected the technical assistance funding problems associated with CRP and WRP and was very important to fully implementing these programs. Availability of technical assistance is a limiting factor in program delivery and without adequate funding, knowledgeable staff and committed local partners, the full benefits of conservation programs and practice adoption cannot be realized.

The EQIP program has been widely successful across the country. Even with the substantial increase in funding provided in the 2002 farm bill, the demand exceeds the available dollars. The input from the local level is instrumental in making this program successful. Local work groups are utilized in setting priorities and allowing for targeting the program to local conservation needs. We hear that in many states there is a backlog of EQIP projects that have been approved but not yet implemented and feel it is crucial to have the personnel on the ground to administer these programs.

The Grasslands Reserve Program has been very successful; however it has been limited by funding. The funding available from the 2002 farm bill (\$254 million) has been fully utilized prior to reaching the acreage cap of 2 million acres, making the program unavailable for 2006 and 2007. The GRP program is just another excellent program that helps maintain open spaces around growing communities and helps keep our working lands from being developed at a higher rate. Keeping working lands in production, whether it's in crop production, grazing or timber is important to our local communities and economies.

NRCS works with local watershed sponsors on watershed projects as authorized under P.L. 83-566 and P.L. 78-534. In the 2002 farm bill, mandatory funding was provided and appropriation authorized to carryout small watershed rehabilitation projects. The issue of the current condition of the dams constructed over the last fifty years under the watershed program is a matter of great concern. Many of the 11,000 plus dams that NRCS assisted in building throughout the United States, no longer meet current dam safety standards. This situation exists largely as a result of development and land use changes both up and downstream. Structures originally built to protect farm land now receive increasing run off from upstream while protecting homes and lives rather than simply cropland downstream. There is a serious need to upgrade these dams to current standards immediately. Critical funding for rehabilitation efforts that was secured in the farm bill has not been provided. These dams across the country are in need of repair and rehabilitation to ensure flood control protection. Watershed projects nationwide not only provide flood control protection, but have resulted in over 9 million acres of wildlife habitat, over 200,000 acres of wetlands (created or enhanced), over 25,000 miles of enhanced stream corridors and reduced sedimentation nearly 50 million tons per year.

The Conservation Reserve Program was long thought of as the main conservation program of the farm bill. In 2002 the conservation program options expanded, but CRP remained a focal point of the conservation portion of the farm bill. As this committee knows, many of those long term contracts under CRP are expiring over the next few years. Between 2007 and 2010, the contracts on 28.5 million acres will ex-

pire. USDA has started the re-enrollment process with higher offers for the most environmentally sensitive lands, a process that NACD supports. However, NACD members across the country are not uniform in their views on CRP. In the South, our members believe there should not be a general re-signup for CRP. With significant resources dedicated to the CRP program and land retirement, NACD believes overall conservation funding should be balanced between working lands and land retirement programs.

The CRP program and its components—the Conservation Reserve Enhancement Program (CREP), the Farmable Wetlands Program and the continuous sign-up have been popular across the country. NACD believes that targeting CRP to the most environmentally sensitive lands should be the focus of the program. The CREP program has been tremendously successful in partnering Federal and state funding in a targeted area for greater conservation benefits. Twenty eight states have entered into at least one, if not several CREP agreements with the Farm Service Agency.

The most recent CREP agreement was in Colorado where USDA signed two CREP agreements earlier this year. The Republican River CREP focuses on conserving irrigation water use in the basin on 30,000 acres. The CREP is expected to restore riparian habitat and wetlands, reduce soil erosion and reduce the application of agricultural chemicals. The High Plains CREP focuses on increasing populations of pheasants and ground-nesting birds on 30,000 acres. Federal assistance is \$72.7 million and state assistance is \$18.9 million over a 15 year period.

Nine years ago, the first CREP agreement was signed in Maryland to protect the Chesapeake Bay from nutrient loading and enrolled 72,000 acres. Maryland updated that agreement last year for an additional 100,000 acres. The next agreement was signed in 1998 in Minnesota addressing water quality and wildlife on the Minnesota River. Minnesota signed its second CREP agreement in 2005. The CREP program continues to be successful from its beginning in 1997 to the present day and our local districts look forward to working with new CREP projects in the future.

NACD was a strong advocate for an incentive based conservation program and supported the Conservation Security Program in the 2002 farm bill. In the development of the program, creation of regulations, and actual implementation, the program changed significantly from our original concept. We hoped for a program that was easy for producers across the country to understand, resulting in graduated support for increasing adoption of conservation practices. Unfortunately, the result was an extremely targeted program with complex implementation. The reaction to the CSP program across the country is mixed. Some states have been very successful in implementation. Local districts related that those who can access and participate in the program, like the program, but those who do not have access feel at a disadvantage. We also hear that the program is too complicated—both with general understanding of program design and application complexity by the producer, coupled with limited watershed-based availability and lack of additional assistance on the ground needed to implement the program.

NACD is aware of a number of successful efforts by NRCS that have made CSP work. This spring, the Poteau River Watershed, in Oklahoma, was selected for CSP. NRCS was able to put a very successful team on the ground that resulted in 434 contracts with land owners. This example, and there are others, can be used by NRCS as models for implementation of the program. There needs to be a greater effort at education of producers and others about the program. The continued funding changes and the availability of the program have complicated the implementation and underscore a need for further education. We believe that when land owners understand the program, they like it and want to participate.

In Iowa, NRCS, with the assistance of conservation districts, conducted state wide producer pre-signup meetings once the CSP program was finalized. They followed up with additional meetings in key watersheds where the program was likely to be offered. These early education efforts introduced producers to the program, explained the operation and resulted in the success of the program today.

The Wetlands Reserve Program (WRP) has contributed to re-establishing or maintaining wetlands in traditional agricultural areas, resulting in no net loss of agricultural wetlands. This trend reverses years of wetlands loss due to agriculture production and puts us on the path to net gains in wetlands across the country. Wetlands are important for wildlife habitat and WRP is supported by farmers and wildlife organizations across the country. The program is oversubscribed with high demand in the South, Midwest and California.

The Farmland and Ranchland Protection Program has been very successful in maintaining farmland production in the areas of the rural/urban interface currently threatened by development. This program is broadly supported and has protected over 400,000 acres of farmland (approved and pending easements). The program builds on many state operated programs, and the work of local and non-govern-

mental organizations that purchase easements to maintain farmland in agricultural production. FRPP leverages Federal dollars by partnering Federal funding with existing funds at the state and local level. It is another critical program that helps to keep our farms and ranches intact across America. One of the most successful state programs is in Pennsylvania where the state purchases easements to protect farmland from development through the Purchase of Agriculture Conservation Easement (PACE) program. The PACE program has preserved 300,000 acres of farmland.

The Wildlife Habitat Incentives Program, working with landowners through cost-share, increases wildlife habitat with priorities on threatened and endangered species habitat. We have heard support for this program from areas that can be considered “non traditional” agriculture, including municipalities and areas in the urban/rural interface. This program provides a unique focus habitat restoration, and broadens the scope of farm bill conservation programs to address increasing pressures on farmers and ranchers from the Endangered Species Act.

There are a few areas that NACD believes are not being fully addressed by the conservation programs of the 2002 farm bill. Conservation districts not only work on that 52 percent of land in the US that is in agriculture production, but most all land in the US falls within a conservation district, and we must focus our resources on all of these lands. In the West we hear from our members about more integration of conservation programs on Federal lands. While this may pose jurisdictional issues, we believe there could be additional conservation gains on this land through coordinated efforts with Federal land management agencies. Forestry issues have also not fully been addressed through conservation programs, with limited funding for the Forestry Land Enhancement Program. More and more districts are concerned with the lack of conservation assistance for private forested lands and see opportunities for conservation benefits. The 2007 farm bill should place additional emphasis on conservation of forested lands to encourage greater participation of forest landowners. Public benefits provided by forests include clean water, clean air, wildlife habitat, recreation opportunities, as well as a renewable source of wood products. NACD encourages a Federal commitment to private forestry through increased technical and financial assistance to provide for continued public benefits of ecosystem services on a forest landscape level.

The private forest issues are even in Virginia, where 15.8 million acres or 62 percent of the state is forested. Of those 15.8 million acres, 62 percent is owned by private landowners. Conservation and proper natural resource management on private forest land is as important as conservation practices installed traditional crop land. Conservation Districts in Virginia and across the country are actively working with forest landowners, and look toward the next farm bill to further address the conservation needs of this sector of agriculture.

Across the country, the landscape is changing as urban areas spread further into what have traditionally been rural or agricultural lands. The increase of the “farmet” or small farming operation on the outskirts of town, as well as increased land development creates demands on the rural/urban interface applicability of farm bill conservation programs and general technical assistance. These areas are frequently more demanding in terms of working with a landowner that is not knowledgeable about conservation practices and appropriate utilization of their land. Coordination with other Federal agencies for conservation on Federal lands, forestry and the rural/urban interface are areas that have not fully benefited from the 2002 bill.

As the Subcommittee works on drafting the 2007 bill NACD encourages you to look into increasing access to EQIP and other programs, to evaluate whether consolidation of the numerous conservation programs makes sense, or if streamlining the application processes provides for smoother, more efficient program participation on the ground. Districts do, however, hope that any streamlining does not result in taking funding away from conservation programs.

As programs are reviewed we hope that the wide variety of benefits can be taken into account—programs don’t just improve water quality or soil quality, but also improve air quality and provide better habitat, and all of these benefits should be considered. NACD fully supports any effort to make the programs more user friendly, easier for producers to understand and more efficient, but they must continue to focus on our conservation gains—cleaner air, water, improved soil quality and wildlife habitat.

Also Mr. Chairman, we hear a lot of talk that the next farm bill will include a strong renewable energy title. We too recognize the needs and benefits of energy production in the US and on our lands, and support renewable fuel development and production for on and off-farm energy. However, we just caution the subcommit-

tee not to minimize the conservation gains in all programs we have achieved over the last 20–25 years.

NACD hopes the subcommittee will work with sound science and proven technologies for the best use of natural resources. We believe it can be done and is already being done with the production of corn for ethanol and oilseeds for biodiesel; however, we do want to move carefully in the use of CRP lands and others agriculture lands for additional production. There is also potential through forestry resources that could be a valuable resource for cellulosic energy production with available biomass. We support continued research and development on the viability of these renewable resources. NACD is not calling for the prohibition of more energy production; we just want to interject a voice of reason to make sure we do not improve one set of factors while hurting another.

Conservation Districts work to identify local resource concerns, help prioritize funding and the focus of projects to have the greatest conservation and environmental benefit in the local community, benefits that are provided both to the landowner and the public. Everyone benefits from cleaner water, air and improved wildlife habitat and water management. We seek to coordinate the efforts of local, state and Federal Government programs and educate landowners and the public about the opportunities and benefits of farm bill Conservation programs. But more can always be done. Conservation Districts across the country have a strong conservation ethic and are committed to making these programs successful on our farms, in our community and for our environment.

The 2002 farm bill was a hallmark for conservation in this country—it offers a sound mix of programs and resources to build upon for the future. While it heralded a tremendous leap forward, there are still many who remain untouched by its potential. Conservation districts believe that every acre counts from a conservation perspective and that the farm bill needs to bring its conservation benefits to all producers and all agricultural lands. It doesn't matter whether it's EQIP or CSP, WRP or CRP, on-the-ground results are what counts and making sure we have the vehicles to get those results in 2007 will be the principal measure of our success.

STATEMENT OF JOHN O'KEEFFE

Mr. Chairman, members of the committee, my name is John O'Keeffe, and I am a rancher from Adel, Oregon. Some of the cattle industry's biggest challenges and threats come from the loss of natural resources. Our industry is threatened every day by urban encroachment, natural disasters, and misinterpretation and misapplication of environmental laws. The conservation of our natural resources is incredibly important, and ranchers are a partner in conservation. Our livelihood is made on the land, so being good stewards of the land not only makes good environmental sense, it is fundamental for our industry to remain strong. We strive to operate as environmentally friendly as possible, and it is in conservation programs where we can see a partnership with the government.

The goal of conservation and environmental programs is to achieve the greatest environmental benefit with the limited resources available. USDA has numerous programs that are currently utilized by cattlemen, and we know that these programs will be a highlight of the 2007 farm bill. I appreciate the opportunity to talk about the cattlemen's position on these programs.

A popular program among cattlemen is the Environmental Quality Incentive Program or EQIP. This cost-share program rewards and provides incentives to cattle producers for their environmental stewardship. The NRCS assists the producer in the development of a long range conservation plan then offers incentives through cost sharing for the landowner to incorporate best management practices to accomplish the objectives of the plan. Although popular, EQIP has a few problems. One small problem which you might address is to direct USDA to grant more flexibility to NRCS to adjust cost share requirements because sometimes portions of these conservation plans may have significant benefits for wildlife species but contribute little to the economic viability of the ranching operation, making it difficult for the landowner to justify the expense. In addition, many ranchers have complained that the intense administrative paperwork and time allotment for receiving funds makes EQIP an unattractive and burdensome program. Realizing that funding is limited, one method to realize more dollars to the end users of conservation programs would be to make the program more user-friendly and less burdensome. We understand that the verification of records in order to ensure that appropriate qualifications are met is very important, but achieving a more efficient application method and accountability system would result in more dollars that can be spent on actual con-

servation. A streamlined and efficient program is key to making the most of the taxpayer's dollar.

Cattle producers across the country participate in this program, but arbitrarily setting numerical caps that render some producers eligible and others ineligible limits the success of the program. Addressing environmental solutions is not a large versus small operation issue. All producers have the responsibility to take care of the environment and their land, and should have the ability to participate in programs to assist them establish and reach achievable environmental goals. Accordingly, all producers should be afforded equal access to cost share dollars under programs such as EQIP.

Another category of livestock producers excluded by USDA from EQIP are custom feeders. USDA has decided these producers do not share the risk of the ultimate sale price of the animals they feed. This exclusion is difficult to understand. These producers feed livestock on behalf of others and are obvious agriculture operations. Their environmental profile is identical to every other feeding operation. They certainly share the risk of financial success of their operations, even if not for the ultimate price of the individual animals they sell.

Custom feeding is a response by the market to most efficiently organize production, whether the feeding is the main source of income for a producer or a supplement. It is strange that USDA would try to shape market forces through a bureaucratic rule, rather than trying to promulgate rules that support the market and protect the public's interest in sound agriculture programs. We urge the Committee to enact a law to eliminate USDA's exclusion of custom feeders from EQIP.

We also feel that changes in EQIP contracts should also be implemented to make this program more attractive to ranchers. Currently, ranchers are assessed unreasonable penalties associated with the cancellation of an EQIP contract that can be up to 20 percent of the total financial and technical assistance obligated to the participant, even if little work has been performed by NRCS. NRCS should not require an applicant to sign a contract until the final cost of the contract is known to, and approved by, the producer. Producers should also be allowed to periodically review and revise the terms of multiple year contracts to adjust for rising costs over time. Finally, NRCS should provide the least-cost alternative to applicants when engineering for the government's share.

One of the reasons EQIP is so popular among ranchers is the fact that it is a working-lands program. We believe that conservation programs that keep land in production and do not limit its use is best for the ranchers and the actual goal of conserving our resources. Other working-lands programs that we support include the Wildlife Habitat Incentive Program and the Grassland Reserve Program. WHIP's cost-sharing and technical assistance provisions provide assistance to conservation-minded landowners who are unable to meet the specific eligibility requirements of other USDA conservation programs. A healthy wildlife population is a sign of a healthy ecosystem, which is conducive to a healthy cattle operation.

Likewise, the GRP has been very successful in helping landowners restore and protect grassland while maintaining the acres for grazing and haying. This is in huge contrast to programs such as the Conservation Reserve Program or CRP. Considering the fact that 28 million CRP contracts will expire over the next five years, and considering the fact that the 2007 farm bill will be dealing with less funding than in 2002, we believe that the CRP is one of the programs that should be considered for reevaluation and savings.

The CRP is a program designed for the purposes of reducing soil erosion, protecting water quality, enhancing habitat for wildlife, and decreasing overuse of lands not suited to farming. These are worthy goals, but we believe the USDA should consider targeting the program to acres that would produce the most significant environmental benefits. Emphasis should be placed on enrolling buffers, grass waterways, and only the most environmentally sensitive portions of farms so that program dollars provide the most benefit to the public. We would discourage the enrollment of entire fields or farms, a practice that we believe adversely affects local economies and may not provide significant environmental benefits that we believe should be the focus of the program.

With the current program, NCBA is opposed to haying and grazing on lands enrolled in the CRP program except under a few limited conditions. These conditions include:

- (1) In case of drought or other emergency situation declared by the Secretary of Agriculture, including emergencies caused by fires on private or public rangelands;
- (2) In the case of incidental grazing in conjunction with grazing contiguous crop residue or stubble on lands enrolled in continuous sign-up CRP or CREP, or

(3) In the case of a USDA determination that maintenance or management is required on land enrolled in CRP to maintain plant health and proper resource management.

We believe that in all instances of haying or grazing on lands enrolled in the CRP, continuous sign-up CRP, or CREP, the payment should be reduced by the value of the forage harvested or grazed. NCBA also believes that managed grazing on CRP lands should be permitted during the primary nesting season where State Technical Advisory Committees recommend it under an approved plan.

There has been discussion within the agricultural industry of allowing a portion of producers' enrolled acreage to be grazed annually. If the program were to evolve in this direction, a number of issues must be addressed because the program was not designed to be a subsidized grazing program.

One of the issues is: How would the program be managed? Would grazing be limited to a percent of the total enrolled acres per year or a percent of the total forage production of the enrolled acres per year?

In the first instance, a person could rotationally graze a percent of his/her enrolled acres per year, thus supporting a livestock herd that might not have existed previous to enrollment in the program. This would have a negative impact on beef markets. Our markets, like any other industry markets, are fragile. Introducing a potentially large number of animals into production with lower production costs would be problematic. How would this program be managed considering these factors and the overriding goals of the program?

While NCBA does not support grazing of CRP lands as part of a continuous grazing program, we do support haying and grazing to maintain plant health and proper resource management when determined by the NRCS or FSA.

CRP lands must be properly maintained at a higher level into the future. Problems exist due to noxious weed invasion, as well as proper growth control of desired species. This required management is often very costly and in many instances could be accomplished through very prescriptive haying and grazing. These two practices have proven very effective and efficient on private and Federal lands.

Emergency use of CRP lands during a disaster declaration due to drought or fire on private or public rangelands is of critical importance to ranchers. By allowing emergency use of these lands, many livestock producers who otherwise may have been forced out of business as a result of a disaster are able to stay in business. We support the continued allowance of CRP lands for this reason at the designation of the Secretary of Agriculture through state advisement. We also support payment reductions when CRP lands are used in cases of disaster.

Another concern we have with certain USDA conservation programs, including the GRP and FRPP, is the utilization of conservation easements. Many ranchers are skeptical of participating in these programs because they simply don't trust the government. To solve this problem, the 2007 farm bill should give USDA more flexibility to allow private land trusts to not only hold these easements, but also negotiate the terms with state NRCS offices. A major benefit of this approach is that private land trusts can manage easements at no ongoing cost to the public. The interest in conservation from the ranching community is tremendous—we just need more flexibility in current programs to make them workable.

I would be remiss if I did not mention the Conservation Security Program. CSP rewards those of us that have been conservationists and have spent time and money in the past improving our land, water, and wildlife habitats. CSP also provides an incentive to those who have not participated in conservation programs to become involved and improve their operations which in turn will benefit the environment.

When it comes to the implementation of USDA's conservation programs, it is imperative that we ensure adequate support and technical assistance to make these programs successful. Resources must be allocated to maintain adequate NRCS personnel at the local level to provide the technical assistance necessary to implement successful rangeland conservation programs. Ranchers need a dependable and recognized source of technical assistance in order to meet rangeland conservation needs.

Paramount to any discussion regarding conservation programs is the need to protect individual private property rights. Federal conservation policy should reflect both the U.S. and state constitution and enhance the individual right of free choice of land, water, soil and energy use, development, and conservation. The rights of private landowners must be protected. Any loss of private lands or water rights including waters arising or claimed on public lands without specific procedures of due process of law and just compensation must be opposed. Agreements involving individual private land and water rights shall be solely a decision of individual private property owners. The laws and policy of state and local governments and private rights should be paramount in governing the use and ownership of water and natural resources.

The goal of conservation programs should be to maintain a balance between keeping good, well-suited working lands in production, and providing for conservation of species and natural resources. Many producers would like to enroll in various USDA conservation programs such as CSP and CRP to reach environmental goals. However, to enroll in these programs requires the producer to stop productive economic activity on the land enrolled. We believe economic activity and conservation can go hand in hand. As such, we support the addition of provisions in the next farm bill that will allow more working-lands programs that will have tangible benefits on environmental quality, and help to improve our ranching lands.

USDA's conservation programs are a great asset to cattle producers. We want to see them continued and refined to make them more producer friendly and more effective in protecting the environment in a sensible way. Thank you for the opportunity to express our views to you here today.

STATEMENT OF DAVID E. NOMSEN

Mr. Chairman, Members of the Committee, my name is Dave Nomsen. I am the Vice-president of Governmental Affairs for St. Paul, MN based Pheasants Forever and I reside in Garfield, MN. I am a professional wildlife biologist with expertise in wildlife and wetland management. I have worked for Pheasants Forever since 1987 and my primary duties involve supporting a strong framework of Federal policies and programs supporting natural resource conservation that complement our habitat-focused mission at Pheasants Forever.

Pheasants Forever's 650 chapters nationwide complete on average more than 20,000 individual projects annually with conservation minded farmers and ranchers on 300,000 acres. The vast majorities of these projects are completed on private lands and involve grassland establishment and management. Projects are focused on the establishment of nesting, brood rearing, and winter cover for pheasants, quail, and a wide array of wildlife.

Mr. Chairman, I appreciate the opportunity to be here today and I am pleased to offer the shared views of many of our nations' leading wildlife conservation and sporting organizations. The groups that I represent today include the Archery Trade Association, Association of Fish and Wildlife Agencies, Bowhunting Preservation Alliance, Congressional Sportsmen's Foundation, Ducks Unlimited, Izaak Walton League of America, Pheasants Forever, Quail Forever, Quality Deer Management Association, Theodore Roosevelt Conservation Partnership, and Whitetails Unlimited.

Collectively, our members and supporters represent a sizable cross-section of our nations' citizenry, and we appreciate the increased role and importance of conservation in agriculture and its role in private land stewardship that has led to consensus and partnerships among government and private interests, including farm and commodity groups, individual farmers and ranchers, and hunters and anglers.

It is our view that the conservation title of the 2002 farm bill represents the most comprehensive array of conservation programs ever enacted in conjunctions with Federal farm legislation and we recognize and appreciate the strong support from you Mr. Chairman and your subcommittee in providing this authorization. I'd like to offer a few thoughts about some of the individual program success stories that we have benefited from.

CONSERVATION RESERVE PROGRAM

The Conservation Reserve Program (CRP) is currently celebrating 20 years as USDA's and our Nation's most successful conservation program. CRP has been a documented success for wildlife and the program is responsible for in excess of 15 million pheasants and 2.2 million waterfowl produced annually. In Iowa, CRP is estimated to produce up to 3.8 million pheasants per year. In South Dakota and Minnesota, CRP has contributed to increased pheasant harvests not experienced in over 40 years. In Montana, harvest of pheasants, gray partridge and sharp-tailed grouse has increased 55 percent in 1987–2002 when compared to pre-CRP levels in the period 1971–1986. Lesser prairie chickens in Kansas have a greatly expanded range since CRP and 215 leks (breeding grounds) have been found in 10 counties north of the Arkansas River where the species was once virtually absent. A similar success story can be found in Idaho where harvest data indicates sharp-tailed grouse numbers have increased from 285 harvested in 1984 to a high of 6,200 in 1992, since enrollment of over 400,000 acres of CRP.

CRP continues to be popular with America's farmers and ranchers with strong demand during signup periods. Just last month the Farm Service Agency announced

that contracts covering 13 million of the 15.5 million acres of CRP set to expire this coming September, 2007 will be extended or under new contracts. Additionally, more than 1 million acres have been accepted for enrollment in a general CRP signup conducted the spring of 2006, bringing total current enrollment to more than 36 million acres.

Because of the incredible contributions it has made to habitats for waterfowl, upland game birds, deer and wild turkeys, CRP has become a favorite of many in the sportsmen's and sportswomen's community. CRP's benefits don't stop with wildlife. CRP has reduced annual cropland loss by about 450 million tons. Additionally, according to USDA, CRP provides the following benefits:

- Soil productivity benefits: \$162 million
- Hunting migratory waterfowl: \$122 million
- Reducing runoff from fields: \$392 million
- Viewing wildlife: \$929 million

CRP is credited for protecting 170,000 miles of streams and restoring 2 million acres of wetlands and adjacent buffers. All of the above benefits are realized at a modest average rental rate of \$49.00 per acre. We support continuing the vast documented benefits of CRP and urge reauthorization at 45 million acres, as was the original program authorization.

WETLANDS RESERVE PROGRAM

The Wetland Reserve Program (WRP) was established by Congress in the 1990 farm bill and reauthorized in 1996 and 2002. In the 2002 bill, the national aggregate cap for WRP was set at 2,275,000 acres nationwide, a significant increase over the previously authorized maximum of 1,075,000. We applaud Congress, and this Subcommittee in particular, for their leadership in responding to landowner and producer interest in this ever-popular provision of the farm bill. As of January 2006, 1,752,045 acres had been enrolled in WRP in all 50 states and Puerto Rico. Nationwide, demand for the program continues to exceed the annual acreage authorization (250,000 acres) by a factor of 3:1.

WRP lands provide for voluntary, incentive-based conservation of wetland habitats and provide societal benefits such as improved water quality, increased flood storage capacity and enhanced wildlife habitat, in addition to recreational opportunity.

The Lower Mississippi Alluvial Valley portions of Arkansas, Tennessee, Louisiana, and Mississippi comprise one of the most important waterfowl wintering areas in North America wintering at least 5 million ducks and geese annually. WRP has restored winter flooding on at least 45,000 acres. In Arkansas, Louisiana and Mississippi, WRP has reforested more than 400,000 acres of marginal farmland, providing habitat for a variety of wildlife. White-tailed deer populations are high on WRP lands within days of planting, and as the forest matures Eastern Wild Turkeys return to the land, providing outstanding hunting opportunities.

Partnerships between state and Federal agencies, wildlife conservation groups and landowners have proven to be the key to success of WRP throughout this country.

WRP restores and protects wetland habitats and provides significant wildlife habitat. WRP has seen strong demand by landowners and we support enrollment of 250,000 acres per year.

WILDLIFE HABITAT INCENTIVES PROGRAM

WHIP was authorized in the 1996 farm bill and was funded in 1998. Administered by the Natural Resources Conservation Service, WHIP helps landowners promote healthy wildlife populations by developing upland, wetland, riparian, and aquatic habitats on private lands. WHIP is particularly valuable in states such as the Northeast where land values and the acreages in working lands render other conservation programs less applicable. Numerous WHIP projects are successful partnerships between Federal and state agencies, non-governmental organizations, and farmers and landowners. WHIP projects have been completed on 2.8 million acres under 18,000 different contracts. We supported WHIP at \$100 million per year during negotiations over the 2002 farm bill.

GRASSLAND RESERVE PROGRAM

GRP helps farmers protect and restore grasslands while maintaining the areas as grazing lands. The program has a goal of helping conserve, restore, and protect up to 2 million acres and received strong demand from ranchers and landowners. GRP provides an incentive to maintain and enhance the contributions of working grass-

lands and supports the conservation of those prairie wildlife species that depend on these habitats. In 2004, over 9,000 applications for 6.2 million acres were unfunded. The program is strongly supported by our organizations. Due to the overwhelming demand for GRP and the public benefits related to the protection of native grasslands, the program should be continued and increased funding should be considered.

Other Issues

Mr. Chairman, I'd like to raise several other issues that our groups hope to address during deliberations over the 2007 farm bill. The first is that of land conversion, where we are concerned about the continuing conversion of native prairies and noncropland to the production of subsidized commodity crops. We hope to work with the Committee to address this issue. We are supportive of both the swampbuster and sodbuster provisions of the current farm bill and support both programs' continuation.

We are also concerned about diminishing access to privately-owned lands for our nation's hunters. We hope to work with you to address this area of growing concern for current and future generations of sportsmen and sportswomen. We support provisions similar to the "Open Fields" legislation that would provide financial assistance to states to develop or augment voluntary programs encouraging wildlife management, habitat development, and access for hunting and fishing on privately owned land. We will be providing you and your staff with more detailed information on each of these areas of concern in the near future.

I would also like to express our desire to address program administration. We like to talk about how program authorizations are only the starting point for conservation and that we are not successful until programs are "in-the-ground" with conservation-minded farmers and ranchers. We believe that both non-governmental organizations with expertise such as many of our organizations and personnel from state fish and wildlife agencies are part of the solution to more efficient and effective program implementation. We look forward to additional discussion with you and your staff about how we can work in closer partnership with Federal agencies and others to effectively deliver strong conservation programs.

In the next few months many of our organizations will be adopting detailed blueprints for the conservation title of the next farm bill. We hope to build upon the proven success of programs like CRP, WRP, WHIP, and GRP. We look forward to providing the Committee with additional information on each of these programs and others as we work together toward a strong conservation title as an integral component of the next farm bill. Thank-you for the opportunity to testify here today.

STATEMENT OF JUDITH L. SCHWANK

Mr. Chairman, members of the committee, I want to thank you for the opportunity to appear before you today to discuss how conservation programs initiated in prior farm bills have worked in Pennsylvania. I am also pleased to discuss my ideas on the future direction of national policy on conservation practices.

I am a County Commissioner in Berks County, Pennsylvania. Currently, I serve as Chair of the Energy, Environment and Land Use Committee of the County Commissioners Association of Pennsylvania (CCAP) and have been the Commissioner Director of the Berks County Conservation District for six years. Prior to my role as County Commissioner I served as an Agricultural Extension Educator for Penn State Cooperative Extension for almost 20 years. In addition, I spent 7 years on a dairy farm. I am a strong advocate for the agricultural economy in my county as well as the state of Pennsylvania.

Agriculture is big business in Pennsylvania. Our cash receipts total over \$4 billion from production agriculture. The entire food and fiber system, which includes food processing, marketing, transport and farm equipment, etc., agriculture contributes almost \$45 billion to Pennsylvania's economy. We have over 59,000 farm families who are the stewards of over 7.7 million acres of farmland. As you can tell from the statistics, our farms are small by mid-west standards but our production rivals any other major agriculture state. We have implemented a successful Agricultural Conservation Easement Program. State government in tandem with county and some Federal funding have helped to permanently protect over 300, 000 acres of land and preserved 2,750 farms.

Our agriculture is diverse; while dairy predominates we are leading mushroom growers as well as poultry and egg producers. From small organic vegetable farmers to the equine industry, there are many agricultural opportunities in our state. A strong agricultural economy has helped to create a healthier rural economy. This is in no small measure a tribute to the success of past farm bill conservation efforts such as the Conservation Reserve Enhancement Program (CREP), which has pro-

vided a welcome boost to wildlife habitat improvement. This in turn has enhanced tourism efforts in Pennsylvania for hunting and fishing. EQIP has provided welcome assistance to farmers who wish to implement conservation efforts on actively productive land. The Conservation Security Program has also been a success in Pennsylvania.

There is much more to be done to help our farmers not only be productive but to attain a sustainable farm income without degrading the natural resources that rural as well as urban citizens depend on. farm bill policies and programs instituted in 2007 could make the difference for the future of agriculture in Pennsylvania.

Driving to today's hearing, I traversed the Susquehanna River Basin. I passed through verdant farmland with plenty of creeks and rivers and woodlands. Conservation efforts to protect our soil and waterways were visible even to the untrained eye. We know however, that these practices are not once and done events. Conservation of our natural resources must become a way of life for our farmers. They will need adequate resources to attain the goals they and we have set for them.

Agriculture is facing intense scrutiny from the public regarding farming practices. The connection between farm practices and the decline of water and air quality are very visible and noticeable to the non-farm rural and urban population. I have had citizens request that the county not preserve land where biosolids are applied. They associate the land application of bio-solids with air and water pollution as well as soil contamination. They are very aware that their tax dollars are being used to support agriculture and they are demanding a role in determining how those dollars will be spent.

Past efforts to support conservation efforts have worked well to varying degrees. Now more than ever it is imperative that investments in conservation practices must be increased for the sustainability of agriculture in Pennsylvania.

Here are some of the most urgent needs for consideration in the 2007 farm bill:

1. Expand conservation technical assistance efforts to farms of all sizes and types. Each type of farming enterprise has unique impacts on the environment that can be mitigated by appropriate best management practices.

2. Increase funding for technical assistance. Farm Service Agency, Natural Resource Conservation Service and Conservation District offices are woefully understaffed and cannot implement some of the most critical conservation programs in a timely manner.

3. Integrate conservation programs and provide better training coordination among Federal, state, and local agencies as well as the land-grant universities. Enhance outreach to technical service providers and independent contractors who serve farmers. This will ensure better practices and compliance.

4. Monitor the implementation of conservation practices and document results. Emphasize their impact on all residents not just the rural population. Encourage small as well as large-scale practices that can make a long-term difference in resource conservation.

5. Expand the Conservation Security Program to include more critical watersheds. If fully funded, this program has the opportunity to dramatically improve farm sustainability and natural resources in a more visible manner to the general public.

6. Enhance technical assistance for the use of biomass for fuel and energy generation from animal waste. There is opportunity for farms of all sizes throughout the country in energy generation and we should be encouraging practices that do not degrade the environment.

7. Fund conservation efforts for the Chesapeake Bay Watershed through the farm bill to ensure that this critical watershed area that serves millions of people becomes a permanent effort.

Farm policy that successfully integrates modern production practices without degrading water, soil and air is imperative and possible with a firm commitment by Congress to fully funding conservation efforts. I urge to enhance funding for conservation in the 2007 farm bill. The future of our agricultural economy and the well being of our natural environment is dependent on us.

**TESTIMONY OF DALE SCHULER
PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS
BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON CONSERVATION, CREDIT, RURAL DEVELOPMENT
AND RESEARCH
JULY 27, 2006**

GOOD MORNING CHAIRMAN LUCAS, RANKING MEMBER HOLDEN AND MEMBERS OF THE COMMITTEE. I'M DALE SCHULER, PRESIDENT OF THE NATIONAL ASSOCIATION OF WHEAT GROWERS AND A WHEAT FARMER FROM CARTER, MONTANA.

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THE SUBCOMMITTEE AND I WANT TO THANK YOU FOR YOUR ATTENTION TO A CRITICAL PART OF OUR FUTURE FARM PROGRAMS, THE CONSERVATION TITLE OF THE FARM BILL.

BEFORE WE TAKE A LOOK FORWARD AND DISCUSS WHAT THE FUTURE MIGHT HOLD, IT MAY BE HELPFUL TO TAKE A LOOK BACK TO SEE FROM WHERE WE'VE COME.

FROM OUR NATION'S EARLIEST FOUNDING, AGRICULTURE AND WISE STEWARDSHIP WERE LINKED TOGETHER IN THE MINDS OF THE LEADING THINKERS OF THE DAY.

OUR FIRST PRESIDENT, GEORGE WASHINGTON, MAY HAVE BEEN CONSIDERED "THE FIRST FARMER" AS WELL. HIS BOTANICAL EXPERIMENTATIONS AND TECHNICAL INNOVATIONS WERE MATCHED BY A KEEN SENSE OF THE NEED FOR SOIL STEWARDSHIP. HE SAW HOW THE CONTINUOUS PLANTING OF TOBACCO HAD, EVEN THEN, STARTED TO DEplete THE PIEDMONT SOILS AND WAS AN EARLY ADVOCATE OF ROTATIONAL CROP PRACTICES.

OF COURSE, THOMAS JEFFERSON IS WELL KNOWN FOR HIS LIFELONG DEVOTION TO A SCIENTIFIC APPROACH TO AGRICULTURE AND STEWARDSHIP. EVEN JEFFERSON'S IDEAS ABOUT GOVERNMENT, WHICH ARE THE PHILOSOPHICAL UNDERPINNINGS FOR OUR COUNTRY, ARE BASED ON THE CLOSE RELATIONSHIP BETWEEN THE LAND AND THE PEOPLE.

PRESIDENT THEODORE ROOSEVELT IS WIDELY BELIEVED TO HAVE BEEN ONE OF THE GREAT CONSERVATIONIST PRESIDENTS OF THE 20TH CENTURY. IN 1908, HE DECLARED CONSERVATION AS A NATIONAL DUTY. HE IS ALSO CREDITED WITH HAVING ADVOCATED AND CREATED OUR VAST SYSTEM OF NATIONAL FORESTS.

HE DELIVERED A SPEECH IN 1910 THAT CAPTURES THE ATTITUDE SHARED BY MANY, IF NOT MOST, OF MY FELLOW FARMERS. HE SAID:

"I ASK NOTHING OF THIS NATION EXCEPT THAT IT SO BEHAVE AS EACH FARMER HERE BEHAVES WITH REFERENCE TO HIS OWN CHILDREN. THAT FARMER IS A POOR CREATURE WHO SKINS THE LAND AND LEAVES IT WORTHLESS TO HIS CHILDREN. THE FARMER IS A GOOD FARMER WHO, HAVING ENABLED THE LAND TO SUPPORT HIMSELF AND PROVIDE FOR THE EDUCATION OF HIS CHILDREN, LEAVES IT TO THEM A LITTLE BETTER THAN HE FOUND IT HIMSELF. I BELIEVE THE SAME THING OF A NATION."

THE 1930S BROUGHT THE GREAT DEPRESSION AND THE INFAMOUS DUST BOWL CONDITIONS THAT LITERALLY SWEEPED PORTIONS OF TEXAS, OKLAHOMA, KANSAS AND COLORADO AWAY. THIS LED CONGRESS TO ENACT SOME OF OUR EARLIEST FEDERAL CONSERVATION PROGRAMS.

WHILE CONSERVATION ISSUES HAVE BEEN ADDRESSED SINCE THE 1930S, THEY EXISTED, IN PART, AS AN OUTGROWTH OF ATTEMPTS TO SUPPORT COMMODITY PRICES THROUGH LAND SET-ASIDES. IT WASN'T UNTIL 1981 THAT CONSERVATION "TITLES" WERE INCLUDED IN FARM BILLS.

I PROVIDED THIS REVIEW NOT AS SOME TEDIOUS HISTORY LESSON, BUT RATHER TO ILLUSTRATE THE PRINCIPLE THAT A STRONG CONSERVATION ETHIC HAS ALWAYS BEEN ROOTED IN AMERICAN AGRICULTURE, AND HAS MANIFESTED ITSELF IN THE PROMOTION OF NO-TILL FARMING, THE USE OF FILTERSTRIPS AND BUFFER ZONES TO REDUCE SEDIMENTATION AND THE MAINTENANCE OF WILDLIFE HABITAT.

THE 2002 FARM BILL PROVIDED THE MOST ROBUST CONSERVATION TITLE OF ANY PREVIOUS LEGISLATION, BOTH IN TERMS OF FUNDING AND PROGRAMS. IT ALSO CREATED THE NEW CONSERVATION SECURITY PROGRAM (CSP), WHICH HELD GREAT PROMISE ALONG WITH THE UNCERTAINTY THAT ACCOMPANIES ANY NEW PROGRAM.

UNFORTUNATELY, SUBSEQUENT ACTIONS BY CONGRESS REDUCED AND CAPPED FUNDING FOR CSP AND TURNED IT FROM A MANDATORY FUNDING PROGRAM TO A DISCRETIONARY FUNDING PROGRAM. THE NEED TO KEEP PROGRAM COSTS DOWN RESULTED IN BARRIERS TO PARTICIPATION, LIKE THE PRIORITY WATERSHED CONCEPT, WHICH HAVE FRUSTRATED POPULAR SUPPORT FOR THE PROGRAM.

SO WHAT HAPPENS IN 2007, WHEN THE NEXT FARM BILL WILL LIKELY BE WRITTEN?

NAWG WILL NOT BE PRESSING FOR A RADICAL RESTRUCTURING OF THE EXISTING CONSERVATION TITLE. WE WILL BE LOOKING FOR OPPORTUNITIES TO INSURE EXISTING CONSERVATION PROGRAMS ARE MORE EFFICIENTLY COORDINATED UTILIZING SHARED INFORMATION AND DATA. FOR EXAMPLE, WHY SHOULD EACH PROGRAM HAVE A SEPARATE SIGN-UP? WHY COULDN'T PRODUCERS PARTICIPATE IN A SINGLE SIGN-UP, INDICATING WHICH PROGRAM OR PROGRAMS THEY ARE INTERESTED IN AND SUBMITTING THE NECESSARY INFORMATION TO ALLOW NRCS OR FSA TO DETERMINE THE PROGRAM FOR WHICH THEY ARE MOST ELIGIBLE?

THE BASELINE FUNDING FOR CERTAIN CONSERVATION PROGRAMS WAS EXTENDED OUT THROUGH 2010 OR 2011 IN THE BUDGET RECONCILIATION BILL ENACTED LAST YEAR. THEREFORE, WE WILL BE WORKING TO SEE ALL CONSERVATION PROGRAMS AND, PARTICULARLY CSP, ADEQUATELY FUNDED AND WORK TO REMOVE PRIORITY WATERSHEDS AND OTHER BARRIERS TO PARTICIPATION. I REALIZE FUNDING IS ALWAYS GOING TO BE AN ISSUE, BUT IF WE CAN MAINTAIN THE EXTENDED BUDGET BASELINE, IT MAY BE SOMETHING WE CAN ACCOMPLISH.

FINALLY, I ASK THAT THE COMMITTEE CONSIDER ALLOWING SOME PORTION OF CRP LAND BE UTILIZED FOR THE PLANTING AND HARVESTING OF A DEDICATED ENERGY CROP SUCH AS SWITCHGRASS, PROVIDED IT IS DONE IN ACCORDANCE WITH A CONSERVATION PLAN THAT WOULD TAKE WILDLIFE HABITAT AND OTHER ENVIRONMENTAL BENEFITS INTO CONSIDERATION. THIS COULD, FOR EXAMPLE, TARGET CRP LAND IN THE LOWEST 50 PERCENTILE OF THE ENVIRONMENTAL BENEFITS RANKING AND REQUIRE THAT, IN EXCHANGE FOR HARVESTING AND SELLING THE ENERGY CROP, THE CONTRACT HOLDER WOULD ACCEPT A REDUCED RENTAL PAYMENT.

THANK YOU AGAIN FOR THIS OPPORTUNITY. WE LOOK FORWARD TO WORKING WITH THE COMMITTEE AS YOU REAUTHORIZE THE FARM BILL.

Mr. Chairman and members of the committee, we appreciate the opportunity to review the operation of the Farm Bill's conservation programs administered by the Farm Service Agency (FSA). We are pleased to share our experiences in implementing the Conservation Title for the past four years. We will also offer our observations on the changing business environment in which the programs operate, particularly as Congress begins to consider appropriate policies for the next Farm Bill.

America's farmers and ranchers have significantly improved our environment over the last 20 years. Soil erosion on cropland has been reduced by over 1.2 billion tons per year. This past year we had a net increase in wetlands which was a first in our nation's history. As of June 2006, the Conservation Reserve Program (CRP) restored more than 2 million acres of wetlands and approximately 2 million acres of buffers. CRP will effectively reduce soil erosion by 454 million tons each year.

Overview of the Conservation Title

Proclaiming that "...every day is Earth Day..." for farmers and ranchers, the President has stated that conservation programs enable us to be better stewards of our nation's natural resources. The President supported and welcomed a strong conservation title in the Food Security and Rural Investment Act of 2002 (2002 Farm Bill). The 2002 Farm Bill responded to a broad range of ongoing conservation challenges including soil erosion, wetlands conservation, water quality, and wildlife habitat improvement. Other challenges today include emerging energy issues and potential markets for sequestered carbon.

FSA administers the largest public-private conservation partnership in America. CRP is a voluntary program for agricultural land owners and operators. CRP provides annual rental payments and cost-share assistance to establish long-term, resource-conserving covers on certain eligible farmland through long-term rental contracts.

CRP provides a variety of options for restoring highly erodible land, improving water quality and conserving water, restoring wetlands, improving air and soil quality, and enhancing wildlife habitat. While the focus of the program is assisting farmers and ranchers to protect environmentally-sensitive cropland, its portfolio was expanded to include marginal pastureland. CRP is also working to restore forest lands damaged by hurricanes in 2005.

FSA also implements the Emergency Conservation Program (ECP). Under ECP, FSA shares the costs of rehabilitating farmland damaged by natural disasters including flooding, tornados, hurricanes, ice storms, wildfires, and drought.

Additionally, FSA shares implementation of conservation compliance and the Grassland Reserve Program (GRP) with the Natural Resources Conservation Service (NRCS). NRCS benefits from FSA's web-based name and address file, the Service Center Information Management System (SCIMS) and comprehensive GIS databases of farm

field boundaries called the Common Land Unit (CLU). Likewise, FSA benefits from using the digitized database of soils and technical knowledge offered by NRCS.

Operations and Performance Since 2002

Conservation Reserve Program. When CRP was authorized 20 years ago under the Food Security Act of 1985 (1985 Farm Bill), almost all acres that were enrolled were intended to help reduce cropland erosion. Many initially regarded this program as a commodity supply management tool. As CRP was implemented, it became clear that this evolving program offered substantial benefits for water quality, wildlife habitat, and protection of other environmentally sensitive land, as well. With the Food, Agriculture, Conservation, and Trade Act of 1990, emphasis began to shift toward protecting more environmentally sensitive land. FSA began to focus CRP resources to more effectively target water and air quality, wildlife habitat, and prevention of soil erosion.

The 2002 Farm Bill expanded CRP's authority to enroll marginal pastureland and expanded a six-State pilot program protecting small wetlands into a national program, now called the Farmable Wetlands Program. Mid-contract management was instituted to enhance the quality of cover for wildlife by adopting practices during the contract term such as light disking, interseeding, and burning. For the first time, Congress authorized managed haying and grazing and the placement of wind turbines on CRP land under certain conditions.

The 2002 Farm Bill mandated a report to determine the economic and social impacts on rural communities resulting from CRP. This analysis was prepared under the leadership of the Department of Agriculture's Economic Research Service (ERS) and was submitted to Congress in January 2004. The report found that any negative impacts of CRP on rural economies tended to be small and transitory, and did not identify any negative impact on rural population, government services or tax burden.

There have been significant accomplishments under CRP since the 2002 Farm Bill, including the following highlights:

- Implemented the President's directive to re-enroll or extend contracts on more than 28 million acres of land, which were scheduled to expire from 2007 to 2010. Of the acreage expiring in 2007, CRP participants have elected to re-enroll or extend more than 87 percent of the acreage and, for the 2008-2010 acreage, CRP participants have elected to re-enroll or extend over 76 percent of the acreage;
- One million acres of acceptable land were enrolled recently in general sign-up 33. Total enrollment now stands at 36 million acres, including 2.9 million acres from general sign-ups that have occurred since the 2002 Farm Bill was enacted;
- Restored wetlands enrolled in CRP reached 2 million acres in April of 2006. These restored wetlands are the result of several initiatives, including the 500,000-acre Bottomland Hardwood Timber Initiative and the new 250,000-acre

Non-floodplain Wetland Restoration Initiative. "Bottomland Hardwood" improves flood plains through the restoration of primarily bottomland hardwood trees. "Non-floodplain Wetland" restores large wetland complexes and playa lakes located outside the recognized 100-year floodplain and is a part of the President's Wetland Initiative;

- Increased wildlife populations, including more than 2 million additional ducks annually in the Northern Prairie, enhanced Sage and Sharped-Tailed Grouse populations in Eastern Washington, increased Ring-Necked Pheasant populations, and increased grassland bird populations. CRP is building upon these successes with several initiatives including enrollment of 115,000 acres in the 250,000-acre Presidential Quail Initiative to create habitat for quail, upland birds, and other species. We have executed agreements with Pheasants Forever, Ducks Unlimited and the National Wild Turkey Federation to jointly work toward achieving mutual program objectives;
- Signed 16 new Conservation Reserve Enhancement Program (CREP) agreements with the states of Colorado (2), Florida, Idaho, Indiana, Louisiana, Minnesota, Montana, Nebraska (2), New Jersey, New York, Ohio (2), Pennsylvania, and West Virginia to protect water quality, improve water quantity, create wildlife habitat, and control erosion on more than 803,000 acres. Using the new authority in the 2002 Farm Bill we have implemented several CREPs targeting water conservation. The Platte Republican Resource Area CREP in Nebraska, for example, provides 100,000 acres to enroll irrigated cropland at irrigated rental rates in order to achieve water conservation benefits. Similar agreements were recently signed for a 35,000-acre Colorado program and a 100,000-acre program in Idaho;
- Developed one of the agency's first web-based applications, which uses geographic information system (GIS) technology to enroll land in CRP. This upgrade has improved workload management for county offices, saved time and money, and increased accuracy. The net savings generated from deploying PC and web-based software rather than using USDA staff during general sign ups amounted to \$11 million. Planned enhancements include full migration of all CRP contracts to a Web environment from the current legacy system.
- For Fiscal Year 2006, the Department responded to drought and other natural disaster conditions by releasing certain CRP acreage for emergency haying and grazing, authorizing an expanded eligibility area radiating 150 miles from any approved county, and reducing the payment reduction from 25 percent to 10 percent.
- Developed a 4-State pilot program for private sector technical assistance that includes conservation plan training, which is scheduled to begin implementation during late summer 2006; and

In addition, we are implementing the \$504.1 million Emergency Forestry CRP program to provide assistance to an estimated 894,000 acres of private forestland damaged by 2005 calendar year hurricanes.

Emergency Conservation Program. ECP provides emergency funding and technical assistance to help farmers and ranchers rehabilitate farmland damaged by natural disasters. ECP helps affected producers implement emergency water conservation measures during periods of severe drought. ECP is funded by appropriations and is implemented through state and county FSA committees. Subject to the availability of funds, locally-elected county committees are authorized to implement ECP for all disasters except drought, which is authorized at the national level. County FSA committees determine land eligibility by conducting onsite damage inspections that take into account the type and extent of damage.

For land to be considered eligible for ECP assistance, the natural disaster must create new conservation problems, which, if left untreated, would: (1) impair or endanger the land; (2) materially affect the land's productive capacity; (3) represent unusual damage which, except for wind erosion, is not the type likely to recur frequently in the same area; and (4) be so costly to repair that federal assistance is, or will be, required to return the land to productive agricultural use. Conservation problems existing prior to applicable disasters are ineligible for ECP assistance.

ECP program participants receive cost-share assistance of up to 75 percent of the cost to implement approved emergency conservation practices, up to \$200,000 per *person* per disaster.

Generally, ECP participants may remove debris, restore fences, restore conservation structures, and provide water for livestock in drought situations. Since the 2002 Farm Bill, ECP has allocated more than \$341 million in assistance for farmers and ranchers whose land was affected by natural disasters, including:

- \$153.0 million for hurricanes;
- \$100.5 million for drought;
- \$44.6 million for floods;
- \$33.6 million for wildfires and ice storms; and
- \$20.3 million for tornadoes.

In addition, Congress appropriated \$199.8 million in cleanup assistance for 2005 calendar year hurricanes. However, the June 2006 supplemental appropriations act transferred \$38 million of the original appropriation. After an initial allocation for debris removal, the remainder of the funding was allocated after the interim rule was published in the Federal Register on May 26, 2006. FSA has allocated approximately \$126 million to assist affected producers.

Grassland Reserve Program. GRP is a voluntary program authorized under the 2002 Farm Bill offering landowners the opportunity to protect, restore, and enhance grasslands

on their property. FSA, NRCS and the Forest Service coordinate implementation of GRP, which helps landowners restore and protect grassland, rangeland, pastureland, shrubland and certain other lands and provides assistance for rehabilitating grasslands. This program conserves vulnerable grasslands from conversion to cropland or other uses and conserves valuable grasslands by helping maintain viable ranching operations.

Grasslands make up the largest land cover on America's private lands. Privately-owned grasslands and shrublands cover more than 525 million acres in the United States. GRP has a 2 million acre statutory enrollment cap and a \$254 million funding cap. As of June 2006, about 893,000 acres were enrolled in GRP.

Considerations for the Future

While environmental indicators clearly indicate progress in resource conservation is being made, many challenges remain and new issues continue to emerge. For example, excess nutrients impair water quality in many rivers, streams, and lakes, and hypoxia is a significant problem in the Gulf of Mexico, Chesapeake Bay, and other waters. In addition, conflicts over water availability for agriculture, environmental, and urban use are increasing as water demands increase. As one of the largest water users, agriculture has a vital interest in securing water quality and quantity. Conservation is bringing about important achievements, but more can be done, particularly for wetland and aquatic systems.

Another emerging challenge is to reduce greenhouse gas concentrations in the atmosphere, which will require more attention to achieving greater carbon sequestration in agricultural soils.

Policy Considerations

There are several broad policy considerations that should be examined, including:

- Further identifying and quantifying *specific* conservation and environmental goals which could include water quality, wetlands, wildlife habitat, air quality, soil erosion, farmer income, and commodity production and farm impacts;
- Identifying and quantifying *indirect* conservation and environmental goals which could include carbon sequestration, more trees, recovery of threatened and endangered species, increased flood control, recreation, and hunting;
- Determining how to integrate conservation programs into overall farming production, marketing, farm supports, and financial goals;
- Understanding World Trade Organization implications and developing programs that are deemed to be minimally or non-trade distorting;
- Reducing greenhouse gasses;

- Developing tools to encourage private sector markets for environmental services; and
- Developing measures to improve performance to ensure that limited taxpayer resources are cost-effectively used to obtain goals.

In addition to identifying policy goals, attention should be given to resources needed to accomplish those goals. The use of information technology (IT) is vital for cost-effective delivery. We recognize that conservation programs can become more effective as we become more proficient in developing software. There is, however, intense competition for IT funds, which could affect program implementation.

Program Issues

There are several program considerations that should be examined as well, including:

- Should land subject to an expiring CRP contract be considered eligible for re-enrollment even if that land is no longer capable of being cropped due to an easement, conversion to trees, or inundation by water?
- Should the cropping history requirement in CRP be updated from the current base period of 1996 through 2001?
- Should CRP's enrollment authority of 39.2 million acres remain the same, be lowered, or increased? Should acreage allocations be set for the different components of CRP (general, continuous, CREP)?
- Should CRP payment limitation requirements, established in the 1985 Farm Bill at \$50,000 per *person*, remain the same, be lowered, or increased?
- Should certain conservation practices such as wetlands and buffers be exempt from the 25 percent county cropland limitation?
- Should the standard for waivers of the 25 percent county cropland limitation be modified to address situations where producers are not having difficulty complying with highly erodible conservation plans in a county?
- Should short-term CRP contracts be authorized for saline seep control or for energy crop production?
- Should monitoring and assessment efforts be continued or expanded?
- Should GRP be amended to remove or modify the statutory 60/40 division of funding towards easement and rental agreement funding?

- Should the 2 million acre GRP limitation be clarified to mean restored acres or all enrolled acres? Should acreage and funding caps be increased?
- Should GRP easements remain the same, be increased, or reduced?

Conclusion

Conservation programs have provided notable achievements in both conserving and protecting our natural resources. However, several existing and emerging environmental challenges will require needed attention as we approach reauthorization of the 2002 Farm Bill. In addition, the potential value of conservation programs as part of the income safety net will be among the many policy issues that will need serious consideration and foresight.

Again, we appreciate the opportunity to offer our observations. Thank you.

APPENDIX**Buffer and Wetland Practices in CRP, Cumulative Enrollment June 2006**

Practice	Acres
Buffers	
Water and Soil Quality Buffers 1/	2,199,453
Upland Bird Buffer Initiative	115,535
Windbreaks and related practices 4/	121,630
Total	2,436,618
Wetland Practices	
Wetland Restoration-General Sign-up 2/	1,563,259
Floodplain Initiative	91,637
Non-Floodplain and Playa Initiative	19,959
Farmable Wetland Program	151,873
Bottomland Hardwood Initiative	27,639
CREP 2/	88,168
Other 3/	68,298
Total	2,010,832

1/ Includes grass waterways, grass and forest riparian buffers, riparian pasture, wellhead protection buffers, and contour grass strips.

2/ Acres enrolled prior to moving wetland restoration practice (CP23) to continuous signup.

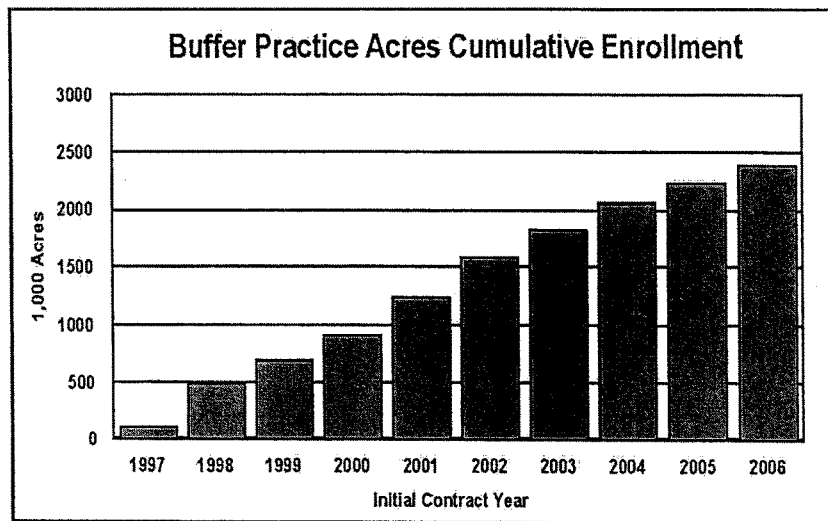
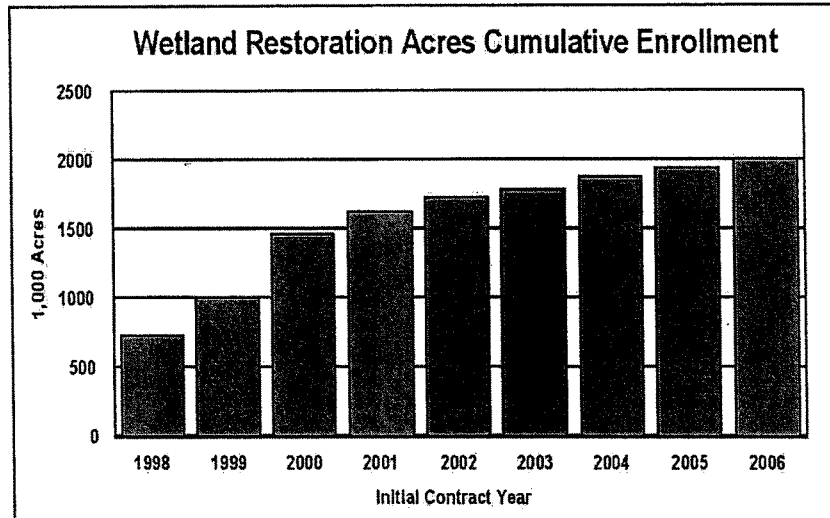
3/ Shallow water area for wildlife and wetland buffers on riparian pasture.

4/ Includes field windbreaks, shelterbelts, living snow fences, and cross trap wind strips.

ACRES ENROLLED IN CRP BY PRACTICE TYPE AND DATE OF ENROLLMENT 1/
Data as of June 2006

STATE	TOTAL	ENROLLED AFTER '02	PRACTICE TYPE OF CURRENT 36-MILLION-ACRE ENROLLMENT			
			GRASS	TREES	WETLAND	BUFFERS
ALABAMA	491,631	47,800	133,835	321,099	956	33,670
ALASKA	29,748	327	29,212	0	331	185
ARKANSAS	220,570	65,743	37,447	100,105	25,667	56,691
CALIFORNIA	147,340	11,104	135,610	429	5,278	7,888
COLORADO	2,383,320	205,680	2,371,087	514	1,133	13,446
CONNECTICUT	318	0	235	0	0	83
DELAWARE	7,702	839	2,145	3,198	763	1,560
FLORIDA	84,215	8,326	5,836	78,157	0	71
GEORGIA	306,375	33,669	14,363	286,023	367	3,864
IDAHO	800,264	73,084	780,440	7,555	1,698	9,791
ILLINOIS	1,049,465	218,615	607,390	69,174	54,551	311,737
INDIANA	307,028	73,481	171,160	29,295	11,296	92,584
IOWA	1,959,153	302,578	1,325,233	24,777	135,317	411,838
KANSAS	3,109,338	519,353	2,613,670	2,037	8,173	78,371
KENTUCKY	353,503	63,534	271,928	8,585	3,234	61,650
LOUISIANA	296,279	103,596	46,666	184,695	56,559	8,103
MAINE	24,224	716	22,789	1,072	1	379
MARYLAND	85,755	10,104	22,028	1,899	3,612	58,650
MASSACHUSETTS	74	0	53	0	0	27
MICHIGAN	271,783	66,674	182,363	16,010	18,544	52,951
MINNESOTA	1,797,187	170,011	1,019,509	56,901	367,098	229,069
MISSISSIPPI	952,461	124,894	141,446	634,980	16,015	155,735
MISSOURI	1,575,963	226,369	1,374,664	28,467	12,148	91,507
MONTANA	3,491,380	172,660	3,136,116	1,173	4,813	4,308
NEBRASKA	1,291,919	204,329	1,093,131	5,199	19,175	67,160
NEW HAMPSHIRE	193	1	11	0	0	182
NEW JERSEY	2,467	431	1,978	143	4	329
NEW MEXICO	597,378	6,530	589,655	160	0	7,885
NEW YORK	63,963	10,911	46,934	2,739	329	13,337
NORTH CAROLINA	133,304	29,054	24,653	60,648	5,225	42,723
NORTH DAKOTA	3,370,176	63,721	2,435,725	1,956	784,818	27,533
OHIO	328,884	115,230	218,189	14,767	6,331	86,768
OKLAHOMA	1,056,779	71,237	1,019,952	1,172	1,567	7,100
OREGON	543,101	95,364	502,482	3,615	1,382	36,501
PENNSYLVANIA	219,853	94,071	195,432	2,055	1,114	19,698
PUERTO RICO	1,032	436	424	172	0	436
SOUTH CAROLINA	213,393	11,920	20,579	151,783	2,381	37,851
SOUTH DAKOTA	1,513,747	108,980	1,004,842	2,149	428,331	143,895
TENNESSEE	276,567	63,925	218,859	34,847	2,988	19,461
TEXAS	4,047,364	211,647	3,984,091	9,257	9,517	49,858
UTAH	205,524	6,590	205,202	0	0	280
VERMONT	1,751	473	116	0	3	1,633
VIRGINIA	65,686	11,624	21,076	19,787	364	24,358
WASHINGTON	1,480,374	254,012	1,364,034	2,539	3,568	109,589
WEST VIRGINIA	3,489	1,841	690	136	0	2,664
WISCONSIN	616,417	90,023	441,633	91,925	17,172	47,435
WYOMING	285,060	5,765	278,953	86	0	5,736
	36,063,695	3,957,299	28,114,020	2,261,281	2,010,826	2,436,618

1/ Sign-up 33 not included. States with fewer than 4 contracts excluded.



ECP Allocations from Implementation of 2002 Farm Bill to Present						
State	Drought	Flood	Hurricane	Other	Tornado	Total Allocation
Alabama	76,500	162,678	14,918,100	1,250	1,141,500	16,300,028
Alaska	0	0	0	0	0	0
American Samoa	0	0	0	0	0	0
Arizona	1,291,600	740,700	0	25,500	0	2,057,800
Arkansas	5,832,500	370,000	0	1,344,797	833,100	8,380,397
California	288,000	7,292,800	0	110,000	0	7,690,800
Colorado	3,577,450	536,300	0	912,900	23,400	5,050,050
Connecticut	157,500	233,800	0	0	0	391,300
Delaware	0	0	5,300	0	0	5,300
Florida	0	0	72,592,000	0	0	72,592,000
Georgia	1,987,500	1,439,100	11,107,600	894,200	1,192,200	16,620,600
Guam	0	0	187,500	30,000	0	217,500
Hawaii	0	2,999,100	0	0	0	2,999,100
Idaho	1,605,050	50,000	0	73,300	0	1,728,350
Illinois	656,500	867,100	0	0	166,200	1,689,800
Indiana	0	572,100	0	65,400	166,000	803,500
Iowa	869,500	1,405,900	0	771,100	2,015,200	5,061,700
Kansas	1,700	1,155,000	0	0	1,262,100	2,418,800
Kentucky	2,666,100	226,900	0	7,000,000	552,300	10,445,300
Louisiana	0	0	18,012,000	20,800	137,000	18,169,800
Maine	304,000	599,000	0	3,650	0	906,650
Maryland	778,500	0	68,000	0	144,250	990,750
Massachusetts	567,000	275,000	0	0	0	842,000
Michigan	0	59,000	0	0	180,600	239,600
Minnesota	0	1,677,700	0	0	269,600	1,947,300
Mississippi	0	129,500	10,522,000	0	237,000	10,888,500
Missouri	9,221,300	1,533,750	0	0	4,927,050	15,682,100
Montana	7,451,700	779,000	0	558,000	0	8,788,700
Nebraska	1,734,300	328,300	0	196,300	1,026,700	3,285,600
Nevada	3,185,800	2,445,538	0	31,250	0	5,662,588
New Hampshire	116,000	623,000	0	0	0	739,000
New Jersey	0	1,618,500	0	0	0	1,618,500
New Mexico	3,346,450	419,000	0	874,800	0	4,640,250
New York	85,250	2,301,950	0	321,900	87,000	2,796,100
North Carolina	2,036,000	1,457,500	18,467,300	503,800	155,694	22,620,294
North Dakota	787,840	0	0	152,150	0	939,990
Northern Mariana	0	0	0	0	0	0
Ohio	3,085,800	2,109,100	766,100	1,335,800	220,550	7,517,350
Oklahoma	6,235,200	200,450	0	2,950,800	666,050	10,052,500
Oregon	1,346,100	333,600	0	159,900	0	1,839,600
Pennsylvania	501,250	391,500	1,432,700	0	46,850	2,372,300
Puerto Rico	0	0	34,900	0	0	34,900
Rhode Island	25,000	100,000	0	0	0	125,000
South Carolina	2,038,250	0	0	1,776,200	0	3,814,450
South Dakota	18,524,500	0	0	20,000	57,500	18,602,000
Tennessee	719,911	1,282,200	194,000	36,000	4,605,900	6,838,011
Texas	3,293,700	3,416,100	1,000,000	10,744,000	420,400	18,874,200
Utah	3,805,400	2,493,900	0	37,300	0	6,336,600

Vermont	524,150	395,050	0	531,700	0	1,450,900
Virgin Islands	0	0	0	0	0	0
Virginia	5,471,900	1,279,900	3,256,500	0	50,000	10,058,300
Washington	3,157,000	249,000	0	618,000	0	4,024,000
West Virginia	0	143,500	453,800	2,036,800	0	2,634,100
Wisconsin	0	34,150	0	0	0	34,150
Wyoming	2,938,760	159,000	0	82,500	0	3,180,260
TOTAL	\$100,290,961	\$44,885,666	\$153,017,800	\$34,220,097	\$20,584,144	\$352,998,668

7/18/2006

**STATEMENT OF MARK REY, UNDER SECRETARY
NATURAL RESOURCES AND ENVIRONMENT
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON CONSERVATION, CREDIT, RURAL DEVELOPMENT
AND RESEARCH**

July 27, 2006

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear here today to discuss the conservation programs included in Title II of the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill). Four years ago, on May 13, 2002, President Bush signed the Farm Bill into law and stated that, *"For farmers and ranchers, for people who make a living on the land, every day is Earth Day. There are no better stewards of the land than people who rely on the productivity of the land. And we can work with our farmers and ranchers to help improve the environment."* The 2002 Farm Bill represented an increased commitment of more than \$17 billion in funding over 10 years for conservation. The 2002 Farm Bill is the single most emphatic statement by the members of Congress and this Subcommittee about the importance of conservation on working agricultural lands in America. Today, I am pleased to provide an update on the conservation investment you made for America's farm and ranch families.

Over the past 4 years, we have made substantial improvements on a broad range of emerging conservation challenges faced by farmers and ranchers, including soil erosion, wetlands conservation, wildlife habitat improvement, and farm and ranchland protection. The 2002 Farm Bill places a strong emphasis on the conservation of working lands – ensuring that lands remain both healthy and productive. Private landowners have benefited from a portfolio of voluntary assistance, including cost-share, land rental, incentive payments, and technical assistance. The public has also benefited from improvements in water quality and increases in water quantity, declines in soil erosion, improvements in air quality, and expansions of wildlife habitat.

Mr. Chairman, I commend you for holding this hearing today. The Natural Resources and Environment mission area is eager to share with you what we have accomplished, together with local and national conservation partners and landowners, with the programs and funds entrusted to NRCS under the 2002 Farm Bill. Even as we work with landowners on stewardship issues, we look forward to talking about our own stewardship of the responsibilities and resources you have given us.

NRCS' mission is "helping people help the land," and I am delighted to have this opportunity to tell you about our work in detail. After we have looked at our accomplishments in conservation, I will discuss our vision for the future which briefly

stated is: productive lands and a healthy environment. Then, I will focus on our Strategic Plan for achieving those goals.

Investment Overview

Working lands conservation programs are unique among agricultural programs in that they are specifically designed to produce a double benefit. First, farmers or ranchers who install conservation practices improve their land and enhance their natural resources. Second, the public also receives many benefits: cleaner water, more habitat diversity and improved air quality to name just a few.

Since 2002, NRCS has provided assistance to one million farmers and ranchers. Together, we have applied conservation on more than 130 million acres of working farm and rangeland in addition to 60 million acres enrolled in land retirement and easement programs, such as the Conservation Reserve Program (CRP), the Wetland Reserve Program (WRP), the Grassland Reserve Program (GRP) and the Farm and Ranch Land Protection Program (FRPP). We have also invested \$6.6 billion of the taxpayers' funds directly with farmers and ranchers to produce environmental improvements that will benefit us all. In addition, since enactment of the 2002 Farm Bill, our conservation partner organizations (local Soil and Water Conservation Districts, Resource Conservation and Development Councils, State and local governments and other conservation organizations) have contributed over \$2.8 billion to conservation programs, making the total investment under the 2002 Farm Bill through last year more than \$9.4 billion.

New Programs, New Rules

Mr. Chairman, the 2002 Farm Bill brought new programs and new challenges. The Agency has moved aggressively forward to publish program rules, complete companion policy guidance documents, develop program manuals, train and update our workforce and partners on the changes contained within the legislation, and deliver the programs to America's farmers and ranchers in a timely and efficient manner. We met the statutory deadlines for 98 percent of our rules. In addition, as required under Section 2005 of the 2002 Farm Bill, NRCS prepared and submitted a report to Congress titled *Reform and Assessment of Conservation Programs*. This report provided us the opportunity to inform Congress about activities and concepts developed from FY 2002 to the present to improve conservation services provided to agriculture producers.

To date, NRCS has published completed rules for our major programs, including:

Program or Topic	Kind of Rule	Publication Date
Healthy Forests Reserve Program	Interim Final Rule	May 18, 2006
Appeals Rule	Interim Final Rule	May 16, 2006
Grasslands Reserve	Final Rule	March 6, 2006

Program		
Emergency Watershed Protection Program	Final Rule	April 4, 2005
Conservation Security Program	Amendment to Interim Final Rule	March 25, 2005
Equitable Relief	Final Rule	Sept 22, 2004
Conservation Security Program	Interim Final Rule	June 21, 2004
Conservation Innovation Grants	Interim Final Rule	March 29, 2004
Adjusted Gross Income	Final Rule	June 4, 2003
Environmental Quality Incentives Program	Final Rule	May 30, 2003
Farm and Ranch Lands Protection Program	Final Rule	May 16, 2003
Private Grazing Lands	Final Rule	November 12, 2002
Wildlife Habitat Incentives Program	Final Rule	July 24, 2002
Wetlands Reserve Program	Final Rule	June 7, 2002

NRCS also has issued a number of Requests for Proposals in 2006:

Program or Topic Requests for Proposals (RFP)	Publication Status
Farm and Ranch Lands Protection Program RFP	RFP posted to Grants.gov on 3/28/06. Submittals were due 5/12/06; awards pending.
Conservation Innovation Grants RFP	RFP posted to Grants.gov on 1/5/06. Submittals were due 3/20/06; awards granted.
Cooperative Conservation Partnership Initiative Grants RFP	RFP posted to Grants.gov on 1/6/06. Submittals were due 4/7/06; awards granted.
Rapid Watershed Assessment Grants RFP	RFP posted to Grants.gov on 1/17/06. Submittals were due 3/17/06; awards granted.
Wetlands Reserve Enhancement Program Grants	RFP posted to Grants.gov on 1/27/06. Submittals were due 4/10/06; awards were issued on 5/1/06.
Grazing Land Conservation Initiative Grants	RFP posted to Grants.gov on 1/17/06. Submittals due 4/3/06; awards granted.

Completing these rules and Requests for Proposals was an important step in making the 2002 Farm Bill programs accessible and available to America's private landowners and other partners.

Fiscal Year (FY) 2002 to FY 2005 Accomplishments

The past 4 years have been a productive time for NRCS, our partners, and landowners across America. In FY 2005 alone, we assisted landowners in establishing conservation systems on over 36 million acres of cropland and grazing land, and applying over 4,500 Comprehensive Nutrient Management Plans (CNMPs). This brings the total CNMPs applied with NRCS support, since 2002, to more than 14,000. In addition, since the 2002 Farm Bill, NRCS and our partners have:

- Conducted a comprehensive study of technical assistance, reaffirming the intrinsic value of science-based tools and activities, including developing conservation plans and encouraging a knowledge-based approach to conservation.
- Established, then expanded nationwide, the Conservation Security Program (CSP) to recognize outstanding land stewards and encourage them to do more.
- Launched the Web Soil Survey to make soils data available "24/7" over the Internet.
- Worked with over 2,100 Technical Service Providers, obligating \$163.5 million from 2003 through 2006, resulting in the equivalent of over 1 million hours through private and non-Federal governmental organizations to attain additional conservation achievements.

NRCS has also been able to focus more dollars on conservation by improving management through a number of strategies and internal changes. We have increased efficiency and effectiveness by:

- Streamlining the contracting and payment processes for the Environmental Quality Incentives Program (EQIP).
- Reducing required paperwork for customers through a common computer system in USDA Service Centers.
- Implementing national priorities across programs and increasing transparency for our customers.
- Establishing a single, centralized Web authentication service.
- Restructuring our program offices to manage cost-share programs in one unit and easement programs in another.
- Expanding outreach and modifying program rules to better reach underserved farmers and ranchers—including tribes, beginning and limited resource farmers, and others who have not traditionally participated in conservation programs.
- Developing software tools to provide natural resource information and make map development easier, including an automated conservation planning (Toolkit), and to track conservation program applications and contracts (ProTracts).
- Nearing completion of work on an automated application evaluation and ranking tool for all cost-share programs.
- Establishing a process for rapid watershed assessment to provide initial estimates of where conservation investments can best address resource concerns.

- Creating a transparent allocations process using resource base and resource concern factors to allocate funds to States.
- Instituting programmatic reforms such as a pilot sign-up process for conservation planning assistance, and establishing common easement provisions, where possible.
- Developing a forward-reaching human capital strategic plan to ensure that NRCS remains responsive and efficient in delivering its programs to farmers, ranchers, and other stakeholders.

We are particularly proud of the management improvements we have made and the difference these changes are making—both for our employees, and farmers and ranchers.

Access and Accountability

At NRCS, one of our core principles is transparency. We want our customers, our partners—and most importantly Congress—to understand exactly what we are doing and why. To be more accountable and accessible, we have turned to the Internet to both provide conservation data and to make our internal processes more easily understood. We have taken steps to make items such as our program allocation, participation, and performance data much clearer.

All of this information can be found on our NRCS Web site (www.nrcs.usda.gov). We have worked to foster healthy competition and reward performance, both in our internal functions and also in contracting and cooperative agreements with organizations and agencies.

The NRCS award-winning accountability system helps track long-term, annual, and efficiency measures that have been established for each program. The time and progress toward meeting these goals is tracked. In addition, oversight and evaluation studies, as well as customer satisfaction surveys, have identified needed improvements that have led to streamlining and efficiency gains.

Whatever we do, our goal is always to provide the best and most effective and efficient service to producers at the local level and to make NRCS more customer-friendly and accessible.

Technology Advances

One of the core themes that I have stressed is the need to be lean and local. Throughout the implementation of the Farm Bill, we have worked hard to provide as much decision-making flexibility to the local level as possible. In addition, we have developed streamlined business processes to improve use of valuable staff resources. The 2002 Farm Bill posed many implementation challenges and required our Agency to work more efficiently, and I believe we have been successful in meeting these challenges.

One of the most important investments we can make today to improve efficiency is to develop new and improved technical tools for use by our staff, Technical Service Providers, our partners, and the general public. In concert with the rollout of the 2002 Farm Bill, we launched the Electronic Field Office Technical Guide (eFOTG). The eFOTG is the primary reference for NRCS operations at the field level, and provides conservation information and scientific and technological resources on the Web (<http://www.nrcs.usda.gov/technical/efotg/>) in an easy-to-use format. The eFOTG used in each field office is localized so that its contents apply specifically to the geographic area for which it was prepared. This dynamic document is designed to evolve to incorporate new research and information on-the-ground experience. It represents the best science and technology in the conservation of our Nation's private lands natural resources and is now utilized by conservation professionals beyond NRCS employees.

The eFOTG is linked to 8,000 NRCS Web pages and external sites. Content includes data in technical handbooks and manuals, scientific tools that help generate conservation alternatives, conservation practice standards, conservation effects case study reports, and other electronic tools for evaluating the effects and outcomes of conservation technical assistance. In total, the eFOTG has made our information more accessible, and supports the President's Management Agenda for E-Government.

Emphasis on Energy

One of the issues facing many farmers today is the high cost of fuel, fertilizer and other energy-related inputs. In early December 2005, Secretary Johanns announced the USDA Energy Strategy, which is a concerted effort to look at both reducing demand for oil and natural gas and increasing supply through bio-fuels and renewable energy.

To assist in this effort, NRCS has developed the "three-click" Energy Estimator Tools. The first tool is a Tillage Estimator, which helps farmers and ranchers determine how much they could save by switching from conventional tillage to no-till or another reduced tillage system.

We also released a Nitrogen Estimator Tool. Farmers can use this tool to better estimate how much nitrogen they are applying on the ground in order to better manage and minimize the amount of fertilizer applied for economically optimum yields. A large part of fertilizer costs relate to energy; this tool can help result in a net savings for farmers and ranchers that apply the technology.

Beyond these two tools, the Agency released an Irrigation Estimator Tool to help show water savings garnered by switching to less intensive water conservation practices. This tool is a Web-based calculator tool that enables producers to enter various criteria factors and then receive an analysis of current water use, the reduced water use associated with various treatment options, as well as the energy costs and savings of these treatment options. The analysis also identifies potential energy savings that can result from carrying out the recommendations of a pump plant evaluation.

Web Based Soil Survey

One of the fundamental building blocks of conservation is knowledge. We know that farmers, ranchers, contractors, and homeowners need sound data about the land where they live. In continued efforts to make conservation data as transparent and available as possible, we launched a Web Soil Survey (<http://websoilsurvey.nrcs.usda.gov/app/>) to make soils data available upon demand through the Internet. Soil survey maps and related information are available online for more than 95 percent of the Nation's counties. Through this technology, we have distributed more soil survey information to more customers in the last year than we could do with printing and distribution in the last 5 years.

As we move forward in FY 2006, there is some innovative technology that can help farmers and ranchers realize even bigger economic and environmental gains in their conservation efforts. We look forward to building upon the technology foundation achieved since the 2002 Farm Bill to implement even more cost-effective voluntary conservation on America's private lands.

Increasing Third-Party Technical Assistance

With the historic increase in conservation funding made available by the 2002 Farm Bill, NRCS is relying upon non-Federal partners and private Technical Service Providers (TSPs) to help supply the technical assistance needed to plan and oversee the installation of conservation practices. I am proud to report that, at the end of June 2006, NRCS had over 2,100 individuals certified as TSPs, with an additional 150 individual applications pending, and NRCS has certified just over 200 businesses as TSPs, with more applications in process. From FY 2003 through the end of FY 2006, NRCS expects to invest \$163.5 million in services provided by TSPs. We are excited about the additional assistance provided by TSPs that will complement our expertise and increase our capacity to deliver services.

Engineering services provided by TSPs gives us greater flexibility to add expertise when budgets expand—and to more easily cut back without having to eliminate critical positions when budgets contract. In addition, TSPs have been particularly helpful in developing comprehensive nutrient management plans, conducting appraisals for conservation easements, and addressing cultural resource issues—areas where our in-house capabilities have been limited.

NRCS developed an Internet-based system for approving individuals and entities to provide technical services called TechReg. Individuals and entities may register in TechReg and become certified to provide specific categories of technical services. Once certified, the individuals are included on the approved list of TSPs. Landowners and producers can locate TSPs certified in their State and county from the TechReg Web site (<http://techreg.usda.gov/>) to help them meet their conservation goals.

NRCS has reached out aggressively to establish formal relationships through Memoranda of Understanding with 14 key organizations. The goal is to forge a partnership and cooperate on providing increased technical services to landowners participating in NRCS programs. Some of these groups include the American Society of Agronomy, the Certified Professionals in Erosion and Sediment Control, Inc., the Society for Range Management, the American Forage and Grassland Council, the Wildlife Society, the American Fisheries Society, the Association of Consulting Foresters, the American Registry of Professional Animal Scientists, Iowa State University, University of Tennessee, the Irrigation Association, Validus (formerly known as Environmental Management Systems, LLC), the National Alliance of Independent Crop Consultants, and the Society of American Foresters.

We are excited about this partnership and the prospect of TSP expertise continuing to complement our ongoing work.

Streamlining and Cost Savings

NRCS has devoted considerable effort to streamline our operations, becoming more efficient in delivering our core work. Since the 2002 Farm Bill, NRCS:

- Reviewed and revised 95 of the National Conservation Practice Standards, and is currently updating an additional 32;
- Streamlined program delivery, resulting in reduced costs without compromising quality;
- Improved program accounting systems to better identify and control costs; and
- Upgraded the Customer Service Toolkit, the Agency's automated conservation planning software, to increase functionality and improve product quality for our clients.

Mr. Chairman, we are not finished yet. We have formed a task force to identify and implement additional streamlining efforts and held a national workshop to develop additional efficiency and money-saving strategies last week. NRCS also has established specific efficiency measures for each of its conservation programs, each of which establishes a baseline and target for improving program efficiency. We will continue streamlining and getting more efficient in working with our partners as well.

Farm Bill Technical Assistance Cost Savings

The streamlining and efficiencies NRCS has gained mean that even more conservation funding can be utilized for financial assistance to producers.

NRCS worked closely with the Farm Service Agency (FSA) to develop Conservation Reserve Program (CRP) efficiencies and streamlining for technical assistance resulting in a 6.4 percent reduction in TA cost for general sign-ups, 52 percent for re-enrollments, and 29 percent for forestry practices.

This accomplishment is part of ongoing cooperative efforts with FSA to identify better ways of doing business for programs like CRP, including moving from Agency certification of all practice installations to a 10 percent sample, with the other 90 percent self-certified by the producer.

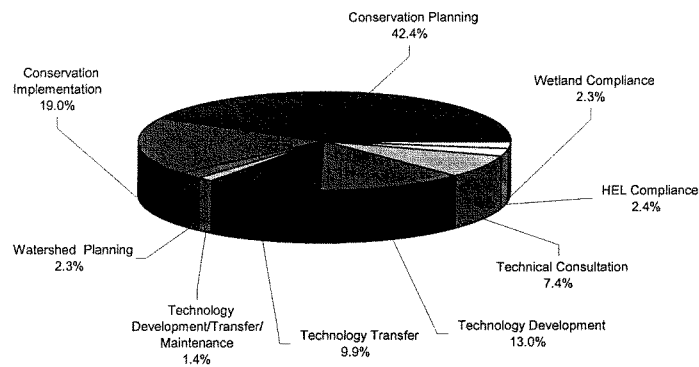
The Conservation Technical Assistance Program

The Conservation Technical Assistance (CTA) Program provides direct conservation planning and implementation assistance, which includes the infrastructure and technical capability to assist program participants and to apply conservation on the land. This assistance is provided to individuals, groups, communities, state, and local units of government, who make natural resource management decisions on private, tribal, and other non-Federal lands. In addition, funds from CTA also support many other priority activities including the following:

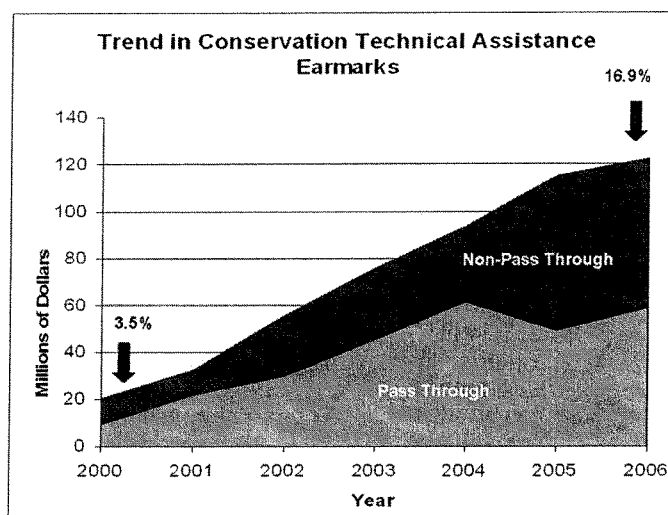
- The initial planning and resource information used by landowners to access all conservation programs;
- Technology development and transfer and maintenance of the NRCS Web-based electronic Field Office Technical Guide (e-FOTG), which supports all NRCS programs;
- Rapid Watershed Assessments and watershed and area-wide planning;
- Grazing Land Conservation Initiative;
- Natural Resources Inventory (NRI); and
- Highly Erodible Lands (HEL) Conservation and Wetlands Conservation Compliance responsibilities.

The CTA Program covers the largest share of staffing costs of any NRCS program and supported 61 percent of total NRCS personnel costs in 2005. Within CTA, conservation planning provides the platform for the delivery of all conservation programs including Farm Bill programs. Conservation planning provides the opportunity for program participants, working with NRCS field staff, to assess the resource needs on their property and identify appropriate programs to address those needs. The planning process also allows landowners the opportunity to align the objectives for their operation with the purposes and objectives of the various conservation programs available. The Agency's conservation planning process addresses each of the resource needs and seamlessly ensures that the planned actions are consistent with statutory requirements, such as the National Environmental Policy Act.

**FY 2005 Conservation Technical Assistance (CTA)
Time Allocation By Activity
(Source: NRCS Conservation Information System)**



The CTA Program also contains Congressional earmarks. In CTA, congressional earmarks increased over 6-fold between 2000 and 2006, from \$20.3 million in 2000 to \$122.3 million in 2006.



Mr. Chairman, I am pleased to report that in FY 2005, NRCS developed and implemented our first comprehensive CTA Program policy. The policy improves transparency and clarifies the program's mission, objectives and goals in an era of increased accountability. This year, as part of the new CTA policy, NRCS instituted a resource-based allocation process for the CTA Program to ensure that dollars and efforts go where the conservation needs are greatest. This new methodology, which is being phased in, will provide a more transparent allocation that addresses the natural resource issues of greatest priority. The new allocation formula also aligns the new CTA policy with national priorities, and integrates program performance measures that were developed in the Administration's Program Assessment Rating Tool (PART) process.

The Agency is currently seeking an independent analysis of internal funding formulas used for funding its conservation programs. This objective evaluation is being sought to continue improving Agency business processes for more effective and efficient implementation of conservation programs. This analysis will provide a comprehensive evaluation of each program allocation formula and will assess how allocation formulas relate to programmatic efficiency and annual/long-term performance measures.

In addition, this year, nine states participated in NRCS' first conservation planning sign-up. This is a pilot initiative that emphasizes the importance of conservation planning to help producers be better prepared to apply for and implement conservation programs and to comply with Federal, State, tribal and local governmental regulations. The sign-up enabled landowners to plan more realistically to implement practices and apply for conservation programs as part of a more comprehensive approach to land management and resource stewardship.

All of these improvements will ensure that the most pressing conservation needs on America's private lands are addressed and will help NRCS meet its Strategic Planning objectives and improve accountability.

CONSERVATION PROGRAMS

I want to report to you specifically on our accomplishments under each of the Farm Bill conservation programs.

Portfolio of Working Lands Conservation Programs

Environmental Quality Incentives Program (EQIP). EQIP was re-authorized by Section 2301 of the 2002 Farm Bill.

EQIP provides flexible technical and financial assistance to landowners that face serious natural resource challenges on working lands that impact soil, water, and other natural resource concerns related to cropland, grazing lands, wetlands, and wildlife habitat. In addition, energy conservation is considered an appropriate use of EQIP funds.

The 2002 Farm Bill made several changes to expand EQIP and to streamline and improve its efficiency. A few of the changes include:

- Reducing the minimum length of a contract from 5 years to 1 year after installation of the last practice;
- Allowing cost-share rates of up to 75 percent and 90 percent for limited resource and beginning farmers or ranchers. NRCS has stretched the Federal conservation dollar further by prioritizing cost-share rates for EQIP practices. The average Federal cost-share rate in FY 2002 was 72 percent; in FY 2005 the average Federal cost share rate is 60 percent;
- Removing the provision prohibiting a producer from receiving cost share for an animal waste management facility on an animal operation with more than 1,000 animal units;
- Removing language requiring targeting funds to Conservation Priority Areas;
- Allowing payments to be made in the first year of the contract;
- Eliminating competitive bidding by applicants;
- Revising the purpose from "maximize environmental benefits per dollar expended" to "optimize environmental benefits" by improving the equity of our ranking process for application from limited resource producers and small farm owners; and
- Changing the maximum payment limitation from \$50,000 per person per contract to \$450,000 per individual or entity for all contracts entered into in fiscal years 2002 through 2007. The average EQIP contract obligation has been slightly less than \$16,000 for all 2002 Farm Bill contracts. Typically 99 percent of all EQIP

contracts under the 2002 Farm Bill have been less than \$150,000 with about 60 percent less than \$10,000.

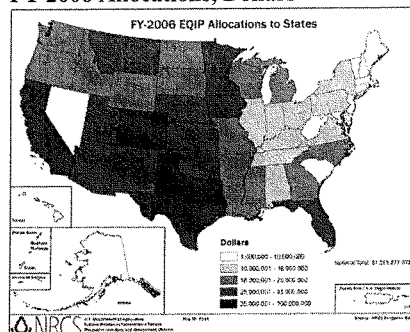
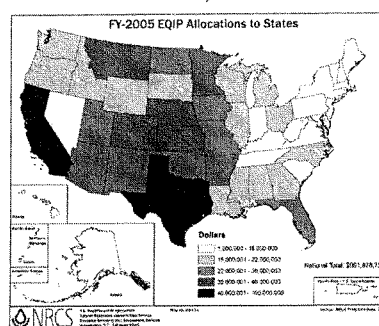
In a further effort to make the program more effective and efficient, the Department also initiated several streamlining changes, including:

- Eliminating the program's dual administration by changing Farm Service Agency (FSA) participation from concurrence to consultation;
- Reducing the planning requirements needed to develop the contract;
- Reducing the average length of the contract from the 1996 Farm Bill average of 7 to 8 years, to the 2002 Farm Bill contracts averaging 3 to 4 years in length;
- Allowing producers to have more than one contract per tract at any given time;
- An application ranking criterion that places added weight on conservation practices and program contracts that assist producers to comply with Federal and State regulations;
- Accelerating application of contracts by taking the following action: implementing an energy initiative to encourage FY 2004 and prior-year contract completion this year. Since March 1, 2005, \$2.7 million has been paid under this initiative; implementing the Conservation Completion Initiative (incentive payment) for FY 2006 contracts to encourage contract completion during the first 3 years;
- Increasing early completion rate. Contracts obligated during FY 2004 and FY 2005 averaged 87 percent of the practice completion scheduled within the first 3 years; and
- Obligating the funds earlier in the fiscal year. In FY 2006, 95 percent of the funds were obligated by June 1, 2006. This obligation threshold was not achieved until September for FY 2005 funding.

I am proud to say that this summer our field staffs are just that— in the field. All of our program signups, rules, and decisions are done. This summer is about implementation.

Benefits

The increased funding for EQIP in the 2002 Farm Bill greatly expanded program availability for optimizing environmental benefits. Including funding obligated in FY 2002 through FY 2006, totaling almost \$3.1 billion, EQIP will benefit close to 185,000 participants. In addition, EQIP leverages additional funding from landowner match requirements on individual practices ranging from 10 percent for limited resource farmers, to 75 percent, and State and local cost-share programs.

FY 2006 Allocations, Dollars**FY 2005, Allocations**

EQIP participation with American Indians, Alaska Natives and Indian tribes has increased from \$6.8 million in FY 2002 to almost \$20 million in FY 2005.

Producer demand continues to be high for EQIP assistance. NRCS has been able to significantly address the unfunded list of producers requesting assistance through EQIP since the passage of the 2002 Farm Bill. In FY 2002, the Agency was able to fund one in every five requests for contracts; in FY 2005, we funded one in every two requests for a total of 49,406 producers receiving a contract through this program.

We believe that the increased program flexibility and improved program features will continue to make EQIP one of the most popular and effective conservation efforts Federal Government-wide.

Ground and Surface Water Conservation (GSWC). GSWC is authorized by Section 1240I of the Food Security Act of 1985, as added by Section 2301 of the 2002 Farm Bill. GSWC promotes ground and surface water conservation by providing cost-share and incentive payments to producers to carry out eligible water conservation activities related to agricultural production.

NRCS is working closely with landowners on practices and projects aimed to increase irrigation efficiency, and achieve net reductions in water use. Through the Ground and Surface Water Conservation (GSWC) component of the Environmental Quality Incentives Program, NRCS has provided more than \$150 million in financial and technical assistance.

Activities under the GSWC program include improving irrigation systems, enhancing irrigation efficiencies, converting to the production of less water-intensive agricultural commodities, converting to dryland farming, improving the storage of water through such measures as water banking and groundwater recharge, and mitigating the effects of

drought. Projects must result in a net savings of groundwater or surface water resources in the agricultural operation of the producer.

Since GSWC was authorized in 2002, NRCS has entered into over 9,750 contracts, enrolled more than 1.5 million acres into the program to help producers conserve ground and surface water resources. An additional \$49 million in GSWC funding has been obligated in FY 2006 nationwide in 1,951 contracts.

Klamath Basin Funding. The 2002 Farm Bill authorized \$50 million to carry out water conservation activities in the Klamath Basin in Oregon and California to help producers establish conservation measures leading to an on-farm net savings in ground or surface water resources.

Since the passage of the Farm Bill, NRCS has allocated over \$43.6 million in financial assistance in the Klamath Basin through FY 2006. More than 2,800 local landowners received Farm Bill assistance under this effort through the end of FY 2005. This funding, and the technical assistance provided, addressed natural resource concerns on over 84,000 acres in the Basin. With proper irrigation management and application, landowners have been able to lower their on-farm water use by 24,000 acre-feet. Converting from flood systems to more efficient irrigation systems can typically result in an average of 30 percent on-farm savings.

Mr. Chairman, the Klamath Basin represents a challenging situation, as farmers are faced with the need to conserve water use and still farm in an environmentally friendly and cost-effective manner. We believe our work in this area showcases how rural landowners can rise to the challenge of addressing limited water availability while meeting environmental objectives.

Conservation Security Program (CSP). CSP, authorized by the 2002 Farm Bill, provides payments to producers who practice good stewardship on their agricultural lands and incentives for those who want to do more. The program is voluntary and provides financial and technical assistance for the conservation, protection, and improvement of natural resources on tribal and private working lands.

In its first 3 years, CSP has generated much interest with our Nation's producers. The first CSP sign-up was held in July 2004, in 18 priority watersheds within 22 States. In 2005 and 2006, CSP was expanded and implemented in a total of 280 watersheds nationwide, including watersheds in every State, Puerto Rico and Guam. Including the most recent sign-up, CSP has invested in the operation of nearly 19,200 stewards on 14.6 million acres of working agricultural land with annual payments that average about \$11,000 but range from less than \$500 to \$45,000.



Through the CSP enhancement provisions and the application of intensive management measures, producers are achieving even greater environmental performance and additional benefits for society. Several new conservation activities will enable producers to further enhance their operation and the natural resources. For example, the energy component of CSP is rewarding farmers and ranchers for converting to renewable energy fuels such as soy bio-diesel and ethanol. Because CSP enhancements go beyond the minimum requirements, innovative producers are pushing conservation technology to produce even greater conservation benefits.

The President's FY 2007 budget requests \$342.2 million for CSP, which includes an increase of \$83 million to continue expanding the program and rewarding excellent conservation stewards.

NRCS intends to offer the program each year, on a rotational basis, in as many watersheds as funding allows. Most working agricultural land is eligible for CSP. Producers on cropland, orchards, vineyards, pasture and range may apply for the program, regardless of size, type of operation, or crops produced. Our data show that CSP touches all sectors of agriculture from livestock operations to cropland, from orchards, vineyards and truck crops to sugar beets and cranberries.

The CSP sign-up was offered this year from February 13th to March 31st in 60 priority watersheds nationally. Nearly 4,400 applications were approved based on the available funding. These contracts, mostly in Tier III, the highest level of conservation stewardship, represent more than 75,000 farms and ranches covering over 25 million

acres of cropland and grazing lands. During the sign-up, over 8,570 CSP applicants completed their interviews resulting in 7,548 eligible applicants for about \$99.2 million. Enrollment data show that approximately 24 percent of the land in those watersheds was signed up for CSP. This response indicates that some of the best conservationists are willing to do even more conservation through CSP. Environmental enhancement activities offered by applicants include improving soil quality, water quality, wildlife habitat management, nutrient and pest management, air quality management and on-farm energy management.

The CSP self-assessment and the new water quality tool helped producers identify whether their agricultural operation met sign-up requirements. Producers who were not eligible learned of other programs available to assist in achieving the high level of conservation necessary to qualify for CSP in the future.

The Government Accounting Office (GAO) recently did a thorough review of the implementation of CSP, specifically for the 2004 and 2005 CSP sign-ups. GAO was asked to determine: (1) why the Congressional Budget Office (CBO) and Office of Management and Budget (OMB) cost estimates for CSP generally increased over time; (2) what authority USDA has to control CSP costs and what cost-control measures are in place; and (3) what legislative and regulatory measures exist to prevent duplicative payments between CSP and other USDA conservation programs.

GAO was able to produce a timeline of CBO and OMB 10-year estimates of CSP costs that resulted from the seven legislative actions on the CSP statute since its enactment 4 years ago. In order to operate the program, NRCS had to implement CSP in a flexible approach using watersheds, enrollment categories, sign-up periods, and self-assessment processes in order to quickly adapt to continued congressional funding changes.

Regarding program financial management, NRCS has implemented a number of CSP measures to prioritize program spending primarily by delivering the program in priority watersheds, targeting enrollment to include good conservation stewards, and concentrating payments on conservation enhancement activities that generate additional resource benefits. Additionally, NRCS has instituted several internal control mechanisms since the audit was complete. Automation of producer eligibility and checking for potentially duplicative payments has been completed and tested in the FY 2006 sign-up. NRCS has added staff to our data warehouse in Ft. Collins to assist States with quality control and technical questions. Direction to field employees regarding compliance reviews has been transmitted and those reviews are currently underway. The CSP manual has been updated to streamline the process of contract administration to conform to the other financial assistance programs and to clarify the State Conservationist's authority to make decisions regarding wildlife habitat criteria for CSP.

I am proud of the implementation of CSP to date and I believe that the 19,200 contract holders are pleased as well; but there is definitely more to do.

Wildlife Habitat Incentives Program (WHIP). WHIP was re-authorized by Section 2502 of the 2002 Farm Bill. The program continues to develop habitat for upland wildlife, wetlands wildlife, threatened and endangered species, fish, and other wildlife.

Under WHIP, NRCS provides technical and financial assistance to landowners to improve wildlife habitat conditions on their property. NRCS enters into five- to 10-year cost-share agreements with landowners, providing up to 75 percent of the funds needed to implement wildlife habitat development practices. NRCS also can enter into less than 1-year wildlife emergency agreements in cases where a wildlife habitat is modified as a result of a catastrophic, natural, or man-made event to help landowners address the potential for dramatic declines in one or more wildlife populations.

The 2002 Act also authorizes NRCS to provide additional cost-share assistance to landowners who enter into 15-year agreements to develop essential plant and animal habitat.

Since passage of the 2002 Farm Bill, NRCS has utilized more than \$165 million in financial and technical assistance to enroll nearly 9,500 agreements on over 1.4 million acres. NRCS reimbursed participants approximately \$8,800 for each long-term agreement. The average agreement covers 148 acres. Originally authorized by Section 387 of the 1996 Farm Bill, since launching the program in 1998 a total of 23,100 agreements have been signed covering more than 3.3 million acres. In FY 2006, NRCS has allocated \$43 million in financial and technical assistance to WHIP contracts with landowners.

WHIP is effective in serving landowners who want to help provide habitat for species in decline. Of all the cost-share programs WHIP has the lowest backlog numbers. NRCS is working with landowners and partners to assist with habitat development projects for the Ivory-billed woodpecker, sage grouse, salmon, bog turtle, red-cockaded woodpecker, Klamath Basin Lost-River sucker, pacific salmon, and northern bobwhite quail.

Agricultural Management Assistance (AMA) Program. AMA provides financial assistance to producers to construct or improve water management or irrigation structures, plant trees for windbreaks, or improve water quality. The program also offers financial assistance to mitigate crop failure risks through diversification or resource conservation practices.

The 2002 Farm Bill provides \$20 million annually for financial assistance in 15 States, in which participation in the Federal Crop Insurance Program is historically low as determined by the Secretary. The 15 States designated by the Farm Bill to participate in the program are Connecticut, Delaware, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

NRCS implemented 2,682 contracts on 466,800 acres with \$33.2 million obligated for implementing conservation practices in FY 2001 through FY 2006. In FY 2006, \$5 million is available for AMA.

Competitive Grant Programs

NRCS first added competitive grant programs to its portfolio of conservation programs in FY 2004. Grant programs, such as Conservation Innovation Grants (CIG), can create new and innovative partnerships extending beyond the individual farm, bringing additional matching resources to the table, to foster the growth of innovative technologies and approaches to voluntary private lands conservation. NRCS is now in its third year of awarding competitive grants; and by the close of FY 2006, we will have awarded grants totaling approximately \$90 million to over 400 individuals, tribes, non-governmental organizations, and State agencies. This NRCS funding is matched by the grant recipients, who bring an even greater financial contribution to the conservation table since the grants require matching funds of at least 50 percent.

These new competitive grant programs are carried out under both Farm Bill and discretionary program authorities. Under the 2002 Farm Bill authorities, NRCS delivers the Environmental Quality Incentives Programs' Conservation Innovation Grants and the Wetlands Reserve Program's Enhancement Grants. Under the discretionary Conservation Technical Assistance Program authority, NRCS delivers Cooperative Conservation Partnership Initiative Grants and Grazing Land Conservation Initiative Invasive Species Control Grants. As a suite of programs, these grants accomplish such conservation objectives as proving the economical and practical application of new technologies and approaches to conservation; creating partnership efforts to plan for and address natural resources concerns on a watershed basis; accelerating wetlands creation, protection, and restoration; and, helping to focus increased attention on controlling invasive species in grazing land situations--among other high-priority natural resource concerns and conservation opportunities.

Additionally, we expect to transfer the lessons learned to broader audiences and institutionalize the successful results in other programs. Without question, these grants have and will continue to accelerate NRCS' efforts to expand partnerships and bring diverse interests to the table to foster sound, voluntary private lands conservation.

Portfolio of Easement Programs

During the period FY 2002 through 2005, NRCS enrolled 748,337 acres in WRP, 449,177 acres in FRPP and 379,498 acres in GRP easements, for a total acreage enrollment in conservation easement programs of over 1.6 million acres.

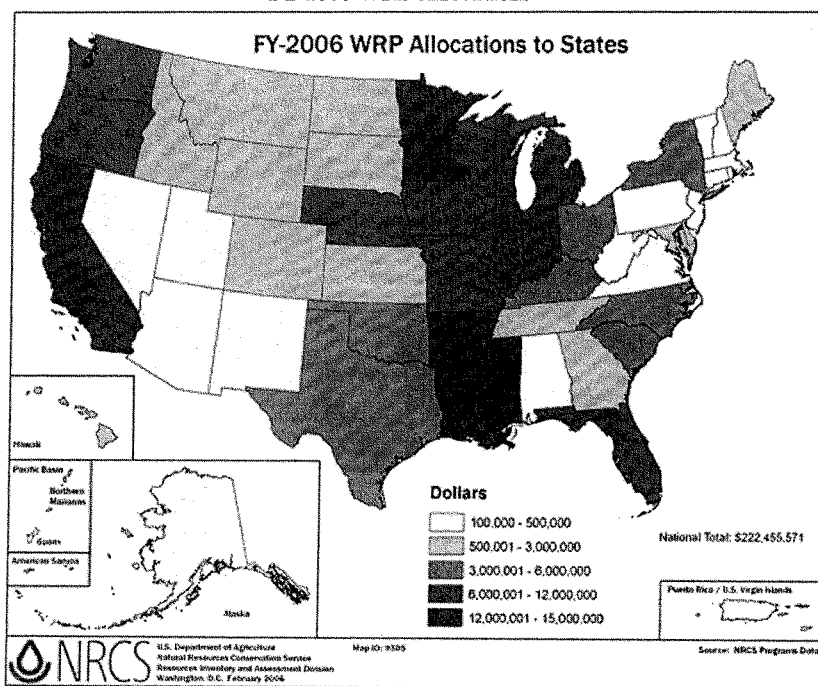
Wetlands Reserve Program (WRP). WRP is a voluntary program offering landowners the opportunity to protect, restore, and enhance wetlands on their property. NRCS provides technical and financial support to help landowners with their wetland restoration efforts to retire eligible agricultural lands with a long-term or permanent easement.

Landowners receive an easement payment based on the lands' fair market value, less the residual value of the land after it is encumbered by an easement. The 2002 Farm Bill increased the program enrollment cap to 2,275,000 acres.

To leverage NRCS program delivery costs, NRCS initiated the Wetlands Reserve Enhancement Program (WREP) in FY 2004. The objectives of WREP are the same as WRP; however, the purpose of WREP is to stimulate the development of partnerships that lower the NRCS' technical assistance costs by requiring the cooperating entity to provide at least 50 percent of the technical assistance costs. In FY 2005 and FY 2006, NRCS awarded \$24 million to 13 separate partnerships in 12 States through WREP.

At the end of FY 2005, WRP had a total enrollment level of 1,743,671 acres on 9,226 projects. Approximately 80 percent of these acres are subject to permanent easement; 14 percent are 30-year easements; and 6 percent are restoration cost-share agreements.

FY 2006 WRP Allocations



On April 22, 2004, USDA announced that farmers and ranchers had produced an estimated gain of 131,400 acres of wetlands from 1997 through 2002 according to the National Resources Inventory (NRI).

The NRI reports changes in the Nation's private-land use. The greatest wetland gains occurred in the Corn Belt and Delta States where farmers and ranchers have created, maintained or enhanced numerous wetlands through conservation programs such as the Wetlands Reserve Program and Conservation Reserve Program.

WRP also is the principal USDA program to help meet the President's Wetlands Initiative goal to create, restore, enhance, and protect 3 million acres of wetlands by 2009. The President's 2007 budget proposes \$403 million for WRP, an increase of \$153 million over the 2006 level. This will enable an annual enrollment of 250,000 acres; an increase of 100,000 acres over FY 2006, and will bring total cumulative enrollment to 2,143,671 acres.

NRCS also recently announced the availability of \$10 million for a WRP reverse auction initiative to identify more effective and efficient methods of reducing the cost of WRP easement acquisition. The sign up for this program will run through July 28, 2006, and is being offered to eligible landowners in select counties of Delaware, Georgia, Kentucky, Missouri, Idaho, California, and Colorado.

WRP is a great way to provide incentives to landowners to contribute to the increase of wetlands in America. Wetlands protect water quality by filtering out pollutants, recharging groundwater, absorbing excess water for natural flood control, buffer coastal areas from erosion, supporting waterfowl and fish, and offering recreational areas and scenic beauty.

Grassland Reserve Program (GRP). New in the 2002 Farm Bill, GRP assists landowners in restoring and protecting grassland by enrolling up to 2 million acres under easement or long-term rental agreements. Program participants can also enroll in restoration agreements to restore the functions and values of grassland. The 2002 Farm Bill authorized \$254 million for implementation of this program during the period 2003 through 2007. This program is administered in cooperation with the Farm Service Agency (FSA).

In fiscal years 2003 through 2005, \$178.5 million in financial assistance was allocated. Through fiscal year 2005, 3,003 landowners enrolled 909,000 acres in both rental and easement agreements. Approximately 380,000 acres were enrolled in easement projects, and 529,000 acres were enrolled as rental agreements.

In fiscal year 2004, NRCS provided \$2 million in GRP financial assistance to four western States for Greater Sage Grouse conservation and recovery on lands identified by State wildlife agencies as containing critical sage grouse habitat. The funds supported GRP easements on private lands in Colorado, Idaho, Utah and Washington, with technical assistance and additional financial assistance provided by State and local

partnerships. For example, in St. Anthony, Idaho, ranchers have learned ways to improve grazing operations while balancing wildlife habitat, and in Olympia, Washington, more than 200 acres of historic prairie land is being preserved. In FY 2005 and FY 2006, NRCS has devoted \$1 million each year of GRP funds for continued support of the sage grouse's recovery.

Mr. Chairman, this program is one of the most highly demanded programs we have to date. Ranching families in America are excited about this program and eager to participate. We are excited about the future opportunity this program represents.

Farm and Ranch Lands Protection Program (FRPP). Section 2503 of the 2002 Farm Bill re-authorized the Farm and Ranch Lands Protection Program, and placed it within Title XII of the Food Security Act of 1985.

Through the FRPP, the Federal Government establishes partnerships with State, local or tribal government entities or nonprofit organizations to share the costs of acquiring conservation easements or other interests to limit conversion of agricultural lands to non-agricultural uses. FRPP acquires perpetual conservation easements on a voluntary basis on lands with prime, unique, or other productive soil or that contains historical or archaeological resources. FRPP provides matching funds of no more than 50 percent of the purchase price for the acquired easements.

Prior to the 2002 Farm Bill, NRCS protected 540 farms covering 113,700 acres with \$53 million. Since the 2002 Farm Bill, FRPP has enrolled nearly 449,177 acres.

Healthy Forests Reserve Program (HFRP). While not authorized in the Farm Bill, the HFRP was created by Congress with the enactment of the Healthy Forests Restoration Act of 2003, and has the potential to become an integral part of conservation efforts on private forest lands. HFRP is a voluntary program established to restore and enhance forest ecosystems to: 1) promote the recovery of threatened and endangered species; 2) improve biodiversity; and 3) enhance carbon sequestration.

The program is authorized through 2008. Restoring and protecting forests contributes positively to the economy of our Nation, provides biodiversity of plant and animal populations, and improves environmental quality. HFRP includes a safe harbor provision for landowners who enroll and agree, for a specified period, to restore or improve their land for threatened or endangered species habitat. In exchange, they avoid future regulatory restrictions on the use of that land protected under the Endangered Species Act.

On May 18, 2006, NRCS announced the availability of \$2.3 million for the HFRP in selected forest ecosystems. In FY 2006, HFRP will focus on habitat recovery for the endangered red-cockaded woodpecker in the Lower Ouachita River Flatwood region of Arkansas, the Canada lynx in the northern boreal forest of Maine, and the gopher tortoise in the longleaf pine ecosystem along the Gulf Coast in Mississippi. The work in the Lower Ouachita River area will also benefit the rare Ivory-billed woodpecker.

Easement Monitoring. With these easement programs, NRCS has and will be acquiring a large portfolio of easements that we must manage, enforce and monitor on behalf of the Federal Government. NRCS currently has approximately 10,000 existing easements to manage, monitor, and enforce. At the current level of participation, this number could increase, annually, by 1,500. NRCS is developing plans for an easement monitoring strategy. This effort will involve the testing of remote sensing techniques for our monitoring and enforcement activities to determine if they are more efficient and effective than annual field visits.

Additional Conservation Features

Aside from the core conservation programs, the 2002 Farm Bill included additional legislative language that makes important conservation contributions.

Resource Conservation and Development (RC&D) Program. The 2002 Farm Bill provided permanent authorization for the RC&D program and required the Secretary, in consultation with RC&D councils, to evaluate if the program was effectively meeting the needs of States, units of government, Indian tribes, non-profit organizations, and councils. The Secretary recently submitted the report and his recommendations to improve the program. Overall, the program has been successful in establishing locally led conservation and economic development efforts and developing effective community leadership. Participants in the evaluation said the major contributions of the program are establishing area plans. They valued the Federal non-profit status of councils and perceived the Federal coordinator, public participation and program flexibility as key factors to the success of the program. NRCS expects the program will continue to incorporate emerging concerns such as ecosystem services, biomass energy production and innovative conservation technology into local council area plans and projects. The President's FY 2007 budget proposes to reduce funding for the RC&D program and consolidate the number of RC&D coordinator positions. The reduction in funding for the RC&D program will require that it be more focused on multi-county/parish planning, intergovernmental relations, and improving efficiencies. NRCS has 37 applications on-hand requesting designation of new RC&D areas.

Watershed Rehabilitation Program. One of the Agency's strategic goals is to reduce risks from drought and flooding in order to protect community health and safety. A tool in meeting this goal is providing financial and technical assistance to communities and implementing high-priority watershed rehabilitation projects to address dam safety. The Watershed Rehabilitation Program is authorized under section 14 of the Watershed Protection and Flood Prevention Act, approved August 4, 1954, as added by section 313 of Public Law 106-472, November 9, 2000.

This program assists communities in addressing public health and safety concerns and environmental impacts of aging dams. Rehabilitation may also provide new benefits to communities, such as additional municipal and irrigation water supplies, recreation, and wetland and wildlife enhancement.

To date, almost \$130 million has been appropriated for watershed rehabilitation in fiscal years 2002 through 2006. Considerable progress has been made in a very short time since this new authorization was provided and funded. NRCS has worked with communities to identify dams that are nearing the end of the designed lifespan and need rehabilitation not only to ensure that the dams are safe and protect the people and infrastructure of the community, but also so they continue to provide flood control and recreation for another 50 to 100 years.

Plans have been authorized for rehabilitating 103 dams. The 47 dams that have been rehabilitated to date have reduced the risks to downstream living and maintained \$3 million in average annual flood damage reduction.

Regional Equity. The 2002 Farm Bill gives priority to States that have not received each fiscal year, an aggregate amount of at least \$12 million under the Environmental Quality Incentives Program, including the Ground and Surface Water Conservation Program and the Klamath Basin, the Grassland Reserve Program, and the Farm and Ranch Lands Protection Program.

As a result, for FY 2004, regional equity adjustments of \$67.5 million were allocated to 13 States and the Caribbean Area, including Alaska, Connecticut, Delaware, Hawaii, Maine, Massachusetts, Nevada, New Hampshire, New Jersey, Rhode Island, South Carolina, Vermont, West Virginia, and Puerto Rico.

The Agency has put into place a mechanism to assess and reevaluate excess program funding in the regional equity States should they not be able to obligate all the allocation in the allotted timeframe. As the fiscal year progresses, we can redirect unobligated dollars to States that can utilize the funds by the end of the fiscal year, if needed.

Measuring Success

Mr. Chairman, we have made significant progress in making our funding and allocation formulas more transparent and easily accessible to our customers. Program allocations, contract information, and backlog data are all available in table and map form on our Web site.

But while we have excellent information about our program outputs, we still need better data about the environmental outcomes of our programs.

As a result, starting in 2003, NRCS, in collaboration with other USDA and Federal agencies, initiated the Conservation Effects Assessment Project (CEAP) to scientifically assess the environmental and related outcomes from Farm Bill conservation programs at both the national and watershed scale through 2008.

The national assessment initially focuses on water quality, soil quality, and water conservation benefits from cropland, including the Conservation Reserve Program.

Using the Natural Resources Inventory (NRI), supplemented by farmer surveys and verified by USDA computer models, CEAP will estimate national benefits from conservation practices and programs. In addition, our future plans include estimates for wildlife, grazing lands, and wetlands benefits from conservation activities.

We know that farmers and ranchers are making important gains in conservation on working lands and that is clear because they have installed over 39 million acres of conservation systems applied to cropland, over 80 million acres of conservation systems applied to grazing lands, and 40 million wildlife habitat improved. We are excited to capture these data and more precisely measure the real results we are helping our customers achieve.

Economic Impacts of Conservation Activities

The financial and technical assistance that NRCS delivers to farmers and ranchers to assist them in “putting conservation on the ground,” not only creates clean water, healthy soil, and wildlife habitat, it also creates a positive indirect effect on local rural economies. Although the overall effect is small and varies by region, regional impact analysis modeling estimates that, on average, about \$1.60 to \$1.80 in additional economic activity is produced in rural areas over and above every dollar of NRCS conservation program expenditures. This figure was based on a study done by NRCS and Economic Research Service economists. This kind of economic activity—ranging from businesses supplying conservation-related materials and expertise to businesses supplying other goods and services—helps in rural job retention and help boost rural household incomes.

Our Goals

As we are looking ahead to the next Farm Bill, we have been discussing where conservation on working agricultural lands needs to go in the upcoming years—and even decades—ahead.

I mentioned earlier our mission—helping people help the land—which enables us to reach our ultimate objective: productive lands and a healthy environment.

With input from our customers, stakeholders, and partners, we have recently developed a strategic plan designed to help us move from vision to reality. We have identified six goals—three foundation goals and three venture goals.

Our foundation goals cover traditional NRCS activities: (1) high quality, productive soils; (2) clean and abundant water; and (3) healthy plant and animal communities. Our venture goals focus on emerging resource concerns related to current economic and demographic trends. These include: air quality, an adequate energy supply and working farms and ranch lands.

The plan also identifies three overarching program delivery strategies we will use to address all of these concerns—cooperative conservation, a watershed approach and a market-based approach—as well as strategies specific to each concern.

This plan is a solid blueprint that will drive us forward, under the 2002 Farm Bill and the Farm Bills of the future. At the same time, there is sufficient flexibility in the plan to enable us to adjust to the inevitable changes that will occur—including whatever the next Farm Bill brings—and to recognize local priorities.

Conclusion

As we look ahead, it is clear that the challenge before us will require dedication of all available resources – the skills and expertise of the NRCS staff, the contributions of volunteers, and continued collaboration with partners. Conservation Districts, Resource Conservation and Development Councils, State and local agencies, and other valuable partners continue to make immeasurable contributions to the conservation movement. It is this partnership at the local level that makes a real difference to farmers and ranchers. As we move forward, we will accelerate the use of third-party sources of technical assistance as well. We recognize that the workload posed by future demand for conservation will far outstrip our capacity to deliver, and seek to complement our resources with an appropriate system of qualified expertise.

Conservation programs on working agricultural lands bring environmental benefits to both producers and the public. Conservation thus represents a double value for the taxpayers by supporting sustainable agriculture and also enhancing the environment.

I thank the Chairman and Members of the Subcommittee for the opportunity to appear here today, and for your ongoing support and attention to implementation of the Conservation Provisions of the 2002 Farm Bill. I would be happy to respond to any questions that Members might have.

REVIEW OF FEDERAL FARM POLICY

MONDAY, SEPTEMBER 18, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION, CREDIT,
RURAL DEVELOPMENT, AND RESEARCH,
COMMITTEE ON AGRICULTURE,
El Reno, OK.

The subcommittee met, pursuant to call, at 10:00 a.m., at the Redlands Community College Convention Center, El Reno, OK, Hon. Frank D. Lucas (chairman of the subcommittee) presiding.

Present: Representatives Holden and Goodlatte [ex-officio].

Staff present: Josh Maxwell, subcommittee staff director; and Christie Birdsong.

OPENING STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. LUCAS. The Subcommittee on Conservation, Credit, Rural Development, and Research and the Federal Farm Program will come to order.

I'd like to welcome everyone to today's subcommittee hearing for review of Federal farm programs. It's a pleasure to be here in El Reno this morning. I'd like to thank the full committee chairman, Mr. Goodlatte, for participating in today's hearing. In preparation for the next farm bill, Mr. Goodlatte has led the committee in hearings all across the country. I appreciate his being here today.

I would also like to recognize the ranking member of the subcommittee, Mr. Holden, from Pennsylvania, who has sat beside me and listened to hours of testimony and questions as the committee works to determine the shape of the next farm bill. The Agriculture Committee and its subcommittees are committed to reaching out to all regions of the Nation to hear the comments and take the testimony of producers that are affected by farm policy in order to make a record of suggested priorities and improvements for the 2007 farm bill.

Today, we'll hear from two panels of Oklahoma producers. The first panel will comment on all aspects of the farm bill. I look forward to hearing the producers' thoughts on the commodity title, and I imagine we'll hear from several producers who might just want to extend the current farm bill in light of the stalled WTO negotiations.

I imagine we'll also hear from those who would like to make changes. That's why hearings like this one today are so important.

The testimony and the input that we gather will be used by the committee to draft legislation for the next farm bill.

Our second panel will focus on conservation, a subject near and dear to all Oklahomans. The environmental gains from conservation are very evident in this region. Farmers and ranchers, through the assistance and incentives of these programs, have voluntarily worked to reduce soil erosion, increase wetlands, improve water quality, and preserve farmland and wildlife habitat. Environmental gains that have resulted are both proof and a testament that producers themselves are truly the most dedicated conservationists.

Many of you may ask what the next farm bill will look like. Frankly, its final shape will remain unclear until the committee has assigned a budget next spring. While some of my colleagues may disagree, I feel very optimistic that the funding will remain similar to what we have had in the previous bill. The requirements that I have laid out for today's testimony are simple. I have asked our witnesses to tell us what in the 2002 farm bill has worked, what has not worked, and what their priorities are for the next farm bill.

Before I begin, I would like to express my thanks and appreciation to Redlands Community College for use of this room and the wonderful facilities today, and those who've helped to set up and make this hearing possible, and I'd like to thank our witnesses for having taken the time away from their farming operations to appear today before this subcommittee. I look forward to your remarks. Once again, I thank you all for being here today. With that, I will turn to our ranking member, Mr. Holden, for any opening statement he might offer.

OPENING STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PENNSYLVANIA

Mr. HOLDEN. Well, thank you, Mr. Chairman, and thank you for inviting me to your district. It's my first trip to Oklahoma. Mr. Chairman, when you came to Pennsylvania, I far exceeded the 5-minute limit on my opening statement, so I promise you, I will not do that today. I just wanted to thank you and the chairman of the full committee, Mr. Goodlatte, for all of the work that you've done in a very, very bipartisan manner as we've gone around the country and held hearings and tried to, as you just mentioned, Mr. Chairman, tried to decide what we did right, and maybe some things we need to improve on as we write the next farm bill.

Now, when you came to Pennsylvania, you heard about the interest in the mid-Atlantic and the northeastern part of the country where dairy is so important, and we're concerned about the dairy safety net. And conservation programs of the last farm bill had the largest investment in the history of conservation, and part of that was almost a billion dollars of farmland preservation. It's very important in that neck of the woods, and maybe not so important in other areas, so Mr. Chairman, I'm looking forward to hearing from your witnesses so I can understand what's important in the minds of people involved in agriculture in Oklahoma and again, thank you very much for your hospitality.

Mr. LUCAS. Thank you, Tim. You are a classic example of why the House Agriculture Committee is such a bipartisan group. We may struggle with regional issues, we may struggle with budget issues, but we do work as a team, and with that, I would like to turn to the leader of the team, so to speak, the chairman of the full committee, from Virginia, who has spent an incredible amount of time on the road this year, Chairman Goodlatte.

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

The CHAIRMAN. Thank you, Chairman Lucas. It's a real pleasure to be back in Oklahoma. I hate to tell you how long it's been since the last time I was here. I was 14 years old, so it's been 39 years, and it's long overdue. I enjoyed my stay in Oklahoma City last night, hope to get a look around a little bit later on today, and I'm especially glad to be here with all of you.

Agriculture, as Congressman Holden indicates, is something that requires a lot of bipartisan cooperation to write good policy, and it is very, very important that we get this next farm bill right. The current one is working very well for a lot of farmers, not for everybody, but for a lot, and it will be certainly something that we are very, very mindful of as we move forward next year to write a new farm bill.

This current farm bill expires next September 30. Some have suggested that we continue this farm bill. There are a lot of issues with that. One is the budget, which we're going to have to make sure that we have sufficient funds next year. When we wrote the current farm bill, we were coming off one of the first budget surpluses in decades in Congress, and so tight money is certainly a consideration.

Another is what's going on with the international trade. We know that some of our commodity programs, the cotton program in particular, are now under assault. We hear that the same thing may be true in the not-too-distant future with some of our other major commodity programs. We have to take that into account as well as we write a new farm bill.

But most importantly, we need to make sure that we write this farm bill in the United States Congress with the representatives of you, the people of America, and not in Geneva over trade negotiations. That is an absolutely critical thing. Trade talks have pretty well collapsed right now. They could come back, and if we saw an agreement imminent, we would certainly want to see what the form of that agreement was, and whether or not it could pass the Congress before we wrote the farm bill, but I don't see that happening right now. So we're staying on track. We've held probably over 20 full committee and subcommittee field hearings across America to listen to farmers and ranchers, and I am very pleased that we now have the opportunity to do that right here in Oklahoma.

Congressman Lucas is a very, very valued senior member of the committee, and I am delighted to be listening to his constituents, because I know that we have a lot of interests in common and we will find common ground as we write this farm bill. So I thank you

all for your participation today. This is a great turnout and we look forward to hearing from all the witnesses.

Mr. LUCAS. Thank you, Mr. Chairman, and with that, let's turn to our first panel at the table. We have Mr. Steve Kouplen, cow-calf producer from Beggs, Oklahoma; we have Scott Blubaugh, producer, from Tonkawa; Mr. Jeff Krehbeil, wheat producer, I believe, from Hydro, as my notes read here; Mr. Danny Robbins, a cotton producer from Altus; Les Crall, a peanut producer from Weatherford; Kenneth Rose, a sorghum producer from Keyes, Oklahoma. And with that, Mr. Kouplen, begin whenever you're ready.

**STATEMENT OF STEVE KOUPLEN, COW-CALF PRODUCER,
BEGGS, OK**

Mr. KOUPLEN. Thank you, Mr. Chairman, and good morning, gentlemen. Welcome to the great State of Oklahoma.

My name is Steve Kouplen. I'm a cow-calf producer from Beggs, Oklahoma, which is just south of Tulsa. I am currently serving as president of the Oklahoma Farm Bureau, and also serve on the board of directors of the American Farm Bureau Federation.

Mr. Chairman and members of the committee, thank you for taking the time to hold this meeting. Our Nation's farmers and ranchers have a lot at stake in the farm bill debate, and we appreciate your willingness to listen to our ideas and concerns.

The face of production agriculture has changed considerably since the enactment of the 2002 farm bill. Unpredictable weather conditions and markets, uncertainties in international trade and input costs have formed turbulent times for farmers and ranchers. Oklahoma producers in particular have experienced hardship this year due to widespread drought, including severe losses in crop, hay, and livestock production. In addition to the drought, skyrocketing fuel, fertilizer, and other energy-related inputs have raised our production costs.

The majority of those involved in production agriculture throughout this country will tell you that their ultimate policy vision would be a level playing field, or a chance to compete in open markets. Farm Bureau shares this vision.

Farmers and ranchers should live in a world where they are allowed to compete in open markets without tariff barriers, without export subsidies, without currency manipulations, and yes, without production-distorting domestic subsidies. Most, if not all, of Oklahoma's producers will tell you that they would prefer to get their income from the marketplace, rather than from Government payments. This ideal could become a reality if all trade barriers are removed, and the playing field is leveled for U.S. agricultural producers.

However, we know the reality of today's world. In order to bridge the gap between where we are now and where we want to be in the future will require time and transitional policies. The short-term reality is that we will continue to need a safety net in years that revenues decline in response to low yields and/or low prices, combined with higher costs of doing business, which is currently the case for many agricultural producers today.

As the focus moves to the 2007 farm bill, it is vital that Congress and the USDA build upon the success of the current farm bill, and

implement policies that help make the United States a place where producers have the ability to remain in production agriculture and expand their operations if so desired. As the average age of producers continues to rise, we need to identify ways to assist beginning farmers and ranchers who are interested in production agriculture.

Since the World Trade Organization talks were indefinitely suspended in July, it is uncertain when the talks will resume. Farm Bureau supports extending the current farm bill for at least 1 year, after making minor adjustments to comply with recent WTO rulings. An extension will provide our farmers and ranchers with the consistent support they need, given the current inequities of the global marketplace.

The U.S. should not unilaterally disarm our farm programs or give up negotiating opportunities when our trade partners remain unwilling to take the same steps. We should continue to work towards an agreement in the WTO, as well as bilateral and regional trade agreements that accomplish our objectives to free up trade. When this is accomplished, we can modify our domestic programs accordingly, and to the extent necessary, based on the final outcome of those WTO negotiations.

We are committed to the potential of multilateral, regional, and bilateral trade negotiations, and strongly support the renewal of Trade Promotion Authority when it expires in 2007. Extending TPA will allow the executive branch to continue negotiating regional and bilateral trade agreements that benefit American agriculture until a comprehensive WTO agreement is struck that allows multilateral agreements to proceed.

Many producers are facing severe financial risk because of a significant hole that has developed in the safety net. The problem lies in the fact that while crop insurance is a useful tool to deal with production risks, coverage levels continue to decline in times of multiyear drought. Since the amount of coverage depends on the average yields of previous years, every consecutive year of drought drives down the amount of insurance farmers can buy for their crops.

To address the issue of supporting revenue rather than prices, maybe consideration should be given to combining the farm program with the crop insurance program that pays producers based on revenue shortfalls. At a minimum, crop insurance subsidy levels need to be high enough to allow producers to purchase a higher level of coverage.

Mr. Chairman and members of the committee, there is one more issue other than the farm bill that I would like to mention today, and that is the recent demotion and subsequent early retirement of our State conservationist, Darrel Dominick. Darrel's forced retirement was unwarranted. Darrel's character and commitment to working with partners in conservation was beyond reproach. Oklahoma producers and the conservation community deserve some accountability from the USDA on this issue.

Thank you again for the opportunity to share our thoughts with you. I'll be happy to answer any questions you may have.

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

Mr. LUCAS. Thank you, Mr. Kouplen. Mr. Blubaugh, whenever you are ready.

**STATEMENT OF SCOTT BLUBAUGH, FARMER-RANCHER,
PONCA CITY, OK**

Mr. BLUBAUGH. Thank you Chairman Lucas, Chairman Goodlatte, and the committee for coming to Oklahoma to hear us today.

I am Scott Blubaugh, a fifth generation farmer from the Tonkawa-Ponca City area where I live on a family farm that my great grandfather homesteaded in the opening of the Cherokee Strip. My operation consists of 1,500 acres where I grow wheat, soybeans, corn, alfalfa, and raise cattle. To support our operation, making cash flow, I do some custom harvesting in the local area, and I also own an Oklahoma Farmer's Union Mutual Insurance Agency in Tonkawa.

As a member of the Oklahoma Farmers Union, and part of the American Farmers and Ranchers family of companies, my activities have allowed me many opportunities. One of those is to serve on the board of directors of the Oklahoma Sustainable Energy LLC, for which our objective is to build the State's first large-scale commercial ethanol facility that will produce 55 million gallons of ethanol per year, converting approximately 20 million bushels of grain to 55 million gallons of fuel grade ethanol.

Agriculture and renewable energy is the key to diversifying our energy markets, creating new economic opportunities for rural America. Congress should continue to expand and accelerate renewable energy opportunities through tax credits, research, established standards, biofuel storage and reserves. We support the continuation of title 9 farm bill provisions of renewable energy.

Thank you, Congressman Lucas, for securing the Value Added grants for which the ethanol project and the State's oil seek project would not have happened and would not have gone forward without. We believe that renewed authorization of this grand program should be included in the new farm bill. Projects resulting from these grants create jobs and add additional dollars into our rural communities.

We also believe extending the current farm bill; that the Farm Securities Investment Act in 2002 will ensure the continuation without reductions of our economic safety net and other vital programs. We will continue to oppose any further reductions in the farm bill programs. Higher than normal grain prices during this farm bill have showed a savings of over \$15 billion because of the reduced countercyclical payments.

However, we are now faced with cutting the advanced 2007 and the payments to 22 percent could not have come at a worse time for our State's producers, who are already burdened with wildfire and drought. This action is creating anxiety within the banking community. One of the State's top agriculture attorneys reports record numbers of producers seeking financial restructuring options.

We're also faced with extraordinary rising cost of production in the fuel petroleum products, such as fertilizer and diesel, yet adding another burden to rural America. Oklahoma farmers and ranchers have experienced overwhelming losses from weather-re-

lated disasters in 2005 and 2006. Producers have little to no wheat pasture for their stock or cattle. Cattle herds have been either reduced in the State or totally sold off because of the lack of water, grass, and hay. The State's wheat crop yielded 45 percent of its normal level this year.

Producers must have protection from natural disasters. The next farm bill should include a permanent disaster program which does not rely upon ad hoc assistance based on the political climate and would provide immediate assistance in times of drought. Such authority has existed before, utilizing the Commodity Credit Corporation and budgeted finance. Congress would then retrospectively fund the CCC annually, based upon its disaster expenses incurred during that year.

It is important to note that under the current farm bill, the countercyclical payments have basically been a nonoccurrence in Oklahoma for wheat producers, so the recent acceleration of countercyclical payments did not assist wheat producers since there was not a payment made.

Thank you again for coming to Oklahoma, and I hope you will carry the message back that we like the current farm bill, just with some changes. Thank you.

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

Mr. LUCAS. Thank you, Scott. Mr. Krehbeil.

**STATEMENT OF JEFF KREHBEIL, WHEAT PRODUCER, HYDRO,
OK**

Mr. KREHBEIL. Mr. Chairman, members of the committee, my name is Jeff Krehbeil. I am a wheat producer from Hydro, Oklahoma, currently president of the Oklahoma Wheat Growers Association and serve on the Domestic Policy Committee for NAWG. Thank you for the opportunity to share the thoughts of the growers I represent on farm policy.

Effective farm legislation is essential, not only for wheat growers, but also rural economies and American consumers. Farm programs were designed to ensure a consistently safe, affordable, and abundant food supply for the American people. The 2002 farm bill has strong points, and we believe the next farm bill should build on these strengths. However, while wheat growers generally support current policy, much of the safety net provided by the 2002 bill has not been effective for wheat farmers.

Since 2002, two key components of the current bill, the countercyclical program and the loan deficiency payment program, have provided little or no benefit to wheat producers for two main reasons. First, severe weather conditions for several consecutive years has led to significantly lower yields or total failure. The loan program and the LDP are useless when you have no crop.

Second, the target price on the countercyclical program for wheat was set considerably lower than market conditions indicated, and severe weather conditions in some areas have created a short crop which has led to a higher price in other areas. As a result, there's been very little support in the form of a countercyclical payment.

As you can see by the chart in my testimony, the support level for wheat compared to other commodities for the 2002 through

2005 crop years, even as a percentage of production cost, is relatively low. Government payments cover about 10 percent of production costs for a wheat producer, while some commodities have over 50 percent of their production costs covered by Government payments.

We are not, in any way, suggesting that the other crops receive too much support—far from it. They have the same problems our growers face, and rely heavily on the safety net. We are simply stating that wheat producers need a viable safety net, also. There is no doubt the American farmers would rather depend on the markets than the Government for their livelihood, but the current economy, the current economic and trade environments, do not offer a level playing field in the global marketplace. Many of our trading partners support their farmers at a much higher rate than in the United States.

At the same time, we face continually increasing production and transportation costs. Fuel and fertilizer prices are up an estimated 24 to 27 percent just over last year. In 2002, when the current farm bill went into effect, I spent just over \$49,000 for fuel and fertilizer on my operation. In 2006, for the same number of tillable acres, my fuel and fertilizer costs will exceed \$109,000. This 222 percent increase in the two major inputs for wheat production during the life of the current farm bill has left many of producers I represent struggling to survive.

While we understand that there are likely to be economic impacts from any change in the current program, we believe that wheat growers need an adequate safety net. We are currently examining the impacts, both to the farmers and to the Federal budget, if the safety net for wheat was more in line with the safety net for other commodities.

One option we are currently considering is a proposal to increase the direct payment and increase the target price to more accurately reflect market conditions. We believe these two programs are the least trade-distorting, and therefore offer the best opportunities to provide support for our members. I expect NAWG's full board will finalize a 2007 farm bill proposal soon, and we'll share that with you when it is complete.

Wheat growers would like to see conservation programs continue as presently authorized, but with full funding. We would also like to explore opportunities to streamline program sign-up to be less time consuming and more producer-friendly. Another area of interest to our members is the pursuit of renewable energy from agriculture sources, and support for additional incentives for future research and development of renewable energy initiatives, especially cellulose ethanol.

In closing, I must state that we are firmly committed to developing an effective 2007 farm bill, and welcome the opportunity to work with you to do so.

Thank you for this opportunity. I am ready to answer questions that you may have.

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

Mr. LUCAS. Let's turn to Mr. Robbins now.

**STATEMENT OF DANNY ROBBINS, COTTON PRODUCER, ALTUS,
OK**

Mr. ROBBINS. Mr. Chairman, thank you for holding this hearing and for providing me the opportunity to present testimony on current and future farm policy.

My name is Danny Robbins. I am a fourth generation cotton, cattle, and wheat farmer in southwest Oklahoma. I am active in a number of national and local farm and commodity organizations.

Before I comment on future farm policy, I want to quickly mention current conditions in our area. As you know, severe drought conditions have and will cause significant financial losses. Over 71 percent of the cotton acreage in Oklahoma has been classified as abandoned, or in poor to very poor conditions. Those who will be fortunate enough to harvest a crop will incur inordinately high energy and input costs. I respectfully urge you to continue to work with your colleagues to improve much needed disaster legislation.

Mr. Chairman, we believe that the current farm law has and continues to provide a stable and effective national farm policy for our country. The combination of direct and countercyclical payments will provide an effective means of income support, especially when prices are low, without distorting planting decisions. The direct payment provides financial stability required by our lenders and suppliers. I believe it's important to maintain such a balance.

The cotton industry strongly supports the continuation of marketing loan, which responds to low prices. It does not cause low prices. It ensures that the U.S. cotton farmers are not the residual suppliers in the world markets because they are unable to compete with the treasuries of foreign governments.

It is also critical that all production remain eligible for the marketing loan. Arbitrary limits signal our competitors that we are going to be competitive on only a portion of our production, and this is an invitation for others to increase their production. Sound farm policy is of little value to the cotton industry if arbitrary unworkable payment limits are placed on benefits. We believe limitations on benefits should be eliminated. At the very least, limitations in future laws should not be more restrictive or disruptive than they currently are.

There are many misconceptions about what defines a farm. USDA's definition includes anyone grossing over \$1,000 per year in agricultural receipts as a farm. Mr. Chairman, you, and anyone else who really understands production agriculture, knows this does not describe a commercially-sized viable operation. The facts are that 21 percent of farms in the U.S. gross over \$50,000 a year in net farm sales, and this accounts for 94 percent of all agricultural sales. The other 6 percent of agriculture sales come from the remaining 79 percent of farms that have sales close to \$50,000.

Commercial agriculture has had to expand just like any other business to remain viable. Consequently, limitations on benefits established based on invalid assumptions will severely penalize those who produce the majority of our food and our fiber. Conservation programs are an important component of an effective farm policy, but they are not a substitute for the safety net provided by commodity programs. Conservation programs should be operated on a voluntary, cost-share basis.

The U.S. cotton industry understands the value of benefits of effective domestic and international promotion programs. In addition to being original and continuous participants in the USDA's foreign market development and market access programs, growers finance a very successful promotion program through a self-assessment, check-off program.

Mr. Chairman, we are deeply concerned that the Doha negotiations are turning against U.S. agriculture in general, and against U.S. cotton in particular. Our partners demand more U.S. concessions while refusing to provide adequate market access. Worse, China, the largest cotton market in the world, wants to be exempt from any further market access commitments by declaring herself as a developing country.

I also want to emphasize an agreement that singles out U.S. cotton for inequitable treatment will not be accepted by U.S. cotton producers. We applaud our negotiator's decision to walk away from a bad deal last July. We commend you and your colleagues for providing the support necessary to allow them to reject an inequitable agreement. The cotton industry is prepared to work with all interests to develop and support continuation of a balanced and effective policy for all of U.S. agriculture.

The 2007 farm bill will be a challenge. Farm organizations, commodity and livestock groups, specialty crops, and conservation groups must work together to maintain effective farm policy. Production agriculture is critical to our economy and our Nation. Thank you for the opportunity to testify today, and I will be pleased to respond to any questions. Thank you.

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

Mr. LUCAS. Thank you, Danny. Mr. Crall.

**STATEMENT OF LES CRALL, PEANUT PRODUCER,
WEATHERFORD, OK**

Mr. CRALL. Congressman Lucas, always good to see you. Congressman Goodlatte, welcome back to Oklahoma. Congressman Holden, welcome to Oklahoma.

I'm Les Crall. I'm a peanut producer from Weatherford, Oklahoma, about an hour west of here, recently appointed by our Governor, Brad Henry, to my second term on the Peanut Commission. During my first term, I served as the commission's vice chair. I am joined here today by my fellow commissioners and staff, as well as a number of peanut producers from across the State. We appreciate your time and thank you for conducting this hearing in our State.

I'm proud to be an owner-operator of a fourth generation farming operation in Custer County with my dad and brother. We farm wheat, grain sorghum, hay, cattle, and of course, peanuts. I like to say I work for peanuts. As with all Oklahoma farmers, Federal farm legislation in its proper implementation and management is critical to our livelihood. I'm here today specifically to speak to the 2002 farm legislation and its effect on the Oklahoma peanut producers.

As you know, the peanut provision of the 2002 farm bill was a drastic departure from the supply management programs authorized by Congress and administered by the USDA during the pre-

vious four decades of farm legislation. Replacement policy ushered in a marketing loan system for peanuts. The question is, is the marketing loan working after 5 years? Well, large Government loan forfeitures and huge price-depressing stocks should answer that question.

In response, faced with no market and questionable opportunities for little product, producers across the country this year have reduced plantings by 30 percent. In Oklahoma, we have the smallest planted acreage since 1927.

Our neighbor, Texas, which is the Nation's second-largest producer, cut back their acreage by 42 percent. In some industries, you would say we are a shell of what you once were. In our industry, we are a peanut hull of what we once were.

The program is not working. Without corrections, the U.S. peanut industry is headed for a train wreck. Price discovery is a problem. Congress needs to fix it. Unlike wheat and feed grains, peanuts do not have adequate price discovery system. There are no peanut futures markets, no daily market reports, no accurate or transparent method of price discovery. In fact, since the bill came along, every segment of the industry has been critical of USDA's rule in establishing the national posted price and resulting loan repayment rate.

Accurate crop tracking is absent. Congress should reinstate what we call the Smart-Card. USDA scrapped the use of Smart-Card technology to track certified planted and harvested acres, actual production records by farm reflecting the peanut type, grade, and value, and the disposal of the crop. Without it, no accurate records are available and important statistics are subject to industry survey.

Peanut handling and storage provisions for handlers expired in August of 2007. Congress should extend the payment for the 2007 crop and the duration of the next farm bill. This provision was designed to protect the producer from these related costs. Should the producer be forced to bear that burden, the net result would be a \$300 per-ton peanut and the end of peanut production in Oklahoma.

Peanut limitations should not be changed. The less understood and often debated the fact is, USDA payments are based upon an equitable risk per unit, no matter the size of the operation. Everyone receives the same payment per acre or unit. The fact that a family farm is incorporated for tax management or other reasons should not be a basis for a penalty.

Congress should consider an annual target price cost of production adjustment. Previous peanut provisions provided for an up and down adjustment, based upon the annual review of the cost of fuel, fertilizer, pest control, and other inputs. I'd like to refer you to my written testimony for some more specific information and details concerning recommendations for the current and future farm legislation.

I also want to thank the subcommittee on behalf of the Oklahoma Peanut Commission and the State's peanut producers for your time in the development of an improved Peanut Program. Thank you.

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

Mr. LUCAS. Thank you, Les. Mr. Rose.

**STATEMENT OF KENNETH ROSE, SORGHUM PRODUCER,
KEYES, OK**

Mr. ROSE. I want to thank you, Chairman Lucas, and Chairman Goodlatte for coming to Oklahoma, and the members of subcommittee, for your presence here, and for the opportunity to present my priorities for the next farm bill.

My name is Kenneth Rose and I farm near Keyes, Oklahoma, in the Oklahoma panhandle, and I am president of the Oklahoma Sorghum Producers and past president of the National Sorghum Producers. I raise dry-land sorghum and wheat and on my farm, and have cow-calf operation on our grassland, and am the fourth generation to farm our land.

Next year, our farm will be a centennial farm just as Oklahoma will celebrate its centennial.

This year has been a very trying year in my part of the country. Up until the middle of August, we had 6½ inches of rain in the last 13 months, which is drier than any year during the Dust Bowl 1930's or the 1950's. Rain since then came too late to have not been much benefit to drought-stunted sorghum crop, although our grassland has recovered nicely. Normally, I can count on sorghum for a crop in the dry years, but this year has certainly been extreme.

I'd like to discuss the title 1 commodity program. Our sorghum producers have been strong supporters of the 2002 farm bill, due to the equitable treatment given sorghum producers relative to other feed grains. We favor extension of the current bill. If a WTO agreement requires a change to our farm programs, or a new farm bill replacing our current farm legislation, maintaining equitable direct payments and loan rates are high priorities.

Most of the sorghum grown in the region is in the High Plains area. Due to the extreme weather conditions that our farms are vulnerable to, on my own farm, I would like to see more emphasis placed on well-funded and policed disaster provisions that would supplement the limited safety net that crop insurance provides.

During WTO discussions, there was a lot of talk about what a green box farm proposal would look like and how it would operate. This task has been more difficult than we anticipated, since the program cannot be based on price or production. Because of that fact, we ask that any new programs that may be developed or discussed to replace the current commodity title be thoroughly reviewed with the agriculture industry, and that we fully understand the implications of any potential WTO agreement.

On the title 2 conservation issues, because of WTO issues, more emphasis may be placed on conservation funding in farm policy discussions. However, Oklahoma sorghum producers would be very anxious about switching from our current commodity-based farm programs and farm policy to a completely green policy, if that new program were to be administered similar to the current Conservation Security Program. Our Oklahoma membership is frustrated with the operation of that program in the State. Only a few Oklahoma farmers have even been allowed to apply for the conservation

programs under CSP because of limited geographical areas that are approved, and only a few applicants have been accepted. Our members feel strongly that serious problems exist with this program.

Their first concern is that the agency started funding the top tier of the programs and focused the programs on what looked like an all-or-nothing concept. Either farmers qualified for all tiers, or he was not in the program at all. The CSP tiers need to be designed to meet the dynamic management needs of individual farms, and maintain a degree of flexibility to meet the needs of those farms. A CSP-type program can be an important part of farm policy; however, the rules of the current program and the implementation are causing a significant amount of frustration among our membership. Conservation programs must be flexible enough to meet the diverse needs of different cropping systems and climatic conditions.

We all know that water use is definitely increasing and the national sorghum producers applaud this committee and the last farm bill for giving serious consideration to the future of water supplies in our semi-arid regions that are highly dependent upon grain sorghum by creating the Ground and Surface Water Conservation Program as a part of EQIP.

Sorghum is known as a water-sipping crop. According to research conducted at USDA, the ARS Research Facility in Bushland, Texas, sorghum uses approximately one-third less water than either corn or soybeans, and 15 percent less water than wheat. It is a crop that is well adapted to our semi-arid regions. Because of its excellent drought tolerance and varied uses, sorghum is a viable option for our producers in the Plains States. We support conservation programs that encourage the planting of low water-use crops based on decisions that are environmentally sustainable and market-driven. Overall, we believe that Congress and USDA need to emphasize water quantity as part of water management in both current and future conservation programs.

Last, but perhaps most important of all, ethanol production is the fastest growing value-added market for the sorghum industry. Producers are working to attract ethanol plants to our areas because it increases the local price. Sorghum is a good fit for ethanol production because one bushel of sorghum produces the same amount of ethanol as one bushel of corn.

In conclusion, you certainly have a challenge rewriting our Nation's farm laws. The sorghum industry will work with you, Congressman Lucas, as you develop new farm programs. Thank you for your time, and I'm happy to answer questions.

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

Mr. LUCAS. Thank you, Kenneth. Now, it turns to the part of the process to discuss some questions.

Mr. Blubaugh, the Agriculture Committee went to Minnesota a few weeks ago, and one of the fascinating things that I took away from that was a producer who said that he now based his decision in Minnesota on whether to raise soybeans and corn on which market was best for biodiesel or ethanol. He owns shares in both an ethanol and a biodiesel plant, and he planted his crop based on which facility had the best return as a participant, as well as producer selling.

Can you give us some insights into what you are going through in the process of creating this ethanol opportunity in Oklahoma, and do you see something like that maybe in Oklahoma eventually.

Mr. BLUBAUGH. Well, the Oklahoma Sustainable Energy LLC has been offering stock for sale the last 45 days or so for the ethanol plant, and I believe we're going to start breaking ground October 1 in Enid, building that facility. So it has been a very long process. It's taken a lot of time, and without the USDA Value Added grant, we would not be able to have gotten to this point because it takes so much money up front just to do the research, and the feasibility study, and the business plan, and the attorneys, and all that goes into creating this, but I feel like we will have some of the acres converted into bioproduction in the area because you will have an added market because of this ethanol plant.

The milo is well-fitted for our area, like Mr. Rose spoke about, that requires less water, and we believe much of our acreage will be converted into milo because of the higher prices the ethanol plant will pay for the grain.

Plus, we are going to create new jobs in the community, and also, the farmers get the benefit from the thing on the other end, as actually being an owner, a stock owner, in the thing. So they get a higher price of the grain, plus we believe the plant will be significantly profitable in order to return money to the farmers in the form of their equity.

Mr. LUCAS. Along that line, Kenneth, I think we'd all like to hope that the weather pattern between October of last fall and August 1 of this year is an anomaly, not another 1950's or 1930's. Only time will tell. Do you think, from the perspective of sorghum producers, can we sustain the volume of grain necessary to run that, what, two plants in Oklahoma on the way, maybe more? Can we generate enough grain to maintain those kind of facilities, thinking about sorghum as one of those prime fuel crops.

Mr. ROSE. In our panhandle area for sure the—our area's deficit in the feed grains already—there can certainly be a lot of acres that will, as he said, switch to sorghum or possibly corn. But as a national organization, what we have seen in other areas, other plants, is the need to have good rail facilities to bring in feed grains, starch sources, when there's not enough grown locally and that really puts the emphasis on our need for transportation facilities in the United States. Our rail system is overloaded as it is, and some ethanol facilities that were proposed had problems getting rail to agree to even ship the ethanol out once the product is made.

Mr. LUCAS. Speaking of that, let's talk for a moment about flexibility and let's talk about CSP. One of the issues that's come up time and time again in our hearings across the country is that if the renewable energy takes off with the potential that it has, biodiesel ethanol, will there be enough grain to meet our livestock feeding obligations, feed our customers around the world, and yet to produce enough energy.

My response has typically been, we have 36 million acres of CRP, not all of that land perhaps should have been in there in the first place, or should 20 years still be there. We many need to maintain flexibility in enabling acres to come out of that.

Let me put that question to the panel as a whole. One, and from your producer perspective and the experiences of the folks you work with in the agricultural industry, has the flexibility been generally a good thing in the last two farm bills? If so, do you agree that flexibility is important in programs like CRP so that we can meet our obligations for both renewable energy and feed the world?

Mr. BLUBAUGH. Yes.

Mr. LUCAS. It's a real good time to say so.

Mr. BLUBAUGH. I live in Kay County, and our cropping has really changed a lot with the new farm bill. Used to be, all we hear was wheat. One the problems is our basis, and our payment anchors, and everything are based on wheat, so it penalizes us somewhat with these new crops, but we've been able to grow corn and soybeans and crops for the very first time in our county that haven't been done before, so the flexibility is very much so needed.

Mr. LUCAS. So you agree with some of what Jeff brought up about the financial issues.

Mr. BLUBAUGH. Yes. Absolutely.

Mr. LUCAS. With that, I'd like to turn to my ranking member, Mr. Holden, from Pennsylvania.

Mr. HOLDEN. Well, thank you, Mr. Chairman. Several members of the panel talked about the disaster that Oklahomans are facing. The chairman of the full committee, talking to reporters outside, addressed that we're going to try to take care of this. The entire country is not facing disaster problems at this time, so we're trying to find a balance, hopefully before we leave for the recess before the election, or the session afterwards. But saying that, somebody, I believe it was Mr. Blubaugh, mentioned the need for a permanent disaster program in the next farm bill. I was just curious if the other members of the panel agree with that.

Mr. ROSE. Yes, Mr. Holden, I certainly do. The sorghum producers do. One of the problems that we face as production falls because of natural disasters, prices go up, so we benefit not at all from the countercyclical prices, and we feel like maybe some of the money from the countercyclical program could be used to help fund a disaster program. It's when we have the real disasters that our income falls short.

Mr. KOUPLEN. Yes, I'd like to say that disaster assistance is a real issue to agriculture. When the hurricanes hit, I think that \$4 billion was provided to those producers along the coast where they were affected by the hurricanes. Those of us involved in the drought, and up to 60 percent of the country has been involved in this drought, and some of us even longer than we've experienced here in Oklahoma, so there is definitely a need for drought assistance on an ad hoc basis.

Now, if you build that into the farm bill, it would be great, but I think the realization should exist that Mother Nature is something that none of us can control and no matter how much flexibility we have, we have to deal with the conditions that we're dealt, and so in respect to a disaster and any disaster assistance that's forthcoming, I think the drought that has presented itself to us in the past 18 months, and the rest of the country, is much deserving of assistance of some nature.

Mr. KREHBEIL. I think the wheat producers would be in favor of something like that, but what we would be very concerned about is, if money would be made available for disaster assistance, we do not want that money to come from our commodity title; it would need to be new money. Just to rob from the commodity title to make a disaster program would not be beneficial to producers and that would be our biggest concern.

Mr. HOLDEN. Well, you just hit the nail on the head with the money. We just had a very good conversation about energy and the two chairmen here with me were up in Ranking Member Peterson's district in Minnesota, and we learned an awful lot about energy. I hear about some exciting opportunities here in Oklahoma. In my district of Pennsylvania, we have a proposed ethanol plant. We already have an agrodiesel plant in operation in my district with soybean as a feed stock.

So we have tremendous opportunities, but there is only going to be so much money on the table, and I was just curious as to any suggestions. There's not going to be an endless amount of billions of dollars of newfound money. Any suggestions where we can try to have a more robust energy title, where we can find some extra funds.

Mr. KREHBEIL. National Association of Wheat Growers is looking into that and they have currently got some proposals to see where that money may come from. My proposal is included raising target prices and raising direct monies to producers.

To be able to say yes, we know where the money's going to come from, no, we don't, but we are trying to find that money, and I'm not sure—there is about one-half of 1 percent of the total budget comes, total farm bill, comes out of the congressional budget. In other words, one-half of 1 percent is all the farm bill takes of the total budget.

That includes all of your WIC payments for your women, infants, and children. It also includes the food stamp program. That's a small, very small, portion of the pie, and as a producer who has seen input costs increase drastically, who has seen drought come in, has seen wildfire, I'm concerned that we always have to look within ourselves to find money to support agriculture.

Mr. KOUPLEN. One issue—they're really not in the farm bill, but as far as ethanol goes, I'm concerned that some of the tariffs on the imported ethanol could be dropped because of price, and that is a big concern of ethanol producers in this country.

I mean, price is a major driving factor in the production of ethanol, and I was in China a couple of years ago, and they're a corn country. They're in the process of building two or three ethanol plants, and we know that they're probably going to be in the market of exporting that, so we certainly would like to protect our ethanol industry by making sure these tariffs are not removed to expedite lower costs in the short term, and allow the industry to continue to grow and mature.

Mr. HOLDEN. Thank you. Time has expired, Mr. Chairman.

Mr. LUCAS. The chair now turns to the chairman.

The CHAIRMAN. Thank you, Mr. Chairman. First, let me ask each one of you as—go right down the line, start with you, Mr. Rose—how would you rank the relative importance of direct payment, the

marketing loan, and the countercyclical payment, as components of our commodity program? Which provides the greatest safety net for producers?

Mr. ROSE. Thank you, Mr. Chairman. The direct payment is probably the most valuable. It's a payment we can depend on.

The CHAIRMAN. Mr. Crall.

Mr. CRALL. I would tend to agree. The direct payment, you're going to get that regardless, but it's based upon historical production, and we were talking about the disaster safety net. That's one of the big problems with the current bill. If you don't grow anything because you've had a crop failure, or you grow a very minimal crop, then your loan deficiency payments—you don't have any commodity to put into loan, and then if you have a great crop in another region of the country, and your price is based upon supply and demand, and there's plenty of supply—the worst thing that can happen to us in Oklahoma is we don't have a crop and then another region of the country has a really good crop, because then the market price as farmers is based upon supply and demand and has no relationship to our cost.

We are cost takers. When we go into the local elevator to buy fertilizer or fuel, they tell us what our price is.

We can't go into the elevator and say, OK, my cost of production for this is \$400 a ton for peanuts. We take whatever the market will give.

The CHAIRMAN. Let me go on to Mr. Robbins.

Mr. ROBBINS. Yes, sir, personally, how it affects me, the marketing loan would be No. 1 for me that I had to have. Second would be the direct payments, and countercyclical would be third, for some of the same reasons that the members have said here today.

The CHAIRMAN. Mr. Krehbeil.

Mr. KREHBEIL. First would be the direct payment, and then the countercyclical, and then the penalty fee.

The CHAIRMAN. Mr. Blubaugh.

Mr. BLUBAUGH. I would agree with that. First and foremost, the direct payment, then the countercyclical, and then the penalty fee. Yes.

Mr. KOUPLEN. I'll have to ditto with my fellow members.

The CHAIRMAN. So we have direct payment for all but one that refers to the LDP payment. Outside of the current commodity programs, are there new ideas that you can share with us that we should consider to provide a better safety net for producers? Start with you, Mr. Kouplen.

Mr. KOUPLEN. Well, I think the whole ball game revolves around risk management for producers. I think there's some programs out there dealing with some of these. I think probably we could give some consideration to how they work. Whole farm revenue insurance programs may be something we need to look at.

I mentioned somewhat about crop insurance. I think crop insurance philosophically is a great idea; practically, it just hasn't worked real well. The term "insurance" is really a misnomer for crop insurance, because the fact is without the Federal Government's subsidization of up to 85 percent, it wouldn't be viable at all. You've got to keep producer's part at a point where they can afford to purchase it.

So, I mean, crop insurance needs to be evaluated and we either need to do it right or not do it at all, in my opinion, and I think we really had some areas dealing with crop insurance that needs to be addressed and so hopefully that whole area would be studied a little bit and maybe some changes made in that area.

The CHAIRMAN. Mr. Blubaugh.

Mr. BLUBAUGH. I also have some criticism of the crop insurance program. It helps you if you have a total wipeout; in other words, you harvest nothing. But if you have a half a crop or a quarter of a crop, it helps you very little, because of the insurability of the crop. And then if you harvest a little bit, why, what usually happens is the producer ends up getting credit for—his premium that he owes the crop insurance company is taken off and the producer gets little or no compensation at all, if you have a half a crop or reduced crop. So I have a lot of problems with the crop insurance program, as well.

Mr. KREHBEIL. There has been some proposals out there for target revenue system, and we growers have looked at those proposals and have not really seen one that was viable for our industry, we felt. However, we are open to suggestions about the target revenue system. What we've seen so far is that it would cost more money and probably not provide any more support than what we're currently getting.

There's also been some talk of a risk management account that would be an account an individual producer could put in a local bank and the Government would help match that money, and he could use that money in case of a disaster to help cover expenses and what have you. It's in the process of being kicked around and we don't know where it's going, but that's two ideas that have come up.

Mr. ROBBINS. I would have to reiterate what these other gentlemen have said, that the crop insurance system has some fatal flaws, in my opinion. I insure my cotton crop and wheat crop for 65 percent of my average, whatever average is in Oklahoma, and I can think of no other industry that's in business that only insures 65 percent of their inventory or their proceeds. I would like to see some type of system set up where you could get a revenue-type product.

Right now, with the biotechnology, a majority of my costs are incurred the day I put the seed in the ground. When I came home from college, I could buy a bag of cotton seed for \$18 a bag. It costs me \$245 a bag, and I'm not that old, sir. I came home from college in 1987. Thank you.

Mr. CRALL. I think a possible suggestion would be that the target price should have some way to adjust it during the life of the farm bill, and instead of being fixed in stone, I think any adjustments should be related to our costs. I think with risk management, crop insurance should not be based upon historical production, it ought to be based upon what cost you have in that crop.

Take the example—you wouldn't buy a brand new car and insure it for what your old car was worth. Well, that's what we're doing in crop insurance. We're insuring it based upon what we grew last time, so that's two areas.

The other is Smart-Cards for peanuts. I think we were the envy of all the commodities. We would go in to the FSA office, we'd get a credit card that had a computer chip in it, and we would take that through the buying points, whenever we harvested peanuts. And they already have the computers the software and everything they need to make it work, and it's an inexpensive, low-cost way to track production.

Mr. ROSE. Mr. Chairman, would you drive your wife's car on the streets of Washington, DC with only two-thirds of insurance coverage and the bottom two-thirds only being covered.

The CHAIRMAN. I might if the Government were paying for part of the cost of the insurance.

Mr. ROSE. Part of the problem is that in no case has the insurance coverage ever covered the cost of production.

The CHAIRMAN. I understand that, I'm not saying that we shouldn't make dramatic changes in crop insurance. I would like to see it done. I would like to see it cover a lot more crops than it covers today, and I'd like to see it cover a lot of stuff that it doesn't cover today, but you'll also have to remember that the purpose of the crop insurance is not to make you whole; the purpose is to allow you to survive, and be able to continue to operate in the next year, and hope that next year is going to be a much better year, and you're going to make back all that things you didn't do in the bad year.

Now, whether that policy works when you have several years in a row of bad crops is, I think, a fundamental part of the problem. But yes, we would like to improve the crop insurance program. If we could make you more whole as a part of that, we certainly can do it, but there have also been comments here, don't take the money to do that from the other programs. We've got a limited amount of resources, and we are going to have to fight very hard in a bipartisan fashion early next year to make sure that agriculture is treated fairly, and to get as much money as it possibly can. Then we can make some of these decisions.

But if we are talking about a comparable amount of money that we have this time, or even less, then those decisions are very tough, and it will involve taking money from some other part of agriculture.

So in that regard, my last question, Mr. Chairman, if you will forebear, since there are only three of us, maybe we can take a little extra time, I'd like to ask each of you: You're aware of the demands from some other sectors of agriculture that do not participate in the major commodity programs today—and we're talking about fruits and vegetable folks, talking about livestock folks, we're talking about people who want to see more money spent on conservation, a whole host of other things—how do you respond to those who say they think they should have a greater share of the agricultural pie, relative to those who are able to participate in these major commodity programs, knowing that to expand some of those other programs, we'd have to reduce something? Mr. Rose, start with you.

Mr. ROSE. Thank you, Mr. Chairman. There are certainly risks in every part of agriculture, and I recognize the risk that some of the other commodity groups face, and they, I'm sure, are going to

be at the table. There needs to be some degree of recognition of those needs.

The CHAIRMAN. Mr. Crall.

Mr. CRALL. I'd say Congressman, you've got your work cut out for you. I've got a friend back here that teaches economics, and he says we have unlimited wants, but limited demands, and I think that there will have to be probably some compromises reached on some of these agreements, and I fully believe you guys will do the best that you can.

Mr. ROBBINS. I recognize that other people have something to complain about possibly, but I think we should recognize two facts: The direct payments are not the only means of support, in supporting agriculture here in the U.S., and direct payments to the producer of the commodity also has a trickle-down effect that offers benefits to other segments of agriculture.

There are import barriers and tariffs that are enacted when prices reach certain levels that protect some of the other people that want to weigh in at the table, and I welcome them, as long I have the opportunity to grow the crops that they're growing, which I'm restricted from at this point.

The CHAIRMAN. Well, that's a good point, and also it should be pointed out, and agriculture doesn't do enough of this, but when we have programs like our commodity programs that encourage the production of an abundant supply of resources, which has a tendency to make the price more affordable for the consumer, who has a close relationship with the taxpayer—they're one in the same—they benefit from that because they get an abundant and more affordable supply of food. Mr. Krehbeil.

Mr. KREHBEIL. Sounds like Mr. Robbins' answer was pretty good. I think I'll just follow him.

The CHAIRMAN. Mr. Blubaugh.

Mr. BLUBAUGH. I think in Oklahoma, our share of the direct payments, I guess you would say, is very small compared to the Midwest Corn Belt where they're able to get the LDP's and they're able to get the countercyclical payments. Our part in Oklahoma is so small, I don't know that there's anything left to cut here in our State, because we have such few dollars actually going to our producers here, mainly because we're using the old wheat basis for figuring that revenue.

The CHAIRMAN. Let me ask you a follow-up to that, because that area of the country you just named to the north of here is producing more and more of those, particularly corn and soybeans, but other commodities, sorghum and so on, can move in the direction of producing energy.

Do you think that that significant shift and increase in demand if it needed is sustained, will reduce the need for some of these payments? I don't mean eliminate the program, but that the payments will be, on a historic average, less because of that new source of supply that should drive up the price.

Mr. BLUBAUGH. Well, I hope so, I hope so. I hope that the need for the ethanol and the biofuels will drive up the prices where maybe we don't need the level of support. I hope that comes, but we're not there at this point.

The CHAIRMAN. I guess here in Oklahoma, \$65 a barrel oil isn't all that popular. Depends on who you are and where you live.

Mr. LUCAS. Exactly.

The CHAIRMAN. Mr. Kouplen.

Mr. KOUPLEN. Going back to the original question, the fruit and vegetable people, in Farm Bureau, we've long had the issue of fruit and vegetable people wanting to be a part of the program, but to be honest with you, Congressman, I think at this time, the fruit and vegetable growers are more concerned about labor and the issue of immigration and how it will affect them than they are with the commodity programs.

I think they're real concerned about how this whole issue could affect them, as far as getting the labor they need to grow, or gather, their crops.

I think they're just like us. They have a multitude of problems, and at this time, the commodity program probably is not the highest thing on their priority list.

The CHAIRMAN. Well, actually, we've been to California, we've heard from witnesses in Michigan, and other places as well, who are not asking to participate in a program similar to the commodity programs that corn, and soybeans, and wheat, rice, peanuts, and some others have, but they are interested in help with value added, they are interested in help with research, they are interested in help with marketing, and so, while those are not as substantial, there's definitely a major push going on with those groups to try to be treated to a greater participation in the next farm bill.

Mr. KOUPLEN. I think they do have a greater opportunity to be part of a collaboration on their crop, because there are fewer of them, the growers in that area, than there are some of the commodity programs, so I think those areas—I can see their need for assistance, then.

Mr. LUCAS. With that, the Chair would like to turn to Mr. Holden for an additional question.

Mr. HOLDEN. Mr. Crall, just curious, I think you said there had been a 30 percent reduction in planting. Are peanut farmers leaving farming, or are they going to some other sector?

Mr. CRALL. They're growing other crops. They're still farming, I believe. The shift has been from traditional peanut-growing areas to newer soils because of—with peanuts, we have issues with needing crop rotation. You can't grow peanuts on the same land year after year, or the disease will take you out. Soil-borne diseases—sclerotinia, web blotch, rhizoctonia, all kinds of wonderful things, pod rot—OK, there's a glorious disease for you. So we rotate it around.

Under the old program, basically we were growing quota peanuts at \$610 a ton. Additional peanuts were on a contract basis for export. The Peanut Program and, to a lot of the discussion, I think the key is the global markets. We need to be competitive in the international market move with peanuts.

Oklahoma, at one time, we grew over 100,000 acres of peanuts. The 1996 farm bill, we grew around 80,000 acres of peanuts. This year in Oklahoma, we're down to the lowest level since 1927; we only have 22,000 acres of peanuts. So, it's a drastic shift in the peanut-producing areas. Southern Oklahoma, southeastern Oklahoma,

they used to grow quite a few peanuts, but they're not there anymore. They've quit growing peanuts. They're doing other things.

So Freedom to Farm is wonderful—all the farmers try to grow what they think they can make money on, if that's a shift to sorghum because of water issues from corn, or because fertilizer is so expensive. Of all the commodities represented here, we are the most expensive to grow. You can easily get 400 to \$500 an acre tied up in a peanut crop, there are lots of inputs. In Oklahoma, we have to irrigate. We'll put 20, 25 acres of irrigation water a year to grow a crop, so it's very expensive to grow.

Mr. HOLDEN. Thank you.

Mr. LUCAS. Thank you, Mr. Holden. And a couple of observations and a question to, not only our witnesses on the panel, but the audience here. I know a lot of times, it seems like we ask questions from various perspectives and various points of view, but understand, the questions we ask you are the questions that we have to answer on your behalf when we get into the trench of political warfare of actually crafting the farm bill, so it's important to tell those perspectives.

Now, from a personal point, a question that I've asked at virtually every hearing we've had, tell me guys, spread out across a good slice of Oklahoma, land prices today versus 5 years ago, versus 10 years ago: Up, down, sideways.

Mr. ROSE. Mr. Chairman, I'll respond to that. In our area, the Panhandle, because of the dry conditions we have, we have not seen a great deal of appreciation in land values.

Mr. LUCAS. And some of you are in areas where oil and gas is a factor, and that changes the whole curve. I understand that completely.

Mr. CRALL. And wind towers, as well.

Mr. LUCAS. And wind towers.

Mr. CRALL. In Weatherford, we're the windiest place in the State. That's why they sent me up here.

Mr. LUCAS. And I've resisted saying that.

Mr. CRALL. Yes, I appreciate that. Our land prices are considerably higher than what they were a few years back. But if you go to an auction, it's not farmers that are buying it, it's investors coming out to buy. They've got money, the stock market hasn't been as good, CD's aren't as good, so they want to own land, so they are investing in land. So our land prices are significantly appreciated from what they were, but it's not really farmers that are buying it, it's investors.

Mr. LUCAS. Which is one of Mr. Holden's key issues in Pennsylvania that we're working on, farmland protection.

Mr. ROBBINS. I would reiterate what he just got through saying. It's not the farmers that are driving—the land prices are up slightly where I live. Most of the land that's increasing in value is river bottom land, and grassland that has pheasants, quail, or bobtail deer, and wild turkeys running on it. People are getting out of the cities and coming out and buying up some of this farmland, and I believe, and know for a fact, that's what's driving the land prices in my part of the State. Thank you.

Mr. KREHBEIL. And as you alluded to, if it is a farmer buying farmland, he's buying it with money that was pumped out of the

ground, or free flows out of the ground on one of his other farms in the form of oil or gas.

Mr. BLUBAUGH. I have to agree with the other panelists. Land prices are up in my area considerably from what they were, but again, it's not the farmers that are buying the land, and less animal production. It is these out-of—let's say the city investors, that are coming out, and the hunting is a big deal. People coming out, they'll buy a farm just to hunt on it and just to use it for recreation. That's what's driving the land prices up. It's not for the production value of the farm.

Mr. KOUPLEN. I agree on part with the rest of the panel, but you will find that the prices are up substantially more around the urban areas. You will find those prices the farther away you get, the urban pressure is less evident, but it's the urban people and the recreational users, those type individuals, that are the pushing the price of land up, not the production agriculture aspect of it.

Mr. LUCAS. Thank you, and thank you, panel. You've been very insightful. I would once again reiterate the goal of the committee is to do what rural America, what production agriculture, wants to do, and we work in a very diligent fashion to try to accomplish that in the political environment we work in back in our Nation's Capital.

Just think for a moment back to the 1996 farm bill, a year when many people said we would not pass any farm bill, we passed a farm bill—dramatic change to the policy flexibility, the concepts of the annual payments, keeping the LDP payments. 2002 comes along, and basically, you say to us, after 5 good years of weather across the country as a whole, that's great, but the production levels are such we've got to have an extra safety net, and we added on the countercyclical payments.

Mother Nature's not smiled on us quite so kindly, weather-wise, since then, and it puts us in the challenge whether that extra layer that you asked for, and we worked diligently to provide—the gentleman from Loke and the gentleman from Abilene last time, chairman and ranking member of the full House Agriculture Committee—now Mother Nature goes the other way. Just remember, when you ask us to do something, we may actually do it for you, and be prepared for the consequences. Thank you. With that, let's dismiss this panel and bring panel No. 2 to the table.

We would like to introduce Mr. Scotty Herriman, producer, South Coffeyville; Mr. Trey Lam, producer from Pauls Valley; Mr. Joe Popplewell, pork producer from Hennessey, I should know that; Mr. Ladd Lafferty, producer from Watonga.

While the panel is coming up, I would be remiss if I didn't note that there are a number of members of the State legislature here today, a number of our statewide office holders in positions of responsibility for the conservation of agriculture, too many for me to name off, but I just want to note that the committee's appreciative of having the leadership from so many different perspectives of the State of Oklahoma in attendance today to observe this process. And with that, whenever you're ready, Scotty, you may begin.

**OPENING STATEMENT OF SCOTTY HERRIMAN, PRODUCER,
SOUTH COFFEYVILLE, OK**

Mr. HERRIMAN. Mr. Chairman, members of the subcommittee, I am Scotty Herriman, a farmer from northeast Oklahoma. I do grow the commodities that were at this table in the past session, with the exception of peanuts and cotton. I am vice president of Oklahoma Association of Conservation District (OACD), and a member of the Nowata County Conservation District Board.

On behalf of OACD, our local districts, our directors, employees, associate members, and thousands of Oklahoma landowner co-operators, I want to take this opportunity to testify in support of the conservation title of the 2002 farm bill, and to suggest for your consideration ideas for the improvement and expansion of the current USDA conservation initiatives. My comments will be brief, but I have submitted more detailed testimony in writing for your consideration.

First, let me say that OACD believes that the 2002 farm bill marked a watershed for conservation. The expansion of the existing program such as EQIP, CRP, combined with the creation of new initiatives, such as the Grasslands Reserve Program and the Conservation Security Program, has set the tone for the delivery of assistance to producers, helping them to address environmental concerns through cooperative, voluntary, locally-led means instead of through heavy-handed regulations.

Through these assets, we have addressed many natural resource issues. However, we still have much to do. We must maintain this level of conservation if we are going to help producers address natural resource challenges. We must maintain the commitment Congress made for conservation in the last farm bill, and build on its success.

We also must remember that program funding is not all that is needed. Technical assistance dollars must be made available, so that these programs are delivered effectively, and that producers have the assistance they need to address the natural resource issues on their land. The current level of financial assistance, while welcome, is straining the delivery system. Congress should ensure that accurate funding is provided for human resources to deliver the farm bill program, and that this delivery should be done through the existing NCRS system, in cooperation with the local conservation district, and the various State conservation agencies.

Congress should also reinvest in general technical assistance for producers through the NRCS. We have lost some of our past focus on non-farm bill program conservation while delivering these new farm bill program dollars. It is this work that often shows landowners what issues they need to address, which then leads to the utilization of farm bill programs. Landowners also often follow up on the work they have done through a program like EQIP by asking the local NRCS staff what other improvements they could make in their operation. This wouldn't happen without non-farm bill technical assistance through NARCS in cooperation with the local conservation districts.

Many of the changes in technical assistance in the last farm bill didn't perform as anticipated. The push to move towards private sector service providers is the best example here in Oklahoma. In

Oklahoma, few private sector TSP's are available for hire for the landowner, and those that are there charge far above the percentage of program dollars that NRCS has traditionally utilized in the farm bill. Private sector TSP's in Oklahoma just hasn't worked.

What has worked is the utilization of the partnership between NRCS, the Oklahoma Conservation Commission, and the local conservation district in farm bill delivery. By training districts and the State employees to help deliver farm bill programs and do conservation planning, we have been able to officially deliver the program dollars we have seen since 2002, while leading the Nation in size for the new programs, such as TSP.

We believe NRCS should have greater flexibility to build on this type of success. We also believe in the practice of utilizing local conservation district boards as the entity that sets priorities for local conservation, as done by NRCS in Oklahoma, should be the model nationwide. In Oklahoma, our local landowners, through their locally elected conservation district directors, help set the priorities for conservation work in their local area. After all, who knows better the needs of the local people than the people who live there.

We feel it's time to write into the farm bill the role of the conservation districts as an entity to help set local conservation priorities. In the area of programs, the OACD feels that EQIP is working well. We would ask that the funding at the current levels be continued or increased, and that Congress take into consideration the technical assistance needs necessary to deliver this program.

WHIP, or W-H-I-P, however, is facing a backlog of applicants who can't take advantage of the program, due to inadequate funding. WHIP, if properly funded, could become the flagship program for helping improve our wildlife habitats on working lands nationwide. It just needs more funding.

CRP is a popular program that we support that has done much good in its retirement of some of the most marginal land. With that said, OACD feels that more flexibility is needed in this program to address sensitive lands. Too often, CRP has been treated as a program to reduce commodity production rather than a conservation program.

There has been much interest in the Wetland Reserve Program in Oklahoma. Unfortunately, recent changes in the land appraisal process have reduced participation. Last year, 24 WRP projects were planned in Oklahoma, but only eight were accepted by the landowners after the appraisals were completed. We would ask that the WRP be taken out from under the CRP cap for counties.

When considering the Grassland Reserve Program, Congress needs to seriously review this program to ensure that it is meeting the vision of Chairman Lucas. The rental rates that have been set by FSA have limited the number of acres that can be enrolled. Additional funding is needed to increase participation. We support this program, but we feel it needs review.

Finally, we feel that the Conservation Security Program is an exciting new program that has been implemented in a manner consistent with the vision laid out by Congress. It has not been implemented. This program should be nationwide in scope and be a continuing option for landowners.

As with any new program, producers often learn from mistakes in the original sign-up period, or they see ways in which they can improve their operation for next year's participation. This is not possible in CSP as currently interpreted by the administration. We support CSP, but we ask that Congress ensure that it be run in the way it was intended in the last farm bill.

Before closing, I should mention the importance of watershed rehabilitation programs in the State of Oklahoma.

I will yield my time to the next speaker that he will address these watershed items.

Again, I want to thank you for the opportunity to testify before the subcommittee. We appreciate all you do for rural America, and we ask that you continue to support American agriculture and the protection of our natural resources through voluntary, locally-led, cooperative conservation. Thank you again for allowing OACD, and myself, this opportunity.

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

Mr. LUCAS. Thank you, Scotty. Mr. Lam, when you're ready.

STATEMENT OF TREY LAM, PRODUCER, PAULS VALLEY, OK

Mr. LAM. Thank you. My name is Trey Lam. I live and work along the Washita River in Garvin County, Oklahoma. I'm an agricultural producer, a Garvin Conservation District board member, and representative of the National Watershed Coalition. On behalf of the coalition, I appreciate the opportunity to provide testimony at this hearing.

My home county has 13 USDA-assisted watershed projects that include 146 flood control dams. These dams provide over \$10 million in annual benefits in flood damage reduction, soil erosion control, water supplies, recreation, and fish and wildlife habitat. The dams benefit over 2,890 farms and ranches, protect 125 bridges and hundreds of miles of roads, and provide protection to 135,000 acres of floodplain. Two of the lakes formed by Watershed Program dams provide the sole source of water for more than 7,000 residents in Pauls Valley and Elmore City. These and thousands of other projects across the Nation are important to the land and water resources of this country.

Principal to our perspective on this program is the notion that it is a federally-assisted partnership. State and local entities must be full and equal partners in shaping the future, just as they were when the legacy of this program was created. The Watershed Program works where other Federal water resource programs won't. This success may be credited to local watershed sponsors, who make decisions as close to on-the-ground issues as possible.

While the watershed program has its own authorizing legislation, the current farm bill has served as an important piece of legislation to drive the rehabilitation of aging dams built under the Small Watershed Program. The National Watershed Coalition believes that the current farm bill process presents a continuing important opportunity for Congress to extend public benefits derived from work performed under the watershed program.

We ask that you authorize funding in the farm bill, and then join us in working with appropriators to ensure authorized funding is

fully appropriated. All across this Nation, local sponsors are working diligently to secure land rights and generate matching funds. Based on the credibility and accountability of these local sponsors, much has been achieved in anticipation of Federal watershed rehabilitation funds. A reliable and steady appropriation from Congress is needed to assist sponsors in making efficient use of often limited local resources.

Focusing farm bill land treatment programs on watershed boundaries designated by the USDA Watershed Program will not only yield the desired on-farm benefits, but could also enhance and extend the public benefits derived from existing watershed projects.

Through this coordinated approach, conservation goals in both program areas can be achieved. This coordinated approach may reduce the perception of land treatment program duplication, and may make more funds available for unique watershed program specific areas, such as flood control and municipal and industrial water supply. We ask that as you develop the conservation title of the new farm bill, that you continue to consider the importance of the USDA Watershed Program, as well.

In closing, I recognize this subcommittee does not have direct responsibilities in the area of appropriations. However, I would be remiss if I did not point out that the impact of the decline in funding for the watershed program can certainly be seen around the Nation, as well as in Oklahoma. We believe that the administration's recent funding requests are not in touch with the reality of the documented demand for the program.

In Oklahoma, we have a significant number of well-planned projects that are waiting on the necessary funding to be completed. Fluctuations in the USDA Watershed Program budget make it difficult to maintain experienced watershed personnel and sufficient technical assistance.

We appreciate the recent efforts of the committee to provide oversight for the watershed program. We support your efforts to educate the administration at all levels concerning the necessity to embrace and acknowledge the value and success of the watershed program, and the investment, benefits, and partnership it represents. We believe that the watershed program is a model of effectiveness and accountability. We pledge our continuing support for your actions on behalf of watershed sponsors across the country. Thank you again for the opportunity to be here before you today.

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

Mr. LUCAS. Thank you.

OPENING STATEMENT OF JOE POPPLEWELL, PORK PRODUCER, HENNESSEY, OK

Mr. POPPLEWELL. Good morning, Chairman Lucas, Chairman Goodlatte, Ranking Member Holden.

I am Joe Popplewell, a pork producer from Hennessey, Oklahoma. I am currently serving my second term as president of the Oklahoma Pork Council, and I've been a member of the Oklahoma Pork Council board of directors for the past 6 years. I'm the operations manager for Seaboard Foods, where I have the responsibility

for 26,000 sows and their corresponding nurseries and finishing units.

Today, I am here to speak to you briefly about the leading role pork producers have played in advancing environmental considerations within the agricultural community, to summarize some of the challenges we continue to face, and outline a couple of solutions that we believe Congress should consider as it crafts the 2007 farm bill.

Over the last decade, America's pork producers have actively worked to address the environmental challenges before them in a cooperative and productive fashion, while at the same time, improving the quality of our products to ensure that we are meeting consumer demand. Pork producers have a well-deserved reputation as proactive stewards of a natural environment, and we're proud of this.

Despite these efforts, we are disappointed in the inability of EQIP to adequately assist pork producers in addressing environmental challenges. Additionally, many producers are fearful that some current Federal land use policies will increase the cost of feed grains to the point we may not be competitive in foreign markets. While all this is explained in more detail in my written testimony, I would like to point out a few items related to EQIP funding and the cost of feed grains.

In 2002 farm bill, pork producers were one of the leading advocates for the development of the EQIP program. Despite this effort, pork producers have not received a proportional share of those same EQIP dollars. Looking back at the 2003 program year, using NRCS data and our own estimates, pork producers nationwide received about 3 percent of the cost share assistance provided to all livestock producers that year. That's less than the share provided to pork producers in the other category, a category that includes goat, emu, ostrich, elk, and bison producers.

Despite our work, and that of NRCS headquarters to address this issue, essentially the same result occurred in the 2004 and 2005. Here in Oklahoma, we produce 5 percent of the Nation's pigs in 2004. While EQIP funding for livestock in Oklahoma more than doubled to 19.1 million in 2005, EQIP contracts for swine-related operations here in Oklahoma during that time were \$553,000, or just three one-hundredths of a percent of total EQIP funding nationwide.

Furthermore, for defined swine operations, EQIP contributions totaled only \$1,083 over the same 3-year period. In my written testimony, I've identified a number of reasons for the funding shortfalls, as well as reasonable solutions. Due to time constraints, I will share just a couple of these now.

EQIP cost shares assistance isn't generally available for mobile equipment. One of pork producers greatest needs is new, expanded, and more precise manure utilization to aid efforts to apply the manure to more crop acres, and much of this equipment is mobile.

For example, in Oklahoma, most producers only need to remove solids from their lagoons once every 10 to 12 years. And it doesn't make economic sense for a single producer to produce the agitator, the pumping system, and equipment needed for land application for a job that we do only once every 10 years. If it were possible for

a group of producers in a geographic region to share a set of equipment to accomplish this goal, that would be a tremendous step.

NRCS's commitment to helping the use of comprehensive nutrient management plans is not yet accurately reflected in the EQIP program, and insufficient EQIP funds have been made available to support farmers' use of technical service providers, TSP's, to acquire CNMP's. The EPA has recently proposed, as part of a new Federal cap over this, requiring NMP's as a part of the MPDES permit system. This will dramatically increase the need for TSP's to help develop the required plans.

Finally, a word about grant supplies. With the increasing national emphasis on ethanol production, pork producers are concerned about the increases in feed costs due to increased demand for corn and milo. Here in Oklahoma, we're a corn dusted State. At least three new ethanol plants are planned for Oklahoma in the near future, which will add to our deficit. The tremendous increase in corn and milo demand for ethanol production has made it imperative that new sources of grain be identified.

One possible solution would be to allow the flexibility under the CRP program to place land back into production. Without an increase in grain production, the resulting increases in feed costs will result in pork producers being unable to compete in the international marketplace.

Mr. Chairman and members of this committee, on behalf of OPC, and pork producers across the Nation, I'd like to thank you for holding this hearing and allowing us to share our thoughts with you. Pork producers are working hard to maintain, strengthen, and defend our competitive advantage, both domestically and internationally. We look forward to working with you to fight for U.S. agriculture.

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

Mr. LUCAS. Thank you, Joe.

STATEMENT OF LAD LAFFERTY, PRODUCER, WATONGA, OK

Mr. LAFFERTY. Chairman Goodlatte, Subcommittee Chairman Lucas, and Ranking Member Mr. Holden, my name is Lad Lafferty. I am currently a vice-president for Wheeler Brothers Grain Company in Watonga, Oklahoma. Wheeler Brothers is a family-owned grain business that was founded in 1917, and I am a fourth generation family member employee of the company.

I am here today to present testimony on behalf of the Oklahoma Grain and Feed Association, commonly known as OGFA. OGFA is the voluntary trade organization of the State's grain and feed industry. Our member's customers are the grain producers of this State, whose success determines the livelihood of our members. OGFA appreciates the opportunity to present its views regarding the writing of the 2007 farm bill.

The topics I am going to address today include commodity programs, land grant institution research, Conservation Reserve Program, otherwise known as CRP, Environmental Quality Incentives Program or EQIP, and crop insurance program reform.

Commodity programs should not create artificial markets, which in essence make planting one commodity more financially attrac-

tive than another. Planting decisions should be based on prices derived from free market world supply and demand factors. The 1996 farm bill, dubbed "Freedom to Farm," went a long way toward correcting these inconsistencies, and we hope future commodity programs continue along the same lines.

Additionally, commodity programs should be geared toward those persons actually farming the ground. A July 2, 2006 Washington Post article entitled "Farm Programs Pay \$1.3 Billion to People Who Don't Farm" illustrates this point.

The article states that in the past 6 years, at least \$1.3 billion in subsidies were paid to individuals who didn't farm at all, and in many cases, a seed was not even planted. The article further states that developers buy farmland and advertise that homeowners can collect farm subsidies on their new backyards.

OGFA recommends that countercyclical and loan deficiency payment programs be terminated in the wheat program and that current direct payments be increased. Not only will this get more money into the hands of the producers, but it will be WTO-friendly, as it is not considered a traditional price support program. Drought and high fuel and fertilizer costs have put many southern plains wheat farmers in financial trouble. To continue our national policy of providing affordable, high quality food to the consumer, these wheat farmers need assistance.

Land grant institution research. We believe land grant institutions should receive more funding for research in genetic crop improvement and in production system efficiencies. In particular, wheat has very little private sector research investment and is thus more reliant on public sector scientific initiatives for research. This, in part, may be due to foreign consumers' objections to genetically modified wheat. However, as the world consumer eventually becomes more accepting of the idea of GMO wheat, the research of such will be significantly behind other crops without more public sector research investment.

Conservation Reserve Program. Highly productive land should not be taken out of production through Government incentives. Whole farm CRP acres are having a devastating effect on rural western Oklahoma, due to the combination of acres being taken out of production and payments often going to absentee landowners who contribute little or nothing to local economies. This has had an additional effect of establishing barriers to farmers, particularly young farmers trying to become established. The Government should not compete for the rental of productive land.

The 25 percent county acreage maximum rule also needs to be re-examined. For example, in Ellis County, Oklahoma, the number of CRP acres approaches 50 percent of the acres that were actually cultivated in 1988. Acres that were included in the old Soil Bank program in the 1950's were erroneously included in the counting of total acres of farm ground. This allowed the number of CRP acres in many counties to be almost twice the amount that it should have been.

Emphasis on conservation must be changed from a land and financial retirement program to one that emphasizes environmental benefits. The focus should be on highly erodible, marginal, or envi-

ronmentally sensitive lands. On productive land, the focus should be on filter strips.

Current CRP rules on filter strips, however, do not allow the wheat stocker/producer to use this program because of grazing restrictions.

It is not practical for the producer to fence off filter strips during the stocker grazing season. The rule needs to be changed to allow grazing of filter strips during the non-growing season. Such a change in the rules would be good public policy in that research has shown that filter strips improve run-off water quality by as much as 30 percent regarding nutrients and silt.

The EQIP program needs to be modified to get funds into the hands of the true producers for real conservation efforts. Landowner use of EQIP funds to simply improve the recreational use of their land is not good use of conservation funds.

Crop insurance program reform. This past Oklahoma wheat harvest, some of our member's customers experienced instances whereby a Federal crop insurance adjuster estimated a producer's wheat yield at X, and the producer decided to not take the insurance, but instead harvest the wheat for seed. In the end, the field ended up yielding anywhere from three to four times above the adjuster's estimate.

We recommend either the yield estimate part of the program be changed, or alternatively, allowing the producer to take the insurance payment, but allowing the option of harvesting the crop and repaying the insurance amount.

Between a yield estimate made in late March and harvest time in early June, a positive weather pattern can make a significant positive impact on wheat yields.

This concludes my statement. Thank you.

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

Mr. LUCAS. Thank you, Lad. Let's visit for a moment about CSP, GRP, and some of the other programs that were new in the 2002 farm bill. USDA is going through the process of opening CSP up on a watershed by watershed basis, a very limited number of places, a very limited number of producers.

We had a hearing with the director of FSA nationally, and the Under Secretary for Natural Resources, USDA, once again a few weeks ago, and I asked the question: If CSP was to be available for all producers across the country—because I have this strange concept that I've developed in my town meetings down through the years, everybody needs to be a part of it if it's going to happen—the Secretary responded, and I believe, correct me, Mr. Chairman, if my memory is a little soft, I think he said something to the effect of \$10 billion a year would be what the cost would be to run the program nationwide and let everybody in.

I guess, Scotty, your observations under the scenario where it's going to be difficult to come up with \$10 billion anytime soon, give me your feel about CSP, and then we'll touch on GRP for just a moment.

Mr. HERRIMAN. CSP, of course, it's limited to certain areas of this country and watersheds, as I understand it.

Here in Oklahoma, we have an area east of the Poteau River area, I believe, that has addressed this issues and many, many takers on that CSP monies.

There are others that, according to the farm bill, were aligning their selves to get ready to participate in this, and now perhaps there's no money at all. It is a very important program, but again, I can't elaborate much more than that. I realize that dollars are going to be short, but the program is going to work.

Mr. LUCAS. Ten billion dollars a year—if we redirect almost all of the commodity title money, and then we just hit the threshold. I have problems with programs where everybody can't participate.

Let's talk about GRP for a moment, and I'll speak very carefully, because my good friend here is extremely focused on farmland protection, and GRP has become, under the way leadership in USDA in the Nation's Capital have directed the rules, another kind of Greenbelt protection program, but initially, it was envisioned that when we put the bill together, the section of the bill in the subcommittee that I chaired in 2002, as a way for pasture people to be able to have resources to participate in all the conservation programs.

From your perspective, is there anything wrong with directing this back so that that GRP payment would enable people to do the kind of purchase? Because traditionally, in pasture agriculture, it's not cost effective to do a lot of things that you need to do to be truly environmentally sensitive, and a commitment for however many years the GRP payment would have been matching dollars. My short question is, how have you seen GRP implemented so far.

Mr. HERRIMAN. That's a tough question for me to answer. It really is. I'm not up to speed enough to elaborate on it at this time. We have people that are, but I am not.

Mr. LUCAS. OK. Trey, let's talk about watersheds for a moment. The rehab program, I would like to think—of course, being the author of the bill, I'd like to think it's a great thing, hopefully some of you agree with me—but that one of the successes of the program has been that by making the rehab dollars available based on a formula, going out and gauging the problems of spring water control, flood control projects across the country, and allocating those dollars based on where the greatest need is, the money, at least in the hearings we've had, appears to go to the necessary resources.

I hope you would agree with that, although we do have a struggle in making sure all the farm bill dollars set aside really get there in each appropriation sight, and we'll touch on that in a few moments, but one of the frustrations that I've had as a member is the new construction money seems to all be earmarked primarily from the other body of the United States Congress.

Would you agree that we need to come up with some way to target the money for a new watershed construction in a priority way, the way we've done the rehab program.

Mr. LAM. I think that would be an excellent idea. With the rehab program, we'd go out and put the high-hazard dams—we'd decide where the greatest risk is with a dam failure breach or problem, or which dam has the greatest problems. We try to go out and fix those. We went and looked at watersheds on which had the greatest risk of flooding, the greatest risk to, in dollar figures or in other

infrastructure, or in water supplies, or water flow, those kinds of things all figured into the formula, and then finally based on that, rather than based on earmarked for certain areas. I think that would be an excellent idea.

Mr. LUCAS. Lad, Joe, and I'll turn to my colleagues here, the demand for grain for both livestock and energy production—we touched on this with the earlier panel. Do you believe that there are sufficient acres of high-quality CRP presently that if they were allowed or flexibility was maintained that we'd come back into production and meet those needs.

Mr. POPPLEWELL. I'll defer most of that question to Lad. He's more of an expert in that area than myself, but personally, where I've grown up in Kay County, as well as the area I live in now, my personal belief is yes, that there are some acres that would be profitable and would be able to be used for other things, other than CRP.

Mr. LAFFERTY. Are you talking about in the Nation or—

Mr. LUCAS. In the Nation.

Mr. LAFFERTY. If you say 36 million acres, I mean, if you go through the numbers, and see what's it going to take to have a decent carry-out on corn, acre-wise, through the next 2 or 3 years, it doesn't take that many more acres. I mean, you're going to have to get the acres out, but not anywhere about 36 million, so I'd say just simple math would say yes, there's plenty of acres.

Mr. LUCAS. Would you be agreeable, Lad, one of the most popular parts of the farm bill among the general public is CRP, the effect on wildlife, water quality, all those things—would you be supportive of the concept of allowing more flexibility in those acres.

By that, I mean allowing some of the more productive land, perhaps which should probably not have been there in the 1980's or even in the 1990's to come out, if that created a vacancy for perhaps more environmentally sensitive land in other places to come in, maintaining the same X number of acres. If we allow more sensitive land in, more productive land to come out, increase our grain stock, and perhaps enhance our environmental benefits, you wouldn't have any problem with that, would you.

Mr. LAFFERTY. No, I wouldn't have a problem with that. That would be a step in the right direction, for sure.

Mr. LUCAS. With that, I turn to the gentleman from Pennsylvania.

Mr. HOLDEN. Thank you, Mr. Chairman, and Mr. Lam, you mentioned a problem with the appropriators. The three of us are well aware of that. As a matter of fact, you can go back to Kika de la Garza and Jamie Whitten, and that's an ongoing battle, and we're all in this together, trying to make sure our priorities are met. My favorite subject—both chairmen are tired of hearing of—but we talked last time about prices of land, and in the Northeast and mid-Atlantic, we do have this tremendous developmental pressure on farmers.

We had a similar hearing for this in Harrisburg, Pennsylvania, and I asked a dairy farmer, what's his biggest challenge in agriculture, and he said, houses. That's how strong developmental pressure is in our area, and that's why farmland preservation is so important and so successful in our region. I'm just curious, is it uti-

lized at all in Oklahoma? Does anyone take advantage of the Federal program to sell your easement out so you can't develop it, or is it not used at all in this region.

Mr. LAM. In our area, it hasn't been used at all. I think probably education on it is the most important thing because people don't understand the program. They think of private property rights, and any time you talk about easements or land, you say, they probably don't understand the program. I think education would be something we could do in that area.

Mr. POPPLEWELL. And I would just add that, back to your question initially, or in the last panel, our land prices have doubled in the area that I live in. Now, compared to Pennsylvania, or Iowa, or areas where the acreage is going to be considerably higher, the bottom line is, they're still doubled, and I think that education, as well, is the reason people don't understand about some programs.

And I'd also like to add that the reasons that our land has doubled is exactly the reasons the gentlemen in the previous panel talked about—people, either stockholders looking for a place to put money, or I say stockholders, people in the stock market, looking for places to put money, and as well, people coming and buying those areas for hunting and fishing.

Mr. HERRIMAN. I would elaborate on one thing on the GRP again, in connection with this. It's my understanding, GRP was set aside to reserve these lands over a number of years in time, but they had to have boundaries close enough to cities and what have you—

Mr. LUCAS. Because of the way the rules were put together.

Mr. HERRIMAN. The way the rules were put together, and Congressman, I do need to back up and say I do know a little bit about that. In our area in northeast Oklahoma, there are two boundaries in our county, but this is going at least hold off some of this ranchettes, if you will, homes and building out in the country, and in that respect, the GRP is doing the job that needs to be done. We just need more money to allow more acres to come into that. Yes, in northeast Oklahoma, we're 50 miles north of Tulsa. Obviously, we're getting the same that's been spoken about—hunters, investors; certainly not farmers, by any slant.

Mr. HOLDEN. And one other area that has jurisdiction, that this subcommittee has jurisdiction on, is credit. How are your credit needs being met? Is it farm credit system, or commercial banks engaged, or I'm just curious.

Mr. HERRIMAN. I can start by addressing that because I am a full-time farmer, and it's not easy. I do have a good banker, but the Federal assistance loans that go through the banks are being utilized.

The problem's been mentioned earlier today, after this year, this full year, of bad wheat, corn, soybeans, whatever, it is going to put a strain on each of us as individuals to go look our bankers in the eyes and come up with new ways to fund that farm next year.

Mr. HOLDEN. So you're dealing with commercial bankers and farm credit unions.

Mr. HERRIMAN. I am dealing with a commercial banker, and I do have a shared loan with the DSP.

Mr. HOLDEN. Anyone else want to add anything?

Mr. LAM. I will tell you in our town, we have a strong local bank. We also have a strong farm credit system, and they compete and by competing it makes them more flexible with farmers, more willing to work with you if you have a bad year, because there is another option. The farm credit system allows you to go somewhere else if you need to move away from the local bank. So they're diligent in making sure that the loans that they make are all good, but they are also very competitive.

Mr. HOLDEN. Thank you, Mr. Chairman.

Mr. LUCAS. Thank you. Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Chairman. In looking at the witness list, I see Mr. Popplewell, you are a pork producer.

Mr. POPPLEWELL. Yes, sir.

The CHAIRMAN. Tell me what the rest of you produce.

Mr. HERRIMAN. Yes, I am from northeast Oklahoma. I grow corn, soybeans, wheat, and milo, and cattle.

The CHAIRMAN. Mr. Lam.

Mr. LAM. We raise alfalfa, soybeans, corn, wheat, and we have Angus cattle.

Mr. LAFFERTY. We're a member of the Oklahoma Grain Feed Association, or country and terminal elevator business. We buy and sort wheat for farmers.

The CHAIRMAN. OK. You have a controversial legal dispute going on here in Oklahoma regarding the Circle of Provisions. Some of you are familiar with that, but particularly—I don't think we have any poultry producers here—but tell me your perspective on that.

Have any of you signed a consent agreement with the EPA regarding your future practices in order to try to avoid getting entangled in that? They're doing that not just here in Oklahoma, but all over the country, and if you have—I take it the answer is no? All right.

Well, tell me this. What confidence do you have that the Environmental Protection Agency, and other agencies like that, are going to write regulation in the future that will make it difficult for you to continue to engage in livestock agriculture, those of you that are in this business, and what can we do in the next farm bill to help you out.

Mr. POPPLEWELL. It is a very large concern of ours, the Circle is, and if it is—in trying to deem the livestock manure as hazardous waste.

The CHAIRMAN. A Superfund site.

Mr. POPPLEWELL. Yes, sir.

The CHAIRMAN. Well, we're very sympathetic to your concerns, but we're also interested in knowing what we can do to help you, and if you want to talk about the CSP program, I would be interested in hearing your thoughts on it, because that's one of the purposes of that program. However, it's been, though, somewhat limited, and might end up being; it's kind of had a rocky start, but it's also quite popular with those who are able to participate in it.

Mr. POPPLEWELL. I'm not an expert enough to—

The CHAIRMAN. So you've not participated in that.

Mr. POPPLEWELL. No, sir. That's correct.

The CHAIRMAN. And what about other things we might do for you?

Mr. POPPLEWELL. Well, let me finish with the Circle, and I just want to make sure that everybody in this room, as well as you gentlemen, know our position, and as you stated, we just want to make sure that, first off, that there's a lot of people, and there's some gentlemen in this room, that also do utilize animal manure as fertilizer, and with the additional costs of fuel prices, etc., energy resources, it's a good alternative to—

The CHAIRMAN. Attractive to use it.

Mr. POPPLEWELL. Yes, sir. I think that's just the main stance that we would have, is just for everybody to keep that in mind, and for everybody that is dealing with this, you gentlemen are obviously educated in this area, but to make sure that everybody understands that what Circle was initially developed for in the early 1980's, as you said, for superfunding—I mean, superfunding issues, as well as oil spills, and those types of things, so I guess that's our main stance on that. I don't know if I've completely answered your question.

The CHAIRMAN. Anybody else?

Mr. LAM. Well, I think with the continued support for the local watershed program and the General Conservation Program, we can function as coalition builders. I know the Oklahoma Association of Conservation Districts is working with Municipal League, City of Tulsa, Scenic River Authority, and the poultry producers on poultry waste in eastern Oklahoma and water quality issues.

They're trying to bring people together on these issues. But if we don't have the technical assistance of NRCS, and funding to go ahead and implement programs, these groups, when they come together, want to do, then it's pretty ineffective. We could bring people to the table that have completely opposite views, maybe, or goals, but it's difficult to have a project go forward if you don't have the funding on it.

The CHAIRMAN. Chairman Lucas, in his questioning, touched upon the issue of greater flexibility in our programs to set aside land, and the CRP program, by far, being the most significant of those. I wonder if you might expand on that.

Some of those concerns we have, if we are going to increase our production of energy domestically from renewable sources, we're going to have to make some tougher decisions about that. The goal that we've set in the Congress—in fact, I think Congress will soon pass legislation that I've introduced, if any of the members of the committee are co-sponsors, to try to get 25 percent of our fuel needs met from domestic renewable resources, and animal waste could be one of those, and wood waste would be another, but obviously grasslands and croplands are going to be of primary interest.

The President mentioned switchgrass in his State of the Union address, and he did not do so just by picking something out of thin air; it's a native grassland, and it's estimated that it could produce three to four times as much ethanol per acre as corn produces, so—that's cellulosic ethanol—and the technology has been proven out, but the commercial viability of it is just in the process now of being established, so we're a few years off from that. But starting with this farm bill, we're going to have to start taking into account that need.

So what kind of increased flexibility do you think we should write into this farm bill? Is it harmonious to meet the needs of the horsemen that use some of your land, and certainly are very welcome in Oklahoma, to see that same land used for some type of crop production purposes, and obviously, some crops are more sensitive to that than others, and some are more workable than others, and some types of wildlife are more workable with that. So give me your thoughts on how much flexibility we can put into this farm bill in terms of multiple uses of our lands. Mr. Herriman.

Mr. HERRIMAN. I'm really going to have to be cautious with what I say, obviously, but there are acres, as Mr. Lucas has mentioned, that we probably could utilize for, if not farming, at least the production of these fuels. I would ask that they only be selected in the technical people describing what these lands would be, not just open the door for anyone that wants to cancel out their CRP contract with the farmers or whatever.

As far as the wildlife, I'm sure there's some adaptability there that can be give and take. So I would say the flexibility is there for the right technical people to address.

Mr. LAM. I would agree with that. I think if you have a formula for CRP land to come out, and with an effect on water quality, on stream bank erosion, on soil erosion, on downstream public water, you looked at all waterfall usage, and the future usage of that, and before you retired, or brought it back out of retirement, you went through that formula, and people that like the CRP program for conservation reasons, if they saw it was having a minimal effect on the environment, then they would be more willing to see it come out.

The CHAIRMAN. Mr. Popplewell.

Mr. POPPLEWELL. Well, I'd like to state for all of the grain producers in here that my family homesteaded in the Hennessey area in the late 1800's, and most of my family members are grain producers, so I'm very conscious to the efforts that are going forward there.

Having said that, the estimates that I've read through Feedstuffs magazine, etc., said that we're going to go from 2.1 million acres, potentially, of corn to 10 for ethanol production, so it's going to have to come from somewhere, and so I would be—and I think that some of the alternatives that have been listed, and I know out in Guymon, Oklahoma, I know when you go up into the South Dakota area, pheasant hunted a lot, and the strips as Mr. Herriman suggested, good viable options. So I think there's a lot of opportunity out there. We just need to flush them out.

The CHAIRMAN. Any opinion, Mr. Lafferty?

Mr. LAFFERTY. Well, I think that you definitely have to be flexible, there are subsidies involved in this ethanol production. There's a lot of research going into it, and we think, pretty much decided, it's going to continue to increase, and you're going to have to have the land available to produce the necessary feed stocks.

And then you also have the pork producer, the cattle producer, so on and so forth, that needs to keep the cattle in the feed yard, or what have you, and if you don't have the necessary acreage, then something has to give. And corn exports are less than 20 percent of our entire corn crop, so maybe that gives first, but that's

not a big cushion, and if we don't have the ability, I don't know exactly what you mean by flexibility, but if that means flexibility to bring the land out and have it produce, then yes, I agree with that.

Mr. LUCAS. If, Mr. Chairman, if bringing out less environmentally-sensitive land that would increase the productive capacity of the country, also creates a window of opportunity for environmentally-sensitive property, perhaps that's because of acre limits as a whole, or particular regions couldn't come in—I think that gives us a very positive message to deliver to our environment friends that we're trying to be responsible stewards yet increase our grain production in a positive way.

The CHAIRMAN. Well, I agree with that and that leads to my last question, which is, 36 million acres—just right, too much, too little? Mr. Lafferty.

Mr. LAFFERTY. It's too much.

The CHAIRMAN. How much?

Mr. LAFFERTY. I can't comment on that, because I don't know what energy values are going to do in the future. I don't know if in 3 years, we're going to be back to \$30 a barrel oil or \$100, and if we're at \$100, then it's way too much, if we're at \$30, then it's not too bad.

The CHAIRMAN. Mr. Popplewell.

Mr. POPPLEWELL. I will defer. Well, I'm certainly not an expert, but I think that as Congressman Lucas said, it's which 36 million, I think, is what's important.

The CHAIRMAN. So you stay at 36 million, you feel like that's the trade outs of productive land for—

Mr. POPPLEWELL. I think it's worked so far, but I don't think that's the magic number at all. I think, you could have less and still be just as environmentally sound, or you could have more. As long as it's the right acres, not the highly productive agriculture acres, but the ones that—

The CHAIRMAN. And you have more money. Mr. Herriman.

Mr. HERRIMAN. I think you had the answer; if more farm ground was taken out, the tradeoff would be there. As far as the total acres, I have no idea. If it comes to a method that would use some of that ground, then so be it.

The CHAIRMAN. OK. Very good. Thank you, Chairman.

Mr. LUCAS. Thank you. If my colleagues will indulge in one last question to Scotty and Trey. It was locally-led conservation and free to the upstream flood control dam system, locally-led conservation has driven so many farm bills down through the decades.

And my question then, to you gentlemen is, locally-led conservation: Still alive and healthy? Do we have more people willing to participate? Do we have less? Give us the—include the answering set period in this round—a report on the health and viability of locally-led conservation in Oklahoma.

Mr. HERRIMAN. The health is very good. Earlier, it was mentioned that Mr. Don, our State director, I will say that through him, I have a new meaning of partnerships. I always knew that a partner was a person that worked with you, et cetera. He has taught me to reach out to get below, or beyond that box. So yes, cooperative conservation is alive and well here in Oklahoma, because we have addressed BDQ people that 5, 10 years ago would

not have even associated with conservation, but now that we're incorporating that. So our local conservation initiative is quite alive and well here in Oklahoma.

We have a different audience out there that we are addressing than we were 10 years ago. I've been a conservation district director for 29 years. I would say it used to be easy because all we addressed was the issues on conservation on the land. Now, we go way beyond that. We're talking about water, we're talking about pollution, not only the soil and water, but the environment totally around it.

So yes, we are alive and well in Oklahoma, but we do need to watch as the new audience referred, more ranchettes, more people encroaching on those areas, that we never addressed before. But we are addressing those here in Oklahoma right now.

Mr. LUCAS. Thank you.

Mr. LAM. I think that locally-led conservation is very much alive in Oklahoma. I think that when you bring up an issue of, whether it's personnel, or whatever, that sparks people's interest, they show you just how much they care about conservation in Oklahoma. I think that the formula of Federal funding, State funding, and local funding has taught us how to be good partners, and how to work with other people, and how to seek outside sources of funding, and also outside people to help us with our projects.

And that has allowed us to reach out to groups like poultry producers, the nature conservation movement, hunting groups, municipal leagues, schools, towns—we can bring all those people together. I think they look, especially the conservation districts, as to be in support of conservation, to not be on one side, extremely environmental or extremely pro production agriculture. But we see that both of those can come together, and that's what we're providing.

Mr. LUCAS. The committee wishes to thank the panel, and without objection, the record of today's hearing will remain open for 30 days to receive additional material and supplemental written responses from witnesses to any question posed by a member of the panel.

This hearing of the Subcommittee on Conservation, Credit, Rural Development, and Research is adjourned.

[Whereupon, at 12:04 p.m. the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF SCOTT BLUBAUGH

Chairman Lucas, Chairman Goodlatte and members of the committee. Thank you for coming to Oklahoma for state producers to have the opportunity to testify with respect to policy considerations for the 2007 farm bill debate. We wish you could have seen our state in a different light with our ponds full, plenty of forage, hay in the barn, cattle in the pastures and grain bins to capacity. Unfortunately, the drought which has plagued us for more than a year continues to be an issue for state producers.

Good morning. I am Scott Blubaugh, a fifth generation farmer from the Tonkawa area. Both sides of my family homesteaded in the territories as they were being opened for settlement. I live on the farm that my family homesteaded during the opening of the Cherokee Strip in the home built by my grandfather. My operation consists of leased and owned land totaling 1,500 acres where I grow wheat, soybeans, grain sorghum (milo), corn and alfalfa and raise cattle. To underwrite our

operation, I also do local custom harvesting and my wife and I own a local Oklahoma Farmers Union Mutual Insurance Agency.

As a member of the Oklahoma Farmers Union, a part of the American Farmers and Ranchers family of companies, my activities have allowed me many opportunities. One of those opportunities is to serve on the board of directors of the Oklahoma Sustainable Energy LLC where our objective is to construct the first commercial ethanol plant in Enid, Oklahoma utilizing state grains—primarily grain sorghum to enhance producers' incomes and to help offset our dependence upon foreign oil.

EXTEND THE 2002 FARM BILL

First I will address the heart of the farm bill—underwriting the American food supply system for not only the benefit of farmers and ranchers but for the consumer. The latter perhaps benefits more than the producer from any bill that could be crafted. Yet, so many times agriculture takes the brunt of criticism.

Rural America's economy has deteriorated at a rapid pace as a result of skyrocketing energy expenses, low commodity prices, continued budget cuts and weather-related disasters. Cutting advance AMTA advance payments to 22 percent as part of the congressional budget deal could not come at a worse time for state producers already burdened as a result of wildfires and drought and little to no crop production. The word on this action with respect to these anticipated payments and which usually comes in December or January is now reaching the desks of local bankers. This is creating a great anxiety with the banking community. One of the busiest state agricultural bankruptcy attorney reports record numbers of producers that are lining up at his door to take steps to restructure in recent weeks.

World Trade Organization talks have stalled. A renewal of negotiations could use agriculture as a bargaining chip in the overall negotiations and apply new limits and disciplines for future domestic agricultural policies. We should not defer to WTO in any way to write our domestic farm policy. It is Congress' responsibility to write a policy good for U.S. producers and to find a WTO legal way to get funding to producers. Extending the current farm policy may provide U.S. negotiators with incentive to bring back the very best deal possible for American agriculture.

Our trade deficit continues to worsen. Agriculture exports have always been the bright spot to offset this number. This year we will likely import more agriculture products than we export. The U.S. agriculture trade balance has shrunk from a surplus of \$27 billion in 1996 to \$3 billion today. Domestic cattle markets have done well in recent years by borders being protected and beef being exported. However, grain producers need the same opportunities. Our government is trading grain farmers away.

We should negotiate at global trade sessions to maximize market access at the minimum amount of cuts to our existing programs. Insist on guarantees, which substantially increase market admittance on any individual commodity in both developed and developing nations. We must make certain that all countries stop the manipulation of shifting various agricultural products and commodities to the "sensitive product" categories. "Sensitive products" are simply a protection method for avoiding tariff reductions and subsidy cuts for some rather than all. Define the terms of agreement and call for all members to adhere to the policy. As additional trade leverage, strongly endorse and require at world summits, the absolute necessity for increased health standards for all agricultural products. U.S. offers far superior quality production at increased costs over the standards of other countries and not given credit for our excellence at the trade table.

The administration and Congress continue to cut funding from farm bill programs through the annual appropriations and budget reconciliation process while the farm bill has shown savings of more than \$15 billion in the first three years of enactment.

Oklahoma Farmers Union and producers just like me continue to oppose any dollar reduction of budgeted items in the 2007 farm bill over the previous bill. Our basic and fundamental position has always been to support the stability and continuation of the family farm. Our major points are to resist any budget cuts and give moderate consideration to minor lateral adjustments within the appropriations of the agricultural funds.

Extending the Farm Security and Investment Act of 2002 will ensure continuation of our economic safety net and other vital farm bill programs and allow time to improve on the current law and ideas being considered.

PERMANENT DISASTER AUTHORITY

The farmers and ranchers of Oklahoma as well as producers from across the country must have protection from natural catastrophes. The current global market is

unforgiving when a natural occurrence causes the producer to lose the momentum of supplying the demand. The contagious results of a drought disaster can impact the producer far beyond the year of occurrence. The global market views the interruption of supply as a grower flaw and leaves little chance for the producer to re-enter the competition. The economy of global market conditions must be stabilized by protective programs and minimize the interruption by drought disasters.

The 2002 farm bill was not however designed to provide protection or mitigate weather-related losses. Current risk management programs are also insufficient in addressing production and quality losses.

Farmers and ranchers across the U.S. have experienced overwhelming losses from weather-related disasters in 2005 and 2006. More than 50 percent of all U.S. counties have been declared primary or contiguous disaster areas by USDA in 2006. A year ago, nearly 80 percent of all U.S. counties were declared weather-related disaster areas by either secretarial or presidential declarations.

Oklahoma has been impacted by both drought and wildfires. The statewide drought started in the fall and winter of 2005. Because of the drought conditions, producers have had little to no wheat pasture for stockers this past fall and winter. Cowherds have been reduced or sold completely because of inadequate water, grass and hay supplies. The state wheat crop yielded 45 percent of its normal level, the lowest since the 1960's. Wheat farmers typically harvest 70 percent of their land, leaving the rest for cattle. This year they harvested 56 percent.

The cost of installing new wells, rural water connections and pumping or paying monthly charges for water are all additional costs to producers. Without grass or hay producers have purchased rations with high fiber content, at additional expense, to help their herds survive. To avoid the expense of sack feed and because of volume feeding, producers are acquiring overhead bins and truck feeder delivery systems to adequately feed their herds. Input providers are being impacted as producers are reluctant to apply fertilizer unsure they will have a crop established. Grain elevators are losing revenue usually received from grain storage due to the low-yielding crop.

Climatologists say it's the worst drought in a half-century for the state. The droughts of the 30's and 50's were similar in that they were a series of short, intermittent-term droughts, which together characterize a decade of limited rainfall. Oklahoma set a record for the hottest first six months of a year from January through June, making 2006 the warmest start to any year since records begin in 1895. These numbers do not include the triple-digit temperatures of July and August.

Solutions? The next farm bill authority should include a permanent disaster program to assist producers during times of natural disasters without relying upon yearly ad hoc assistance or the political climate in Washington. Such authority existed in the 1980's utilizing the Commodity Credit Corporation fund which Congress retrospectively refunded annually based on the expenses incurred during the year. Assistance to producers was immediate. In writing a new farm bill Congress must return to standing authority that allows funding to be available immediately for emergency assistance. Year around risk management protection programs for natural occurrences must be put into place in the new authorization. Minimum standards of rainfall could be established in states in order to have continuous implementation of expanding Conservation Reserve Program acres eligible for emergency haying and grazing for livestock producers.

A short term solution to this issue is to pass immediate emergency disaster assistance that is available immediately. Since nothing else is on the table, we would encourage you to pass the Senate Appropriations Committee-approved FY2007 Agriculture appropriations bill, which includes \$3.9 billion for emergency agricultural disaster relief. Legislation has been introduced for a \$3.3 billion package in the House but nothing has been put into an appropriations measure to date. The need is much greater than either of these amounts when both 2005 and 2006 losses are considered. Funding must come quickly and not 1^o years after the money is appropriated as was done in the last appropriations for crop and livestock farmers.

It is important to point out that under the current farm bill countercyclical payments have basically been a non-occurrence for wheat producers in Oklahoma. So, the recently accelerated release of countercyclical payments did not assist wheat producers since there was not a payment to be made.

The new bill should reform risk management tools in a manner that is structured to respond to severe multi-year weather-related disasters. Provide coverage for forage and specialty crops; indemnify livestock losses; and cover quality and market losses resulting from forced sales.

FUELS FROM THE FARM

America's addiction to foreign oil is threatening our national security. Foreign dependency will accelerate the emerging U.S. renewable energy sector and our goal of developing while growing America's energy independence. We should make use of renewable fuels which will increase domestic demand for surplus farm commodities, lower Federal outlays of farm subsidies, improve the environment, and decrease American reliance on foreign oil. Agriculture and renewable energy is the key to diversifying our energy markets and creating new economic opportunity for rural America.

Extraordinary rising costs of gasoline, diesel fuel, natural gas and petroleum-derived input products, such as fertilizer, chemicals and propane, are adding yet another economic burden to rural America. Farmers and ranchers are unable to pass along these increased production costs as other businesses can, because producers do not set the prices for their commodities.

Oklahoma Farmers Union is doing its part to assist with alternative fuels through affiliated Oklahoma Sustainable Energy LLC (OSE). OSE, in a joint venture with Chaparral Energy, will construct a 55-million gallon per year ethanol plant to be located in Enid. The plant will employ 30-35 employees and operate at over 96 percent efficiency 350 days per year. The facility will convert grain sorghum and corn into fuel-grade ethanol, distillers grain and carbon dioxide. The plant will annually convert approximately 20 million bushels of grain into approximately 55 million gallons of fuel-grade ethanol, approximately 200,000 tons of distiller grains and approximately 154,000 tons of raw carbon dioxide gas. To raise the necessary equity capital for its portion of the plant, OSE is currently conducting an equity drive offering up to \$14,000,000 limited liability company units for up to 499 investors.

Short term, Congress should provide assistance to farmers and ranchers to mitigate the impact of higher energy prices and declining commodity prices.

Long term, Congress should expand and accelerate Renewable Fuels Standard (RFS) for ethanol, establish RFS for biodiesel; extend and create renewable energy production tax credits for community-based projects; create a farm-stored Strategic Renewable Energy/Biofuels Reserve, dedicated to biofuels and energy feedstocks storage and production; expand biofuels distribution system.

CONSERVATION

One of the early programs that came out of the Dust Bowl era, was the Upstream Flood Control Program, PL-534 and PL-566. The structures these programs have built, have provided flood control, erosion control, wildlife habitat, fishing, irrigation, water for cities, communities and rural water districts, along with many other benefits. The PL-566 program needs reestablished and fully funded to continue this much needed infrastructure. The original structures are at the end of their constructive life. Many of these structures have served their purpose, but continue providing benefits. They need to be rehabilitated. Congressman Frank Lucas established the Upstream Flood Control Rehabilitation Program several years ago. This program has effectively rehabilitated some of these aging structures. However, much more needs to be done. We cannot afford to let this important infrastructure fall into disrepair, like the levees in New Orleans. It will cost less to repair these sites than to build new ones.

Cost share programs have been the base of the conservation effort in this state and across the Nation. Programs such as the Great Plains Program, Agriculture Conservation Program (ACP), Conservation Reserve Program (CRP), Environmental Quality Incentive Program (EQIP), Wildlife Habitat Incentive Program (WHIP), Conservation Reserve Enhancement Program (CREP) and Conservation Security Program (CSP) are some of the numerous programs offering landowners a VOLUNTARY hand in managing their land. These programs MUST continue or be reestablished to assist in this conservation effort. Some talk about a regulatory approach such as the past experience with wetlands; others talk about private industry paying for the programs, such as the current Oklahoma Attorney General's lawsuit; but programs that are voluntary in nature have established more wildlife habitat, erosion control, grassland plantings, and wetland protection than any regulatory or lawsuit could ever do.

Farmers and Ranchers must have income from their land. Conservation practices cost money to establish and maintain. Agriculture producers cannot sink dollars in a practice that do not have a pay back over a few years. A combination of EQIP and CSP has proved to be effective, yet not create an economic hardship to the agriculturist. CSP was designed to provide a level of income to producers following good conservation on their land. CSP has not been fully funded; implementation has been

spotty. The intent of Congress was to provide the needed assistance to producers who want to continue proper care of soil and water. Oklahoma has the highest level of CSP participation of any state because of the strong partnership over the last five to six years. Funding EQIP and CSP must be a top priority in writing the next farm bill.

Oklahoma's cooperative conservation partners have worked together on the key issues of water quality and quantity. Western Oklahoma has experienced numerous years of drought cities have rationed water and producers using irrigation have found more efficient methods of water application. Eastern Oklahoma has experienced drought and water quality problems for cities, rural residences and agriculture. The partners of local conservation districts, landowners, state and Federal monies have shown a 39 percent improvement of water quality in watersheds that best management practices have been used. EPA 319 funds have been used for implementation and monitoring watersheds that have plans approved. These partnerships have improved the environment and the economics of the area.

Oklahoma has the largest number of federally recognized Native American Tribes in the Nation. The relations with the partners and tribes have improved greatly over the last five years. They bring a wealth of caring for the land to the table. We have discussed the issues of tribal water and air quality standards within the partnership. Our concern is to have consistency in standards, whether in a watershed or an area of the state. The tribes have consistently worked with NRCS to establish excellent conservation programs and recognized those producers that excel in caring for our natural resources.

GENERAL TRADE RELATIONS

History has proven that free trade benefits have been largely over-estimated based on the outcome of virtually every proposed trade agreement. The promise usually far exceeds the performance. Agreements should provide for fair and profitable trade for the producer. Everyone seems to benefit except for guy on the land. Agreements must address all factors of trade including environmental standards equity, health and labor standards equity and currency manipulation.

The trade balance of the United States has shrunk from a surplus of \$27 billion in 1996 to \$3 billion today. Free trade agreements such as the Central American, Australian and Oman agreements did not address persistent global overproduction capacity, ensure net U.S. agricultural export expansion or increased market share and did not seek coordination and enforcement of competition policies. Trade promotion authority forfeits Congress' rights to amend U.S. trade legislation.

The relationship with Japan has been nothing less than on again off again. A recent and singular error by Atlantic Veal and Lamb reported "We sincerely regret that we shipped product not approved for export to Japan," said company's president, Philip Peerless. The USDA Findings and Actions Report came to this conclusion, "The investigation revealed this incident was the result of a failure on the part of the exporter and USDA personnel to know which products were eligible for shipment to Japan. By agreement with the Government of Japan, no vertebral column was to be shipped. Vertebral column was shipped in one (1) box labeled Hotel Rack and two (2) boxes labeled Trimmed Loin. While some evidence and history of error has occurred, the incidence of 3 boxes is hardly a true representation of the overwhelming volume and quality of previous proven shipments. Based on reports of the U.S. Cattle and Beef Industry prepared by Cattle-Fax in Oct of 2004, "U.S. cattle producers were the second largest supplier of Japanese beef and beef variety meat imports in 2002, supplying over half (51 percent) of the beef products imported by Japan in 2003. Japan's foot dragging attitude may be based on unfair trade tactics due to Australia's market surge during our absence. At best, the U.S. Meat Export Federation concludes," Australia has had three years to establish a now 80 percent share of the Japanese beef import market. That country was the top exporter of beef to Japan last year, exporting 440,304 metric tons, worth \$2.1 billion (U.S.)." While we hardly blame those countries who seek market opportunities, we question the validity of those products being as good or equivalent to our worst market shipments.

All foreign buyers need specific rules of engagement of trade negotiations for beef. We should make sure the parameters of sales is understood and once agreed upon would include penalties for deviations or violations. Any country, including Japan's erratic behavior, sets uncomfortable precedents of acceptable behavior for economic trade techniques for others such as China and Korea. The interruption of a U.S. billion dollar market export should not be established by three cases of beef products. The economics of market trade cannot be the scapegoat of senseless world political statements.

We should stop the association of beef trade with any country with a history of unchecked BSE. The U.S. relationship with Canada's co-mingled beef creates suspicions and doubt of the overall quality of U.S. beef shipments with foreign consumers. We must be committed to the necessary inspection personnel and equipment for compliance according to the trade agreements. It is a priority to create or seek out an immediate replacement for the beef production volume, which is normally reserved for countries that exaggerate conditions and create gaps in flow of beef exports. The focus on the American beef industry should be evaluated on the basis of a "technical violation and not a beef safety issue."

Congress should require the necessary enforcement for the 34 approved plants to continue to ship quality BSE free products. Agree that all U.S. beef shipped for Japan must come from cattle less than 20 months old with no brain or spinal material included. Make sure Japan embraces a gradual increase for the next two violation free years the change for the age increment to include animals of 24 months and under in age. Necessitate a specific agreement for the insurance of sale and shipment of American beef to Japan including provisions for the removal of diseased beef without interrupting continuous shipments.

RURAL DEVELOPMENT/VALUE-ADDED GRANTS

We want to thank you Congressman Lucas for your assistance in the Value Added Developments Grants through USDA Rural Development. Two of these grants will result in an ethanol plant in Enid and an oilseed processing plant in western Oklahoma.

The new farm bill must include renewed authorization language and funding for the Value Added Development Grants. These grants help lay the foundation for small business development in rural Oklahoma and the Nation. Projects resulting from these grants add value to raw agriculture commodities creating jobs and additional cash flow to rural citizens. These grants have given hope to agriculture producers who have weathered drought and tough economic times in the state. They help foster new ideas and business development in parts of the state that need a boost.

NEW OPPORTUNITIES

In this bill we must identify the unmet needs of agriculture. Recognize the requirements in conservation, environmental performance, research and discovery. Increase the production of bio-fuel commodities for their use in food, fuel, industrial uses and exports. The use of bio-fuels production for ethanol produces a considerable "cake" by-product for animal feed groups. Increased production provides more biofuels and animal food while decreases the practice of un-needed conservation programs. Recognize and project the highest global demand of agricultural products for the next ten years and prepare the agricultural industry to supply the demand. Every effort should be taken to ramp up agriculture science with monetary incentives to develop higher product yields with value. Initiate an aggressive use of the advance technology of the United States agriculture products to provide a decisive edge in the global market. Better utilize the dominant and superior telecommunication capabilities of the U.S. to enhance the demand from foreign markets. Aggressively develop a marketing program for American agricultural products matched to targeted areas

Thank you for coming to Oklahoma and please carry our message back to your colleagues in Washington as you craft the next farm bill which we hope would be an extension of the basic commodity program and slightly adjusted in other areas.

STATEMENT OF SCOTTY HERRIMAN

I am Scotty Herriman, an agriculture producer from northeast Oklahoma, Vice President of the Oklahoma Association of Conservation Districts (OACD) and a member of the Nowata County Conservation District Board. On behalf of OACD, our local Conservation Districts, our directors, employees, associate members and the thousands of Oklahoma land-owner cooperators, I want to take this opportunity to submit testimony in support of the Conservation Title of the 2002 farm bill and to suggest for your consideration ideas for the improvement and expansion of current USDA conservation initiatives.

First let me say that we at OACD believe that the 2002 farm bill marked a watershed for conservation in the United States. The level of interest in conservation and the corresponding funding of voluntary, locally-led conservation initiatives nation-

wide marked a new area in the partnership between the Federal and state governments, local conservation districts and individual landowner cooperators in the locally-led, voluntary protection of our soil, water, air and wildlife habitats. The expansion of existing programs such as the Environmental Quality Incentive Program (EQIP), the Wildlife Habitat Incentive Program (WHIP), the Wetlands Reserve Program (WRP) and the Conservation Reserve Program (CRP) combined with the creation of new initiatives such as the Grasslands Reserve Program (GRP) and the Conservation Security Program (CSP) has set the tone for the delivery of assistance to producers, helping them address environmental concerns through cooperative approaches instead of heavy-handed regulations. With the help of the assets provided in the last farm bill, we have made a significant impact on the landscape and have addressed numerous natural resource issues. Truly the conservation title of the farm bill has extended the opportunity for USDA financial and technical assistance to every corner of the state and all segments of Oklahoma agriculture.

That said however, we have much more to do. We must maintain this level of commitment to conservation as we move into the next farm bill if we are going to help producers address the myriad natural resource challenges they face. An example of one such challenge is the spread of the eastern red cedar, a native plant that has broken its historical bounds in our state due to changes in land use over the last 100 years. This invasive species is currently infesting 700 acres of Oklahoma every day. That's 700 acres every day lost for grazing, 700 acres every day on which wildlife habitat has been degraded or destroyed and 700 acres every day that presents a greater fire hazard due to the existence of this highly flammable tree. In addition, the red cedar and the more aggressive salt cedar consume on average 100 gallons of water per tree per day. Clearly this presents a challenge for landowners that must be addressed. Currently, we do not have the EQIP funds sufficient to address the challenges presented by invasive species such as the Red Cedar while at the same time continuing the other work we do in conserving our soil, protecting our water and improving wildlife habitats. We must maintain the commitment Congress made for conservation in the last farm bill and build on its success to address these types of challenges.

As we renew the Nation's commitment to conservation however, we must remember that program funding alone is not all that is needed. Technical Assistance dollars must also be made available to ensure that these programs are delivered effectively and that producers have the assistance they need to properly address the natural resource issues they face on their land. The current level of financial assistance, while welcome, is straining the existing delivery system. Congress should ensure that adequate funding is provided to NRCS for the human resources to deliver the various farm bill programs. This delivery should be done through the existing NRCS system in cooperation with the local conservation districts and the various state conservation agencies. Congress should also re-invest in general technical assistance for producers through the NRCS. With the increase in program dollars we have seen since 2002, we have lost some of the past focus on conservation planning and assistance to landowners with non-farm bill program conservation. It is this conservation planning that often shows landowners what natural resource issues they need to address on their land which then leads to their utilization of the farm bill programs. In addition, landowners also often follow up on the conservation work they have done through a program like EQIP by asking the local NRCS staff what other improvements they could make to their operation. Without a solid level of technical assistance support locally through NRCS in cooperation with the local conservation district, this help would not be available and this additional conservation work would not take place, leading to greater challenges in the future and more pressure on landowners.

Many of the changes in the area of technical assistance in the last farm bill, while well meaning did not perform as anticipated. The primary example of this was the push to move toward private sector technical service providers (TSP). While this concept looked good on paper, in reality it has been a bust. In Oklahoma, few private sector TSPs are available for hire by landowners. In addition, those that are in business charge a level far above the percentage of program dollars that NRCS has traditionally utilized for farm bill delivery. These providers also are often hesitant to deal with producers with only a small number of acres in need of improvement. Private sector TSPs seem to prefer larger projects with a much larger pay scale. While the push toward private sector TSPs has not been successful in our state, one change to the delivery system that has worked is the utilization of the partnership between the NRCS, the Oklahoma Conservation Commission and the local conservation districts in farm bill delivery. By training local district employees and Conservation Commission employees to help deliver farm bill programs and do conservation planning, we have been able to effectively and efficiently deliver the

increase level of program dollars we have seen since 2002 while leading the Nation in sign-up of producers for new programs such as CSP. We believe NRCS should have greater flexibility to work with local districts and state conservation agencies to build on this type of success.

We also believe the practice of utilizing local conservation district boards as the entity that sets priorities for local conservation as done by NRCS in Oklahoma should be the model nation wide. In Oklahoma, our local landowners, through their locally elected conservation district directors, help set the priorities for conservation work in their local area, providing not only local input, but also local producer buy-in. This is how conservation was originally supposed to work. Who knows better the needs of the local area than the people who live there? NRCS should consult these local boards to ensure that they have the input of local citizens, not just from a statewide source such as the State Technical Committee, but from the landowners within a more limited geographic region. By doing this, NRCS would avoid "cookie-cutter" approaches that assume that one size will fit all. By moving more responsibility to the local level, NRCS would also enjoy the support and buy in of the local producers who elected the board members and who know them as neighbors and friends. It is much easier to have a local producer convince a landowner of the need to address a natural resource issue than to have someone from Washington D.C. or even Oklahoma City try and do it. We at OACD feel it is time to write into the conservation title of the farm bill the role of Local Conservation Districts as the entity that helps set local conservation priorities. We also believe it is time to place all USDA conservation programs including CRP and GRP under the conservation district/NRCS umbrella.

In the area of farm bill Programs, OACD feels that many improvements can be made to the existing alphabet soup of conservation initiatives. First, we feel that the current rate of cost-share to producers needs to be reviewed. The current rates of cost-share today are often times too low to allow farmers and ranchers who are suffering economically to participate. This is especially evident in this record drought year. Because of this, absentee landowners with non-farm income and those many consider as "hobby farmers," (people who live on acreages in the country but work primarily in the city) are the ones who can most readily take advantage of farm bill conservation programs. While we wish to serve these customers and are appreciative of their participation in conservation programs, we believe some thought should be given to ensuring that full time agriculture producers have the ability to access programs, even during down turns in the agriculture economy. We also believe it is important that the next farm bill continues to tie participation in USDA programs to a conservation plan. These plans help producers identify needs on their land and help set the stage for good stewardship work by the landowners. We believe conservation plans are a critical element in the delivery of Federal conservation programs and should be a part of the next farm bill.

We feel EQIP is, for the most part, working well. We would ask that funding at the current levels be continued (or increased) and that Congress take into consideration the technical assistance needs necessary to deliver this program. WHIP, however, currently is facing a backlog of applicants in Oklahoma who cannot take advantage of this program due to inadequate funding. If this program is continued, it should be funded at a much higher level. We continue to see an increase in interest in wildlife habitat improvement and protection from our cooperators. WHIP, if properly funded, could become the flagship program for helping improve our wildlife habitats on working lands nation wide.

CRP is a popular program that has done much in its retirement of some of our most marginal land in Western Oklahoma. During this record drought, one can speculate that much of this land would again be subject to wind erosion on par with that of the 1930's if it was again in crop production. That said, OACD feels that more flexibility is needed in this program to address sensitive lands. Too often CRP has been treated as a program to reduce commodity production rather than as a conservation program. That said we support CRP.

There has been much interest in the Wetlands Reserve Program (WRP) in Oklahoma. Unfortunately recent changes in the land appraisal process have reduced participation. Last year 24 WRP projects were planned in Oklahoma. Of these only 8 were accepted by landowners after the appraisals were done on the land in question. We would also ask that WRP be taken out from under the CRP cap for counties. We have land in Oklahoma, especially in the panhandle, that could be under the WRP today except for the fact that the counties in which this land resides is currently at or over its CRP cap. This needs to change.

When considering the Grassland Reserve Program (GRP), Congress needs to seriously review this program to ensure that it is meeting the vision of Chairman Lucas. The rental rates that have been set by the Farm Services Agency (FSA) have

limited the number of acres that can be enrolled. Additional funding is needed to increase participation. This program could play a major role in protecting ranchlands and preserving certain sensitive ecological habitats, but as it is currently being implemented, few acres are being enrolled. We support this program, but we feel it needs review.

Finally, we feel that the Conservation Security Program (CSP), like the Grassland Reserve Program, is an exciting new program that has not been implemented in a manner consistent with the vision laid out for it by Congress. The concept of rewarding landowners for practicing stewardship is one that we whole heartedly support. The possibilities of rewarding those good stewards of the land while providing additional motivation for other landowners to follow the lead of their more conservation minded neighbors are incredible in their possible scope of reach. That said, the way the program is currently being run falls short of this goal. The practice of only signing up certain watersheds and then closing the program for that area does not meet the vision that was laid out for this program in the 2002 farm bill. This program should be nationwide in scope and be a continuing option for landowners. As with any new program, producers often learn from mistakes in the original sign-up period or they see ways in which they can improve their operation for next year's participation. This is not possible in the current framework of CSP as interpreted by the administration. We believe the intention of this program was for it to be a nationwide, multi-year program instead of the limited program currently being run. We support CSP but would ask that Congress ensure that it be run as it was intended in the 2002 farm bill.

Before closing I also should mention the importance of the watershed rehabilitation program to the state of Oklahoma. Our state is home to the first flood control dam built in the Nation, Cloud Creek Watershed Dam #1 near Cordell in Washita County. Oklahoma is also proud to be the home of the first fully completed Watershed Project in the United States, the Sandstone Creek Watershed Project located in the home county of Chairman Lucas, Roger Mills County. Today, Oklahoma has more flood control structures than any other state in the Union. These 'Silent Sentinels' continue to stand guard in our countryside, protecting our citizens from the devastation of life and property that results from flooding. Every year these structures provide an estimated \$71 million dollar in flood prevention benefits to the state. Clearly this infrastructure has been and continues to be a blessing for the citizens of Oklahoma.

Unfortunately, like any other piece of man-made infrastructure, these flood control dams must be maintained and in time rehabilitated. As you are well aware, the vast majority of the flood control dams built in the 1940's, 1950's and 1960's were constructed with a life expectancy of 50 years. It takes very simple math to deduce that the time has come for a major effort to be made in rehabilitating these structures. Currently, Oklahoma has 132 dams past their 50 year design life. Over the course of the next 10 years, we will see 1,100 more structures reach this dangerous road mark. Oklahoma has today rehabilitated over 28 structures, more than any other state in the country, but clearly more must be done. We all witnessed what happened in New Orleans when infrastructure dedicated to water impoundment was allowed to fall into disrepair. Clearly we want to ensure that these 'Silent Sentinels' remain on watch and remain silent because we are all too well aware of the noise they could make. We want to applaud Chairman Lucas and the other members of the Sub-Committee for their foresight in passing language in the year 2000 to provide matching funds from the Federal Government to help states begin the process of rehabilitating these aging dams. We also want to convey our appreciation for the continued funding of this program and for the increase this program received for 2006. Clearly we have a long way to go on this issue. We at OACD want to again voice our support for the Watershed Rehabilitation Program as well as the Flood Prevention Operations Program (PL78-534) and the Small Watershed Program (PL 83-566). It is our understanding that the watershed rehabilitation program needs to be re-authorized as part of the next farm bill and we would urge Congress to take this action.

Again, I want to thank you for this opportunity to testify before the Sub-Committee. We appreciate all you do for rural America and we ask that you continue to support American Agriculture and the protection of our natural resources through voluntary, locally-led, cooperative conservation.

Thank you again for allowing myself and OACD this opportunity.

STATEMENT OF LES CRALL

Mr. Chairman and members of the subcommittee:

I am Les Crall, a peanut producer from Weatherford, Oklahoma; here today on behalf of the Oklahoma Peanut Commission..the state's commodity board whose mission is "to enhance the viability of all Oklahoma peanut producers". Thank you for conducting this hearing and the invitation to comment on the affect of the 2002 farm bill on peanut producers and how the next farm bill might address the challenges facing our industry.

AN EXPERIMENT UNDER REVIEW

The Peanut provisions of the 2002 farm bill was a drastic departure from the "supply/management" programs authorized by Congress and administered by USDA during the previous four decades of farm legislation. In preparation of drafting new farm legislation it appears appropriate Congress evaluate the affects of the "peanut marketing loan" program, now in its fifth year.

A CHANGING LANDSCAPE

The entire U.S. peanut industry was affected by the peanut provisions of the 2002 farm bill, arguably, some good and some bad.

Farmers quickly learned the opportunity for profit under a marketing loan program would demand sustained exceptional yields. The result of the Legislation has been a dramatic shift in production areas in every peanut state. Thousands of 'traditional' producers nation wide have been squeezed out of business or have drastically reduced acreage because the cost of producing exceptional yields exceeds any profit potential.

On the other hand, producers with fresh ground (without the cost of controlling disease, insect and weeds) have been able to produce yields high enough to offer them a short-term profit. Over time, these new producers will face the ultimate challenge..how to stay in business.

Results.The subcommittee should be aware Oklahoma is one of several States adversely affected by the 2002 bill. With limited fresh ground available, peanut acreage in the state has dropped from 80,000 in 2001 to less than 22,000 acres today, the lowest since 1927. A farm producing less than 4,000 pounds per acre in Oklahoma is non-profitable under the 2002 legislation. In 2001 the state average yield was 2,600#/A. Thus, hundreds of farms all across southern Oklahoma have abandoned peanut production as a livelihood, idling substantial investments of specialized equipment non-adaptive to other production systems.

Loss of acres has resulted in loss of infrastructure..50 percent of the state's peanut buying points (marketing & storage facilities) and shelling plants have closed since the implementation of the 2002 Bill. Transportation costs to remaining facilities, has become a major factor affecting planted acres.

Entire communities have suffered economic losses as the value of peanut production dropped from \$55 million in 2001 to only \$17 million in 2005, in spite of the fact Oklahoma producers set 'per acre' record yields the past three years.

Without a supply management program, farmers in many states initially increased plantings, searching for a crop 'that will work'; resulting in a record surplus. The entire industry now faces a near disastrous situation..too many peanuts and no market.

Has the Program Worked?

The corner stone of the 2002 peanut legislation was the establishment of a marketing loan program that had long benefited producers of other program crops. This new concept for peanuts was designed to provide producers an essential level of cash flow at harvest via a non-recourse \$355/ton loan. Thus allowing the producer to orderly market his crop; which was pledged as collateral for the USDA loan. When the producer found a favorable price in the market, the crop could be sold and the USDA loan repaid.

The marketing loan program also allows the producer to fully repay the loan at a reduced amount when the commodity price in the market is lower than the loan rate established by Congress. If the repayment rate is greater than the prevailing market price, the producer can exercise his option to forfeit his crop to USDA under the non-recourse provision. Additionally, the farmer is given the option of foregoing the loan and selling the crop into the commercial market and taking a loan deficiency payment (LDP), which reflects the difference between the loan rate and the repayment rate.

How has the marketing loan worked after 5 years? Large government loan forfeitures and huge, price-depressing stocks should answer the question. USDA's 2006 planted acres report reflects a unified rejection by producers via a 30 percent cut-back in peanut plantings across the peanut belt. The Southwest is no exception,

with Oklahoma cutting 30 percent and Texas, the Nation's second largest producer, off more than 42 percent from a year ago.

Farmers must have a market above the \$355 loan. With escalating production costs of fuel, transportation, irrigation and pest control farmers can not afford to grow peanuts at loan price. Ironically, the 2002 program provides peanuts to buyers at or below the loan price; resulting in only limited marketing options for producers much above the loan. Thus, the marketing loan has become the market ceiling.

Time for a Fix

National Posted Price—Loan Repayment Rate: The reality is; peanuts are different than other commodities. Unlike wheat or feed grains, peanuts do not have a market price mechanism to allow a marketing loan & repayment program to function honestly. There is no peanut futures market; no daily market reports; no accurate or transparent method of price discovery.

USDA/AMS announced on September 1, 2006, that due to consolidation in the shelling industry and the increasing use of non-disclosure contracts, the agency can no longer accurately reflect prices for shelled peanuts. Updating of the National Posted Price report used for peanut loan repayment rates will now be attempted from survey data published weekly by USDA/NASS. A problem lies with price discovery. Congress should fix!

Smart-Card Technology was scrapped in the 2002 Bill. Prior to the new Bill, USDA used 'state-of-the-art' computer chip record keeping via the producer smart card. FSA effectively managed the peanut program at the local level with the use of the smart card to record certified planted & harvested acres, actual production records by farm number reflecting the peanut type, grade & value; and disposal of the crop. This record keeping device was the envy of other commodities. Without it, farmers must rely on paper records for production history and other requests by FSA. Without it, no one accurately knows how many Spanish, Runner, Virginia or Valencia peanuts were grown in the U.S.; nor the crop value, quality or disposition. Without it, important crop statistics are based upon industry surveys. The Smart-Card has a proven record; Congress should reinstate!

Peanut Handling & Storage is an important provision of the current program necessary to allow orderly marketing of the crop. In contrast to other program commodities, peanuts are a semi-perishable crop requiring adequate storage to maintain their viability as an edible commodity. The program provision was designed to protect the producer from costs related to storage and handling. Should in fact, the producer be required to bear that burden; the net result would be a \$300-\$310/ton peanut and the end of peanut production in Oklahoma! Government payment to handlers to cover these costs expire August 1, 2007...Congress should extend the payments for the 2007 crop and the duration of the next farm bill!

Payment Limitations is perhaps one of the most debated and most misunderstood issues. USDA payments are based upon an equitable risk per unit. An acre is an acre, no matter the size of the farm operation. For each unit of risk (large or small) the producer is equal. The fact that a family farm has incorporated for tax, management or other reasons should not be a basis for penalty. Payment limitations...Congress should not change!

Cost of Production adjustments were historically a provision of previous peanut legislation, not included in the 2002 bill. Without a mechanism to annually review and adjust up or down program payments, producers become locked in a 'fixed' price system for the life of the bill. USDA has the ability to survey production costs that could be annually adjusted via changes up or down to the program target price. Escalating input costs such as fuel, fertilizer and pest control warrant a cost of production adjustment to maintain the viability of the producer. Congress should consider an annual target price cost of production adjustment!

I want to thank the subcommittee on behalf of the Oklahoma Peanut Commission and the state's peanut producers for the opportunity to make suggestions for your consideration in future farm legislation. We thank the Subcommittee for conducting this hearing in Oklahoma, a proud state soon to celebrate our Centennial and our agricultural heritage. We look forward to working with you in the development of an improved peanut program that enhances the viability of our producers and carries out the intent of Congress.



Introduction

On behalf of the National Sorghum Producers, I would like to thank the House Committee on Agriculture for the opportunity to discuss the farm bill and its impact on the sorghum industry and my farm.

My name is Kenneth Rose, and I farm near Keyes, Oklahoma. I raise dry-land sorghum, wheat, and I have cow-calf pairs on our grassland. My cropping system is a 3-year wheat-sorghum-fallow rotation that enhances water conservation and prevents wind and water erosion.

This year has been a very trying year in my area of the country. Up to the middle of August, we had 6.5 inches of moisture in the previous 13 months, which is drier than any year of the 'dust bowl' thirties or the fifties. Rain received since then came too late to be much benefit to the already drought stunted sorghum crop, although our grasslands have recovered nicely. Normally, I can count on sorghum for a crop in the dry years, but this year has been extreme.

Regarding the sorghum industry, Ethanol production is the fastest growing value-added market for the sorghum industry. Producers are working to attract ethanol plants to their areas because it can increase the local cash price. Sorghum is a good fit for ethanol production because one bushel of sorghum produces the same amount of ethanol as one bushel of corn.

My written testimony will follow the Titles of the farm bill. However, the sorghum industry is interested in the Energy title and ready for energy production opportunities that are available for agriculture industry. Including sorghum in the Energy title expands the ethanol industry outside the traditional Corn Belt, as one bushel of sorghum produces the same amount of ethanol as one bushel of corn. I ask that this Committee give serious consideration and discussion to this growing segment of the industry. While the commodity title remains the most significant title to most sorghum farmers, the energy title and energy legislation are drawing an increasing amount of attention.

NSP represents U.S. sorghum producers nationwide. Our organization is headquartered in Lubbock, Texas, and our major responsibilities are to increase the profitability of sorghum producers through market development, research, education, and legislative representation.

NSP is committed to work with the Committee and its staff as it works to reauthorize our nation's farm laws. The organization and industry is very supportive of the current farm bill. However, we believe that Congress can clarify rules so that USDA interpretation does not impact producers' ability to use sorghum in a profitable cropping system.

A Brief Description of Sorghum

I would like to give you a brief history of sorghum and outline for you some of the unique opportunities that we have in sorghum. Sorghum originated in Africa and continues to be a staple in the diet of many Africans. Benjamin Franklin first introduced



sorghum to the United States in 1725. In the 1850s, the U.S. government began introducing various forage varieties from China and Africa.

This versatile crop is used both in human food systems and, primarily in the United States, as an animal feed. It is currently a non-GMO crop though NSP supports work on moving new technologies into the crop. Industrially, sorghum, like corn, is valued for its starch content. A prime example of this is the ethanol industry, which can use both corn and sorghum interchangeably in ethanol production. Its co-product, distiller's grain, is a valuable and widely accepted feed for both cattle feeders and dairies.

Industry Overview

The U.S. grain sorghum belt is primarily made up of nine states in the Great Plains, although grain sorghum is grown from California to New Jersey. Sorghum is produced in many of the states that you represent. This includes Georgia, Kansas, Nebraska, Mississippi, Missouri, Texas, Louisiana, Arkansas, Colorado, South Dakota, Oklahoma and California. Over the past ten years, grain sorghum has ranged from a high of 13.1 million acres in 1996 to a low of 6.2 million acres planted in 2006. Production from the last 10 years has ranged from 360 million bushels to 795 million bushels, with an approximate value of 1.1 billion dollars annually. In addition, sorghum utilized as silage, hay and grazing represents another 5 million acres of production. The USDA reported that in 2005, 311,000 acres of sorghum were harvested for silage, producing approximately 3.5 million tons of silage.

The U.S. is the world's chief producer and exporter of grain sorghum, and the crop ranks fifth in importance as a U.S. crop behind corn, cotton, soybeans and wheat. Roughly 45% of the crop is exported. Of the 55% of the crop that is not exported, 36% goes into pork, poultry, and cattle feed; 15% goes into ethanol production; 3% goes into industrial use; and 1% goes into the food chain. In fact, sorghum's newest market is the exponentially growing ethanol industry. We have seen a 57 percent increase in that market over the last 2 years.

The growth of the ethanol industry in the sorghum belt has been phenomenal. For example, my fellow sorghum producers in Kansas tell me that the newly built and proposed ethanol plants in the low basis area of their state will push the use of sorghum in the western part for ethanol production to 43% of their 2005 grain sorghum production. And, my fellow sorghum producers in New Mexico and Texas tell Board members that so much plants capacity is being built and proposed for ethanol plants in their area that they expect they could only supply enough feedstocks to supply 15 % of the plants needs.

Worldwide, approximately half of total production of grain sorghum is consumed directly as human food. In addition, the U.S. dominates world seed production in sorghum with a billion dollar seed industry focused on 200,000 acres primarily in the Texas Panhandle.

Sorghum is a unique, drought tolerant crop that is a vital component in cropping rotations for many U.S. farmers.



Title 1 -Commodity Programs

Our sorghum producers have been strong supporters of the 2002 farm bill due to the equitable treatment given sorghum producers relative to other feed grains, and would favor extension of the current bill. When a new farm bill replaces our current farm legislation, maintaining equitable direct payments and loan rates are high priorities.

Most of the sorghum growing region is in the High Plains region. Due to the extreme weather conditions that our farms are vulnerable to, on my own farm I would like to see more emphasis placed on a well funded and policed disaster provision that would supplement the limited safety net that crop insurance provides.

In preparation for the reauthorizing of farm laws, there has been a lot of discussion about what a Green Box farm proposal would look like and how it would operate. This task has been more difficult than we anticipated since the program cannot be based on price or production. Because of that fact, we ask that any new programs that may be developed or discussed to replace the current Commodity Title be thoroughly vetted with the agriculture industry after we fully understand any potential WTO agreement.

Also, if another new policy option, revenue assurance becomes part of serious policy debate, then it will be important for Members of the Agriculture Committee to understand that drought can impact the baseline period for certain regions like mine. Seventy percent of a zero yield is still zero revenue - no matter how high the price. This method of delivering farm benefits may not be "bankable" to many lenders.

Title II - Conservation Policy

Because of WTO issues, more emphasis may be placed of conservation funding in farm policy discussions. However, Oklahoma sorghum producers would be very, very anxious about switching from our current commodity based farm programs and farm policy to a completely conservation-based payment policy, if that new program would be operated similar to the current administration of the current programs. Our Oklahoma membership is frustrated with the operation of the Conservation Security Program in the state. Only a few Oklahoma farmers have even been allowed to apply for conservation programs under the CSP because of the limited geographical areas approved, and only a few of the applicants have been accepted.

Our members feel strongly that serious problems exist with the program. Their first concern is that the Agency started funding the top tier of the programs and focused the programs on what looks like an all or nothing concept. Either farmers were in all tiers or he was not in the program at all. Next, our livestock memberships say that they have numerous more hoops to navigate to be in the program, than they have for the crop side of the program. Finally, the CSP Tiers need to be designed to meet the dynamic management needs of an individual farm and maintain a degree of flexibility to meet the needs of the farm. Our organization feels that a CSP-type program can be an important part of a farm program; however, the rules of the current program and the implementation of the current program are causing a significant amount of frustration among our membership.



Conservation programs must be flexible enough to meet the diverse needs of different cropping systems and climatic conditions.

Water Use is Increasing

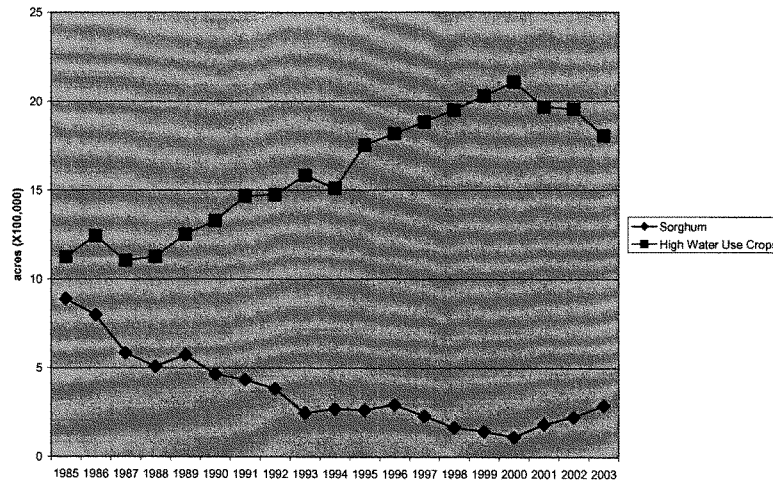
NSP applauds the committee for giving serious consideration to the future of water supplies in the semi-arid regions of the Plains, a region highly dependent upon sorghum, by creating the Ground and Surface Water Conservation Program as part of the Environmental Quality Incentive Programs (EQIP). However, more can and must be done to conserve water in the country's semi-arid agricultural producing region. NSP leadership believes that water quantity issues will continue to grow in importance and urgency as non-agricultural uses compete with agricultural uses in the sorghum belt.

Sorghum is known as a "water-sipping" crop. According to research conducted at the USDA Agricultural Research Service facility in Bushland, Texas, sorghum uses approximately 1/3 less water than either corn or soybeans, and 15% less water than wheat. It is a crop that is adapted to semi-arid agricultural regions; that is, regions that may receive less than 20 inches of rain a year or in higher rainfall areas that have soils with poor water holding capabilities. Corn and soybeans, on the other hand, are primarily grown in areas that receive 30-40 inches of rain a year. Because of its excellent drought tolerance and varied uses, sorghum is a viable option for producers in the Plains states.

Demand for water is increasing in the semi-arid regions of the U.S., especially for non-agricultural uses. NSP is concerned that the demand for water for both agriculture and non-agriculture use could create a climate of tension that is not productive for either group. Since 1985, five million acres of high water-use crops have replaced sorghum acres throughout the country. A prime example of this is Western Kansas, which has had serious drought for the last 5 years. Yet, irrigated acres for high water-use crops continue to increase. As a result, since 1985, Western Kansas has lost 600,000 planted acres of irrigated sorghum. Sorghum producers in Kansas and in other sorghum states believe that this trend needs to be reversed. The following chart shows the decrease in sorghum acres and the increase in higher water-use crops (USDA, NASS 2003 data).



high water use crops compared to sorghum



Increasing water demand for agricultural and non-agricultural use is also a global concern. According to the National Water Research Institute (NWRI), 25 percent of the world's population will be facing a severe water shortage by 2025. However, the NWRI says that 50 percent of the increase in demand for water by 2025 can be met by increasing the effectiveness of irrigation and by growing more water-use efficient crops like sorghum. This projection shows that appropriate crop selection and conservation efforts can save water.

Policy Changes

We have some particular concerns that we would like to share with the subcommittee in our efforts to strengthen federal government support for sorghum. Unfortunately, concentrating solely on improving irrigation technologies and increasing efficiencies does not necessarily translate into less water usage. NSP supports conservation programs that encourage planting of appropriate crops based on decisions that are environmentally sustainable and market driven. **Overall, NSP believes that Congress and USDA need to emphasize water quantity, as part of water management, in both current and future conservation programs.**

How Much Water Can be Saved?

A Regional Water Plan prepared for the Texas Panhandle Water Planning Group in Amarillo, Texas, has found that the water savings over 50 years for 524,243 acres spread over 21 counties in the Texas Panhandle would amount to 7,360,000 acre-feet of water if irrigated corn acreage were converted to irrigated sorghum. On average, that's 147,200 acre-feet saved per year. An acre-foot of water equals 325,850 gallons, roughly enough to



supply two, four-person homes with water for a year. Theoretically, this 50-year water savings would amount to 147,200 acre-feet per year, enough to supply water to 294,400 four-person homes in a year. For reference, the city of Austin, Texas, has 276,842 housing units and a population of 642,994, according to the U.S. Census Bureau.

On a broader geographic basis, the economic impact of converting irrigated corn and soybean acreage in the semi-arid regions to grain sorghum could be astounding. As you can see, encouraging the production of crops that are suited for a given area can save an enormous amount of water.

Current Water Situation

Currently, agriculture uses approximately 95% of the water drawn from the Ogallala Aquifer. Towns and cities within the region have aggressively educated citizens and in some cases implemented new laws that are forcing homeowners and businesses to conserve water. According to NRCS's National Water Management Center (NWMC), water use for irrigation has increased by 125% over the past fifty years. NWMC also found that some aquifers have been permanently damaged because the full recharge of depleted aquifers storage may not be possible where compaction has occurred. The sorghum belt remains in a long-term drought, and the water table continues to drop as ground water supplies dwindle. NSP encourages NWMC to proactively consider long-range planning that focuses on ground water, because agricultural and non-agricultural users are critically dependent on water.

Because of these concerns, NSP encourages the subcommittee to promote conservation programs that save water. We have members that tell the organization that they find that they use more total water as they increase the efficiencies of their existing irrigation and add more new irrigation systems. NSP views this as contrary to the goals of a program like the Ground and Surface Water Conservation Program, and contrary to the best interests of producers. We believe that the best way to conserve water is to lower the amount of water used within an agricultural system, not to just improve irrigation delivery technologies.

Improving Current Programs

NSP has encouraged USDA to develop a Ground and Surface Water Conservation Program that includes support for cost share-funds to significantly increase water conservation. NSP believes that EQIP and other conservation programs should be playing an integral part of a system-wide approach that encourages and rewards lower water consumption. For example, the program could encourage producers to change from an irrigated high water use crop that on average uses 30 inches of irrigated water from a center-pivot watering 125 acres, to dry-land sorghum. This would save 3750 acre-inches of water a growing season. An incentive equal to the difference between irrigated land rental rates and dry-land rental rates could entice farmers to make the conversion and help save water.

NSP members are concerned that concentrating solely on the use of efficient irrigation technologies may actually lead to an increase in overall water use. NSP leadership



believes that the main priority of conservation programs should be to provide incentives to farmers to recharge ground water by lowering water use. With that in mind, another significant water saving conversion would be the production of less water intensive crops on irrigated land. Using our center-pivot irrigation example previously mentioned, switching from a high use water crop to a water sipping crop saves over 912 acre inches of water a growing season. NSP members believe that an incentive to compensate farmers for changing to a less water intensive crop would result in significant water conservation. NSP urges NRCS to work with the local office and state committees to accurately determine the appropriate payment rate for different regions of the U.S.

Title IX – Energy

Sorghum can, and does, play an important role as a feedstock in the renewable fuels industry. The sorghum industry fully supports the President's call in his State of the Union speech to replace 75% of our imported petroleum products with domestic energy sources, like ethanol, by 2025. The sorghum industry believes that the federal government should provide significant research resources, as stated by the President, to the development of cutting-edge methodology for producing renewable biofuels. These technologies must be both economically competitive and feasible in order to meet the stated goal of reducing our "addiction" to fossil fuel by 2025.

The sorghum industry encourages the Agriculture Committees of both the House and Senate to present bold energy concepts and ideas when it re-authorizes the Energy Title of our nation's farm laws. We believe that the starched-based ethanol industry will play an important role in the renewable fuels industry, even after the cellulosic or biomass technology is perfected.

Background on Sorghum in the Ethanol Industry

Currently, 15% of the grain sorghum crop is used by the ethanol industry to make ethanol, and the number is growing each year. That production provides a source of ethanol and jobs outside of the traditional Corn Belt. Ethanol processing plants routinely mix corn and sorghum together in the production of ethanol. Expanding ethanol production outside of the traditional Corn Belt is a priority for the sorghum industry. Sorghum producers are working to expand their role in the renewable fuels industry.

Biofuels production in the United States has been fairly limited to the use of grain for production of ethanol. Research efforts within the United States have focused on improving efficiencies of the use of grains through optimization of enzyme technologies and feedstock improvements. The USDA and the Department of Energy have been investigating the use of biomass for production of biofuels. That research should translate into any crop that produces high biomass yields.

Sorghum has a unique role in bioenergy since it can and does fit into all three schemes for production of biofuels: grain, sugar-based, and biomass feed stocks. Hybrid grain sorghum is routinely used as a grain feedstock in the U.S., sweet sorghum is used widely as a sugar feedstock in India and China, and the potential to produce high tonnage biomass from sorghum silages is well documented in our forage industry in the U.S.

**Starch to Ethanol Production**

In the U.S., almost all of the current ethanol production is based on starch conversion, using primarily corn and sorghum grain, to produce ethanol. To the ethanol production process, starch is starch; it does not matter if the starch comes from corn or sorghum. Both starch sources yield identical amounts of ethanol from a bushel, and the distiller's grain has almost identical nutritional value when it is fed to livestock.

Sweet Sorghum Conversion to Ethanol

Most Americans know of sweet sorghum as the type that is used to make syrup or molasses. In addition, it is also used worldwide in the production of ethanol. India and China are producing ethanol from sweet sorghum. DOE is currently supporting a sweet sorghum pilot study in Florida to explore the potential of sweet sorghums as a feedstock for ethanol production.

Under current systems, the sweet sorghum is harvested, and then the stems are crushed and juice extracted at a mill. Some harvesters, though not economically viable at this time, are being developed to extract the juice in one operation and leave the residue in the field to be gathered at a later time. Once the juice is extracted, it is fermented and ethanol is produced. This ethanol is then distilled and dehydrated using the same equipment that is being used in ethanol production from starch sources.

Forage Sorghum's Role in Biomass

Forage sorghums can play a significant role in both cellulosic and lignocellulosic technologies that produce ethanol from biomass. Biomass production is based on utilizing the whole plant (or other organic waste) by breaking down most of the plant's major biological components to produce ethanol. In most cases, tons per acre of convertible biomass would drive the feedstock equation in the conversion to ethanol.

The federal government has been conducting research on the role of switchgrass in biomass production. Switchgrass and sorghum are both from the family Poaceae and probably diverged from each other sometime before the divergence between sorghum and corn. Switchgrass is a perennial plant that can spread by both seed and rhizomes. Though sorghum is thought to be primarily an annual plant, there are related species that are also rhizomatous and perennial. Both plants have open panicles and can be tall and very leafy. Forage sorghums excel in water use efficiency.

Conclusion

You have a big challenge on your hands rewriting our Nation's farm laws and I expect that farm policy in the next five years will look significantly different than it does today because of a potential WTO agreement, efforts to cut the deficit and increased interest in the Energy Title of the farm bill. My industry looks forward to working with you during these efforts. Again, thank you for your interest in sorghum.

A. Introduction

Good morning Chairman Lucas, Ranking Member Holdern, and the members of the Subcommittee on Conservation, Credit, Rural Development and Research.

I am Joe Popplewell, a pork producer from Hennessey, OK. I currently serve in my second term as president of the Oklahoma Pork Council (OPC) and am here to testify today on behalf of OPC. I have been in the pork industry since 1992 and am currently the Operations Manager of Cell #1 for Seaboard Foods where I have responsibility over 26,000 sows and their corresponding nurseries and finishing units.

Over the last decade, America's pork producers have played a leading role in advancing animal agriculture's environmental and conservation efforts. We have sought to proactively address a myriad of environmental challenges in a cooperative and productive fashion while at the same time improving the quality of our products to ensure that we are meeting consumer demand for leaner meat. Our work on the environment has included helping develop and advocating better best management practices (BMPs) for manure containment and utilization and engaging the U.S. Environmental Protection Agency in an effort to address concerns over air emission. Pork producers have a well deserved reputation as proactive stewards of the natural environment, and we are proud of this.

Yet, despite these best efforts, pork producers nationwide remain deeply disappointed in the inability of the U.S. Department of Agriculture (USDA) Environmental Quality Incentives Program (EQIP) to adequately address the top environmental challenges facing their industry over the next few years.

To fully understand the challenges that lie ahead for pork, it is important that you also understand the difficult challenges that pork producers have overcome.

B. Pork Producers Have A Long History Of Reacting Pro-Actively

1. The Birth of a New Pork Industry

In the early and mid-1990s, pork production in this country was at the tail end of a period of intense and major changes in pork operations' size, type of production, geographic distribution, marketing, and contracting arrangements. Economics, competition, and the need to produce for and sell in a global marketplace drove these changes.

All of the changes being experienced in the hog industry in the 1990s also brought some specific new challenges regarding management, treatment, storage, and use of our animals' manure. The newness of their systems, producers' evolving familiarity and surety with how to best operate and manage them, and some really tough hurricane or tropical storm-related rainfall and flooding conditions, contributed in the mid-1990s to a handful of large and catastrophic releases of manure to water. These incidents, along with similar incidents around the country and certain court decisions involving livestock agriculture, were dramatic wake-up calls for us. Fortunately, the industry heard those calls and decided to use the best science, technology, and practical know-how available

to develop effective and realistic solutions to these challenges. As an industry, we should have seen the water quality problems of the 1990s coming, and as an industry, we know that we could have done better. We do not intend to let it happen again.

In addition to recognizing this need and making this commitment, the industry also made a major shift in policy direction. We concluded that as an industry we needed to support and actively embrace a national set of water quality regulatory standards and guidelines that were sound, science-based, practical, and effective. We knew that our primary manure management systems, whether anaerobic lagoons or slurry storage facilities, could perform to the highest levels of water quality protections, a fact that's been borne out in the last several years by the rarity of direct releases of swine manure to creeks, rivers, streams, lakes, and estuaries.

For example, here in Oklahoma we have more than 220 licensed facilities plus additional 20-30 facilities that are not required to be licensed. Yet, despite all the dire predications some in the state are making, there were a grand total of three swine related discharges in the period between July 1, 2005 and June 30, 2006¹. Nationwide, the story is similarly positive. Between July 1, 2004 and June 30, 2005 the two largest swine producing states, Iowa and North Carolina, had a total of 35 discharges from approximately 8000 swine manure treatment or storage facilities. On average, less than one-half of one percent of all these facilities had a discharge. Our producers take great pride in these kinds of accomplishments, as they should, and are understandably distressed at the calls of some to treat manure in the same manner as a hazardous waste such as PCBs or mercury. This is particularly the case when the environmental impact of the pork industry is compared to other point source dischargers like municipal waste water facilities.²

2. A National Environmental Dialogue

Back in 1997, pork producers knew that without sound national standards, we would have a hard time achieving the kind of environmental successes that we can now report. More importantly, we feared that without national standards we would end up trying to operate under an extremely variable set of local and state standards, without assurance that these standards were rooted in sound and practical science. We feared that such a regulatory system would make it impossible to sustain hog production in the U.S. The first, most visible element of our commitment was to actively support and participate in the 1997 National Environmental Dialogue on Pork Production.

At the core of pork producers' interest in the Dialogue was our conviction that if we were to embrace water quality regulations, those regulations must be as uniform as possible to support a level playing field geographically and across hog operations of all

¹ These three discharges, none of which impacted any water body within the state were of 337 gallons, 673 gallons and 1500 gallons. The cumulative impact of these events is less than the monthly waste water generated by the average American

² For example, over this same period, municipal sewage treatment facilities in North Carolina had had approximately 2000 incidents of the discharge of human sewage into North Carolina's waters.

sizes. Looking back on the Dialogue in 1999, Mr. Glen Keppy, a pork producer from Iowa, past National Pork Producers Council (NPPC) President and Dialogue participant, said:

Through better and open communication, I believe that local and federal governments, conservationists, producers, and trade organizations can help insure an environmentally enhanced and viable livestock industry. For that reason, I was a member of the National Environmental Dialogue on Pork Production. It was composed of pork producers, county and state government officials, and special interest groups. We conducted a series of 12 meetings and discussed how we could work together to develop a blueprint for a level playing field so that producers could continue to produce pork in a manner consumers and environmentalists were comfortable with. You have to include everybody when you have a dialogue. You cannot just talk among yourselves³.

The Dialogue's participants included federal officials from the U.S. Environmental Protection Agency (EPA), the U.S. Department of Agriculture, heads of regulatory agencies from six states, and five pork producers. They met for a total of 24 days over the course of 9 months to visit farms and research institutions, and to share their experiences and perspectives. Public listening sessions were held to gather information and views from concerned citizens and scientific experts.

The Dialogue was an intense and extremely difficult process for pork producers. Nothing of this scope, magnitude, and environmental and business implications had ever been attempted before in our industry. It was path-breaking work, and it was hard. Hardest of all was to sit and listen to vehement critics of the U.S. pork industry. As they voiced their concerns and issues, pork producers understood that these views were sincerely held. Producers believed just as strongly that these views were often based on fundamentally incorrect understandings of modern U.S. pork production and pork producers. Producers also knew that if they did not listen to their critics, they could not get to the core of addressing the industry's water quality issues, nor could they restore their standing within their own rural communities. Some environmental groups chose not to participate in the Dialogue, and some participated and then chose to pull out when it became clear that the Dialogue was not a forum to pursue the elimination or substantial diminishment of the modern US swine industry. In the end, in spite of challenges, the aggressive policies and provisions proposed by the Dialogue and subsequently endorsed by pork producers has served as the foundation and guiding principles for our work with communities, state and federal regulators.

3. EPA's Regulatory Regime

Today, the policies and provisions articulated in the Dialogue have their direct counterparts in the state regulatory programs that emerged in the late 1990s and in the final federal Clean Water Act (CWA) Concentrated Animal Feeding Operation (CAFO)

³ "Emerging Issues in Public Policy: Highlights of the 1999 National Public Policy Education Conference"; St. Paul, Minnesota, September 19-21, 1999; Page 25; Farm Foundation, (<http://www.farmfoundation.org/pubs/emerging/99emergingissues.pdf>).

rule that the EPA released in 2003 (the 2003 CAFO rule). The 2003 CAFO rule made the most fundamental changes in 30 years to the federal CWA program for animal agriculture. EPA estimated that more than 5,400 swine operations would be required to get a permit under the 2003 rule and that the costs to swine producers for complying with the requirements would be approximately \$348 million over 10 years⁴. A significant part of these costs came from brand new federal requirements about applying manure to land. Producers were required to develop and use a nutrient management plan (NMP) and adopt specific land application management and conservation practices. Given that the swine CAFOs likely to be subject to the new CAFO rule had a land base for manure application of more than 2.6 million acres, these regulatory requirements had enormous implications for the management of farming resources.⁵

This year, EPA is revising the 2003 CAFO rule because of a landmark federal court decision in 2005, applicable nationwide, that found key provisions of the 2003 rule to be illegal. NPPC and other agricultural and environmental groups had brought several lawsuits against EPA when the 2003 rule was issued. All of these suits were consolidated into one case before the New York based U.S. Court of Appeals for the Second Circuit (*Waterkeeper Alliance, Inc. v. EPA*). The most important aspect of the *Waterkeeper* decision is the point that NPPC argued—that the Clean Water Act National Pollution Discharge Elimination System (NPDES) program regulates the discharge of pollutants to water, but it does not regulate the potential to discharge, as EPA had proposed for CAFOs. The CWA does not require CAFOs to get NPDES permits simply based on a potential to discharge, nor could CAFOs be required to demonstrate that they did not have such a potential. Only CAFOs that are discharging could be required to get a CWA NPDES permit. The Second Circuit agreed.

NPPC's position before the Second Circuit, nor the *Waterkeeper* decision, should not be misunderstood as somehow diminishing the 2003 CAFO rule's water quality protections. This is absolutely not the case. Under the *Waterkeeper* decision, all CAFOs still **must** prevent discharges of manure to water from their animal production areas, and they **must** still adopt sound and prescribed best management practices for the application of manure to land they own or control, including all records that demonstrate this is being done. Failure to do these things potentially subjects the CAFO to civil penalties of up to \$32,500 a day and criminal enforcement action. This is especially the case if the CAFO is operating without a CWA NPDES permit. Even if swine CAFOs choose **not** to get a federal NPDES permit, they will still choose to protect water quality through the prevention of direct discharges and the adoption of sound best management practices.

We believe that the *Waterkeeper* decision has resulted in the best of all possible regulatory worlds. First, we have clear and unequivocal national water quality protection standards that **must** and can be met by our producers and that will protect water quality.

⁴ EPA estimated the annual pre-tax costs for the final CAFO rule for large and medium CAFOs to be \$34.8 million. Applicable time period assumed here is 10 years, or a total of \$348 million. See Federal Register, Volume 68, Number 29, Page 7243m, Table 8.1.

⁵ Confined Animal Production and Manure Nutrients--Noel Gollehon, Margriet Caswell, Marc Ribaud, Robert Kellogg, Charles Lander, and David Letson Agriculture Information Bulletin No. (AIB771) 40 pp, June 2001. See Table 2. (<http://www.ers.usda.gov/Publications/aib771/>)

Second, producers can decide for themselves whether they meet these standards with or without a federal NPDES permit. Many of the dead-weight costs, as they are dubbed by economists, that come with a permitting program are thereby avoided, particularly the time and expense for the agency staff and the CAFOs of developing, managing, updating and revising the paperwork – without sacrificing water quality! This was the approach NPPC and pork producers advocated coming out of the National Environmental Dialogue on Pork Production, and today we believe it is still a sound approach.

Pork producers have worked hard at this and our other environmental issues and we are proud of what we have accomplished. Like anyone else, we are somewhat embarrassed by, but also greatly appreciate, when that work is recognized, as when US Environmental Protection Agency Administrator Steve Johnson addressed NPPC's annual meeting earlier this year. Administrator Johnson said:

I also want to compliment you on the way you have responded to your environmental challenges in general ... (and) the great work your environment committee is doing ... not only to address the issues of today, but also to meet the opportunities of tomorrow. The implementation of the CAFO rule, your efforts on advanced manure management, and your support for sound and practical regulatory requirements are but a few of the issues you are addressing. I encourage you to keep at this progressive, pro-active approach.⁶

4. Resource Conservation

Mr. Chairman, I would be remiss if I did not bring your attention to one final important note. Our nation and the agricultural community have turned their considerable skills and talents to dealing with the issue of resource conservation. As a sector, we have a long way to go, but I am highly pleased to report that pork producers are making a major contribution to energy independence nationwide and here in Oklahoma, are helping to reduce the pressures placed on valuable water resources, through the aggressive and efficient use of manure and waste effluent as a source of crop nutrients.

Throughout the country demand for manure and its nutrients far exceeds the supply. This is being driven by the high price of commercially available fertilizer, and in Oklahoma for water resources, and is a powerful incentive to recycle hog manure and effluent for other agricultural purposes. I think the value of these activities towards as an option to really help agriculture increase its foreign oil energy independence is something that needs to be considered more closely in the future.

Finally, a word about grain supplies. Oklahoma is currently a corn deficient state. Unlike many of the other top pork producing states, in Oklahoma we actually consume more grain than we produce. We have recently received word that at least three new ethanol plants are in the works within the state and their presence will further stress local

⁶ Administrator Johnson, 2006 National Pork Industry Forum, Kansas City, MO; March 3, 2006. See: <http://yosemite.epa.gov/opa/admpress.nsf/a162fa4bfc0fd2ef8525701a004f20d7/25e0a1bef216f58d8525713a00766bfff?OpenDocument>

corn supplies leading to even hiring feed costs. I don't know what the ideal solution to this situation is, but trust that the members of this committee will work hard to review current programs and find free market opportunities to relieve some of the pressures on feed costs we are feeling. In matters such as this, and in land use decisions generally, we need to generally trust the free market to play itself out with a minimum of government interference.

C. EQIP Program Amendments

NPPC and its pork producer members worked hard during the 2002 Farm Bill process, along with other livestock groups, to ensure that the EQIP program was well-funded and structured so that it could help our operations. When the 2002 Farm Bill was being developed, we were alarmed by the scope and cost of some ill-advised and inappropriate water quality regulatory measures that were proposed as part of the 2001 CAFO rulemaking process. We also knew that producers needed, or were going to need, help in adopting effective air emissions reduction or mitigation practices and technology, and wanted to ensure that the EQIP program was available to do that. Our producer members and many Members of Congress believed that the amendments made to EQIP in the 2002 Farm Bill sent a very clear and strong message that EQIP assistance must be made available for that purpose.

Furthermore, NPPC supported the 2002 amendment to the EQIP program that defined Comprehensive Nutrient Management Plans (CNMP) for livestock operations and made them specifically eligible for EQIP financial assistance. The 2001 proposed CAFO rule had included a requirement that permitted CAFOs to implement a nutrient management plan (NMP). The proposed rule also made clear that a CNMP prepared to USDA Natural Resource Conservation Service (NRCS) standards would meet most, if not all, of the NMP requirements. We had hoped that the EQIP program would be able to help pork and other livestock producers get CNMPs for regulatory compliance purposes as this would be extremely helpful in protecting water quality when applying animal manure to land. This position was fully consistent with the positions taken in the National Environmental Dialogue on Pork Production, and USDA-NRCS had clearly agreed with this view in the late 1990s. When the previous Administration issued its Clean Water Action Plan and the Unified AFO Strategy, the promotion and adoption of CNMPs by animal feeding operations of all sizes was the centerpiece of those plans with regard to agriculture and water quality.

When the 2003 CAFO rule was issued, some of the most ill-advised manure management technology requirements were removed because the EPA found them to be unsupported by the data when judged by the standards set under the Clean Water Act's effluent limitations guidelines. Even so, pork producers were expecting to face critical challenges to ensure that they had the equipment and capability to apply manure to great amounts of farmland to meet the rule's agronomic balancing of phosphorous requirements, to apply their manure at lower and more precise rates, and possibly to upgrade their manure storage facilities in certain instances to properly and completely support the new land application requirements. It was NPPC's assumption that pork producers needing financial assistance to adopt these technologies and practices would be able to get that through the EQIP program.

1. EQIP Implementation Results

Overall, despite the amendments made to the EQIP program discussed above and pork producers' active participation in several states with State Technical Committees and the related EQIP program development processes, the Program has failed to provide much more than a minimal contribution to pork producers environmental efforts. We first detected these trends in the data for the 2003 program year and did a thorough review of several hog producing states' EQIP programs to determine the source of the problems. We found no single factor responsible for this, but rather multiple impediments and program features that collectively lead to the EQIP program not working for pork producers.

In 2004, these findings and concerns were presented to NRCS Chief Bruce Knight and his staff along with a set of recommendations that pork producers believed could help correct this situation. It was encouraging when NRCS headquarters, under the Chief's leadership, developed a set of action items in response to our concerns and transmitted these to the NRCS State Conservationists. There were responses in states as well, where they moved to the use of a state pool of funds, created more incentives for CNMPs, and created additional opportunities for pork producers to engage with NRCS. In the end, unfortunately, allocations did not change substantially, as shown by the following data. I will discuss the data and then turn to some of the reasons we believe that this disappointing outcome persists.

Using NRCS data and our own estimates, we calculate that approximately \$1.98 billion in cost share assistance has been provided by the EQIP program to both crop and livestock producers between 2003 and 2005. Of this amount, approximately \$1.26 billion or about 63% of the total was provided to livestock producers. This percentage is consistent with the 2002 Farm Bill's amendment requiring EQIP to provide at least 60% of its funds to livestock and poultry. As we discovered in 2004, looking back at the 2003 program year, pork producers received about 3% of the cost share assistance provided to all livestock producers that year, less than the share provided to goat, emu, ostrich, elk, bison etc. producers (the "other" category). Despite our work and that of NRCS headquarters referred to above to address this issue in 2004, essentially the same result occurred in both the 2004 and 2005 program years.

These numbers and percentages for swine improve when you focus in on major swine producing states, although the results are still relatively disappointing. For example, in the 2004 program year in eight states that account for 80% of US pork production (Iowa, North Carolina, Minnesota, Indiana, Illinois, Missouri, Nebraska and Oklahoma) pork producers received approximately 5% of all EQIP cost share assistance funds, and of the EQIP funds that went just to livestock that year, swine's share was 9%. An improvement, yes, relative to the national figure of 3%, but this strikes us still as a significant under-investment in the environmental practices of pork producers under the EQIP program.

In particular, here in the state of Oklahoma, we produced 6,627,000 hogs in 2004, or about five percent of the nationwide total. The EQIP investment in Oklahoma over the period of 2003 through 2005 however continues to lag behind other states and other agricultural sectors. While EQIP funding for livestock in Oklahoma more than doubled, from \$9.4 million in 2003 to \$19.1 million in 2005, EQIP contracts for swine related operations here in Oklahoma during that time were a mere \$553,351, or just .03% of total EQIP funding nationwide. Furthermore, for confined swine operations, EQIP contributions totaled ONLY \$1,083 over that same three year period.

Total Funds Obligated by Fiscal Year				
Oklahoma EQIP Dollars Obligated				
	FY 2003	FY 2004	FY 2005	Total
Confined Sheep	\$376	\$0	\$1,446	\$1,822
Confined Beef	\$969,405	\$1,651,117	\$1,816,258	\$4,436,780
Confined Dairy	\$58,295	\$325,136	\$290,981	\$674,412
Confined Poultry	\$264,919	\$663,990	\$1,284,581	\$2,213,490
Confined Swine	\$600	\$375	\$108	\$1,083
Confined "Other"	\$13,014	\$5,335	\$4,996	\$23,345
Confined livestock EQIP totals	\$1,306,609	\$2,645,953	\$3,398,370	\$7,350,932
All Sheep	\$15,929	\$5,544	\$40,532	\$62,005
All Beef	\$8,725,558	\$16,232,549	\$16,962,977	\$41,921,084
All Dairy	\$136,881	\$459,941	\$390,903	\$987,725
All Poultry	\$279,616	\$725,510	\$1,427,346	\$2,432,472
All Swine	\$188,626	\$138,101	\$226,624	\$553,351
All Other	\$132,832	\$117,616	\$87,342	\$337,790
All Livestock	\$9,479,442	\$17,679,261	\$19,135,724	\$46,294,427
All non-livestock EQIP	\$1,856,033	\$3,103,306	\$4,556,408	\$9,515,747
All EQIP cost-share	\$11,335,475	\$20,782,567	\$23,692,132	\$55,810,174

2. Preliminary Assessment Of Results

Over the last few months, NPPC has commissioned a comprehensive review of the EQIP programs performance regarding swine operations. In addition, in recent weeks, NPPC has also engaged with senior USDA and NRCS staff in discussions with pork producers around the country to improve funding levels under EQIP.

These efforts have led us to the following conclusions:

- a. Pork producers' EQIP applications appear not to be ranking well because they have already invested in the core elements of a sound manure management systems

Pork producers' strong commitment to proactive environmental leadership has

lead to the industry adopting state of the art manure and water quality management practices. These management practices, along with strong state regulatory and permitting programs focused on pork producers, means that most pork producers have already adopted state of the art manure treatment or storage facilities and nutrient management plans.

As a result of this leadership, when ranked in the EQIP process and compared to other animal feeding operations' systems, pork applications may not provide as much new improvements since those basic elements of a manure system are needed by the other operations. This may be particularly true in some states where pork producers may only need - and only apply for - a single element of a manure management system, while other applicants are looking for a complete system, with the attendant increase in their ranking score. While this appears reasonable to consider among applications involving confined animals, it seems less relevant when pork applications might be ranked against those for cow-calf grass operations – a category of recipient that receives far more EQIP funding assistance than other species and categories. In general, pork producers cannot but help to react to this situation with disappointment as they are penalized for having been environmental pioneers over the previous decade.

Furthermore, this situation is further exacerbated by the fact that NRCS is predisposed to thinking that the best EQIP application is composed of a set of practices that represents a "Resource Management System" for the applying farm. NRCS is right when it seeks to help producers to see their operations as an entire system and to treat their farms resource needs and issues as a whole. But this approach and perspective becomes a problem if NRCS can only see a farm that has such a system when it has been devised and implemented with NRCS assistance. Pork producers who have already adopted a system of manure treatment or containment linked to a sound and appropriate manure use program on the farm have a whole farm system for manure management. EQIP could be used to excellent environmental purpose if it can help these producers acquire one, two or a few pieces of equipment, or new techniques, or make a single fundamental change to this pre-existent system and allow it to reach a far higher level of performance. But a pork producer applying in EQIP for only one or two or a few practices does not appear to NRCS as having a system of practices or applying for a system of practices – and the producer's EQIP application is ranked poorly as a result.

To deal with all of these issues NPPC is supporting NRCS's current consideration of the establishment of a list of single EQIP practices and their rate of reimbursement that would be available to producers in every county office. These practices would need to be of undeniable and obvious environmental benefit. Farmers applying for these practices would not have these applications submitted to further ranking and should be immediately approved and executed.

There is one additional program change that some states have made that appears to us to give pork producers a more fair chance of competing for EQIP assistance,

even where the producers have made past investment in their manure management systems. This is the policy of establishing a state level pool of EQIP funds set aside for the express purpose of assisting producers with animal feeding operations, which by definition means the animals are confined. We think the data indicates that where this has been pork producers fare better. This is because pork producers' EQIP applications would be ranked alongside that of other confined operations whose type of practices are more analogous to what pork producers might be needing. NPPC is beginning to consider whether such a pool needs to be established at the national level and in every state where pork producers operate.

b. EQIP cost share assistance isn't generally available for mobile equipment

One of pork producers' greatest needs is for new, expanded, and more precise manure utilization equipment to aid efforts to apply their manure to more crop acres, and much of this equipment is mobile. For example, one of the most pressing needs is for the availability of mobile equipment to assist in agitation, removal, and land application of manure from lagoons. In Oklahoma, this problem is exacerbated by the fact that most producers only need to remove solids from their lagoons once every 10-12 years and it doesn't make economic sense for a single producer to purchase the agitator, the pumping system and the equipment needed for land application for a job they will only do once every 10 years. If it were possible for a group of producers in Southeastern Oklahoma, for example, to share a set of equipment to accomplish this goal, that would be a tremendous step forward.

However, USDA conservation programs generally prohibit cost share funding for equipment that is highly mobile due to a concern that it might not be used exclusively by the cost share recipient and that its use is too hard for NRCS to monitor. As a result, some states are now exploring whether a 3-year incentive payment can be used to assist in this area, but this idea has been only slowly developed in a limited number of states, remains a poorly understood concept in the NRCS field offices of those states working on it, and simply doesn't address the precise problems we have in Oklahoma where equipment is needed on a larger, community basis.

c. Where EQIP funds are allocated to counties for final application approvals, the monies available have proven inadequate to cover more than a one or two modest sized EQIP contracts

While many states made EQIP funding decisions for animal feeding operations out of a state wide pool of funds, several also give their counties the authority and funds to make these decisions at the local level. However, in these cases the amount of EQIP funds allocated to a county is often insufficient to fund more than one or two manure management or utilization contracts. Pork producers, seeing this, rarely submit applications in such circumstances as the cost of preparing an application is significant and they are all but guaranteed to be denied.

- d. NRCS's commitment to promoting the use of CNMPs is not yet adequately reflected in the EQIP program in many states

As stated earlier in this testimony, over the last several years NRCS has made a major commitment to supporting the development of Comprehensive Nutrient Management Plans (CNMPs) by animal producers. However, in several concrete and practical ways this commitment has not been well integrated into all EQIP programs. Several states still do not offer an EQIP incentive payment for CNMPs, relying instead on producers being able to assemble the parts of a CNMP on their own in an EQIP application. This is particularly striking since Congress explicitly amended EQIP in 2002 to make a CNMP a practice eligible for financial assistance. Other states offer an EQIP incentive payment designed to pay producers a share of the total costs, but they offer it at a level that represents maybe 10 to 20% of the cost of a CNMP that contains all of the required elements. Still, others offer sound CNMP incentive payments under EQIP but do not have the agency staff available to do these CNMPs and have failed to support producers that are more than willing to turn to private sector technical service providers (TSPs) to do this work.

- e. Insufficient EQIP funds have been made available to support farmers' use of technical service providers (TSPs) to acquire CNMPs

Nationwide in 2005, less than \$3 million was made available from EQIP funds to support the use of TSPs with livestock producers. For example, several hundred pork producers were given EQIP contracts in a major hog producing state in 2004 for the specific purpose of developing a CNMP, but only enough EQIP funds were available to support the TSP development of CNMPs for three plans. We still don't know how much of these funds went to CNMPs that met the applicable NRCS standards, but anecdotal evidence indicates that more of these funds are being used to do engineering design and support for implementation, and less for CNMP planning work.

In Oklahoma, OPC is working closely with EPA Region 6 on a new NPDES permit for CAFO's. The biggest challenge for most of our producers is the development of new Nutrient Management Plans that will meet EPA standards. In addition to the CAFO facilities that are regulated by the NPDES program, we have a significant number of smaller AFO that we are encouraging to apply or – at a minimum – to update their NMPs. We are recommending to EPA that they accept the CNMP's currently prepared by NRCS as meeting the requirements of this new permit. However, even if EPA will accept the CNMP's, we have approximately 250 swine CAFO's and AFO's in the state who will need assistance in developing these management plans. With an EPA proposed deadline of July 2007 for completion of all these plans, we are looking at a very steep hill to climb and no guaranteed funding.

- f. There can be a tremendously long lag time between adoption of new NRCS policies and the implementation of those policies in the field

Even when pork producers are successful in working at the state level with NRCS, such as through the State Technical Committee process, to get a major program improvement, the improvements are not automatically reflected in the practices and approaches used by field people working with EQIP applicants. In one major hog producing state, pork producers successfully established with NRCS a workable incentive payment rate and practice for advanced manure utilization on a modest amount of acres per farm – only to find that local staff did not yet understand the practice or how it could be included in an EQIP application, and were generally unable to work with producers to apply for this assistance. This may or may not be corrected by the next program year, and it often times takes several iterations back and forth between the state office and the field office to get these changes right. In the meantime, producers get lost in the confusion and in frustration can turn away from EQIP.

- g. NRCS field and area personnel often have insufficient understanding of today's pork operations to work effectively with pork producers – or they simply lack the time to do so—The changes in pork production and manure management systems have been so great and rapid over the last 15 years, and the historical working relationship between NRCS field staff and the newer generation of pork operations so limited, that producers consistently find the NRCS field staff have an inadequate understanding of their operations to really be able to help them do a successful EQIP application. Many of these field staff certainly have the ability to pick this up, but they lack the time to do so, and perhaps as the result of that or also because of other pressures, lack the inclination to invest themselves in what needs to be learned.

NPPC and many of its state affiliates have begun to engage with NRCS on this issue. We are contemplating a mutual education effort where NRCS field, area and state office staff could come to hog operations for a few days and learn about how we manage our manure, the ways in which we are protecting the environment and conserving resources, and to simply learn more about what we do. Pork producers would then, in turn, spend time in the offices of our NRCS counterparts and learn about their jobs and how they make programs like EQIP work. We believe that such an educational exchange could provide real value to us both.

- h. There is a lack of effective and economical air emissions mitigation technologies and practices that EQIP can support—Many pork producers are actively looking to adopt practical, effective measures to reduce their emissions to the atmosphere of particulate matter and other aerosolized substances from manure and animals. They are also actively looking to adopt practices that reduce the odors of their hog facilities. In several states, EQIP does make incentive payment and cost share payments for some of the technologies that are currently in place – but ultimately many of these technologies are so expensive that even at a 75% cost share rate they are not economical, let alone at the 50% rate that is prevalent today in EQIP. EQIP is clearly not the source of this problem, and simply points the way towards the need for even greater levels of research and development in this area,

something the pork industry has long heavily supported, financially and otherwise.

D. Conclusion

Mr. Chairman and members of this committee, as you begin crafting the 2007 Farm Bill, please keep in mind that pork producers continue to proactively seek out resolution of these funding imbalances. As I mentioned earlier, we have begun a detailed dialogue with senior Washington NRCS officials as well as state level NRCS staff to overcome the hurdles I have discussed today. Much of it can, and will, be accomplished through increased education and communication amongst both pork producers and NRCS. However, many barriers will continue to remain and we welcome your assistance in correcting this imbalance and urge your support for the use of EQIP funds for specific on-farm practices that have a clear environmental benefit, such as development of comprehensive nutrient management plans and the use of technical service providers they require; odor and emissions reduction practices; and manure storage, transfer and field application technologies.

On behalf of the OPC and the many pork producers we represent, thank you for holding this hearing and allowing us to share our thoughts. We respectfully request your continued and focused attention on crafting effective solutions to the environmental challenges we have brought to you today.

Jeff Krehbiel
on behalf of the
Oklahoma Wheat Growers Association and the
National Association of Wheat Growers
before
the House Committee on Agriculture
Subcommittee on Conservation, Credit, Rural Development, and Research
RE: Review of Federal Farm Programs
Review of Federal Farm Programs
El Reno, Oklahoma
September 18, 2006

Mr. Chairman, Members of this Committee, my name is Jeff Krehbiel. I am a wheat farmer from Hydro Oklahoma. I am currently serving as President of the Oklahoma Wheat Growers Association and serve on the Domestic Policy Committee of National Association of Wheat Growers, or NAWG. Thank you for this opportunity to be here today to share the thoughts of the growers I represent on farm policy.

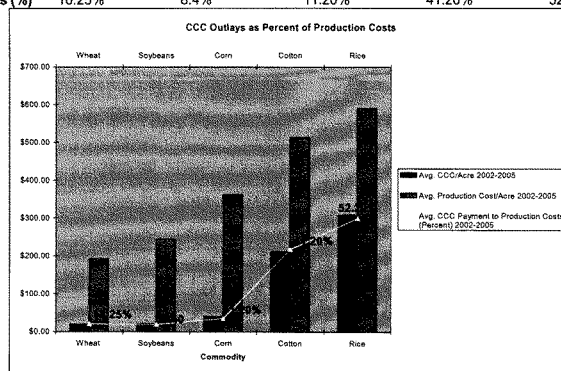
Effective farm legislation is essential, not only for wheat growers, but also for rural economies and American consumers. Farm programs were designed to cushion the boom and bust cycles that are inherent to agricultural production and to ensure a consistently safe, affordable and abundant food supply for the American people.

The 2002 Farm Bill has strong points, and the wheat growers that I represent here today believe that the next Farm Bill should build on these strengths. However, while wheat growers generally support current policy, much of the "safety net" provided by the 2002 bill has not been effective for wheat farmers.

Since 2002, two key components of the current bill, the counter cyclical program and loan deficiency payment program, have provided little or no benefit to wheat producers for two main reasons. First, severe weather conditions for several consecutive years in many wheat states have led to significantly lower yields or total failure. The loan program and the LDP are useless when you have no crop. Secondly, the target price on the counter cyclical program for wheat was set considerably lower than market conditions indicated, and severe weather conditions in some areas have created a short crop, which has led to higher prices in other areas. As a result, there has been very little support in the form of counter cyclical payments.

As you can see by the chart in my testimony, the support level for wheat compared to other commodities for the 2002 to 2005 crop years, even as a percentage of production costs, is relatively low.

	Wheat	Soybean	Corn	Cotton	Rice
AVG CCC/Acre '02-'05E	\$19.76	\$20.67	\$40.67	\$212.67	\$308.88
AVG Production Costs/acre '02-'05E	\$192.64	\$245.25	\$362.61	\$513.81	\$638.76
AVG CCC to Production costs (%)	10.25%	8.4%	11.20%	41.20%	52.2%



Source for CCC outlays: <http://www.ers.usda.gov/publications/agoutlook/aotables/2006/03Mar/aotab35.xls>
 Sources for production costs/acre: <http://www.ers.usda.gov/Data/CostsandReturns/testpick.htm>

Government payments cover about 10% of the production costs for a wheat producer while some commodities have over 50% of their production costs covered by Government payments. We are not, in any way, suggesting that other crops receive too much support – far from it, they face the same problems our growers face and rely heavily on this safety net. We are simply stating that wheat producers need a viable safety net also. There is no doubt that America's farmers would rather depend on the markets than the government for their livelihoods, but the current economic and trade environments do not offer a level playing field in the global marketplace. Many of our trading partners support their farmers at a much higher rate than in the U.S. At the same time, we face continually increasing production and transportation costs. Fuel and fertilizer prices are up an estimated 24 to 27 percent for wheat growers just from last year, as estimated in a recent FAPRI report, and the current disaster situation, including droughts, floods and fires, has been especially troubling for our members. On my farm, with the help of the Farm and Ranch Management instructor for Caddo-Kiowa Vo-tech, we calculated how much my fuel and fertilizer expenses have increased since 2002 when the current farm bill went into affect. I have not made any appreciable changes in the size of my operation. In 2002 I spent just over \$49,000.00 for fuel and fertilizer. In 2006 my fuel and fertilizer costs will be slightly over \$109,000.00. This 222% increase in the two major inputs for wheat production during the life of the current farm bill has left the producers I represent, struggling to survive.

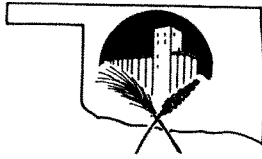
While we understand that there are likely to be economic impacts from any change in the current program, we believe that wheat growers need an adequate safety net. We are currently examining the impacts - both to farmers and the federal budget - if the safety net for wheat was more in-line with the safety net of other commodities. One option we are currently considering is a proposal to increase the direct payment, and increase the target price to more accurately reflect market conditions. We believe these two programs are the least trade-distorting, and therefore offer the

best opportunity to provide support for our members. I expect NAWG's full board will finalize a 2007 Farm Bill proposal soon, and will share that with you when it is complete.

Wheat growers would also like to see conservation programs continue as presently authorized, but with full funding. We would also like to explore opportunities to streamline program sign-up to be less time consuming and more producer friendly. Another area of interest to our members is the pursuit of renewable energy from agricultural sources and support for additional incentives for further research and development of renewable energy initiatives, specifically cellulosic ethanol.

In closing, I must state that we are firmly committed to developing an effective 2007 farm bill and welcome the opportunity to work with you to do so.

Thank you for this opportunity. I am ready to answer any questions you may have.



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18 September 2006

Agriculture Committee Chairman Goodlatte, Subcommittee on Conservation, Credit, Rural Development and Research Chairman Lucas, and other Distinguished Members of the Committee:

My name is Ladd Lafferty. I am currently a vice-president for Wheeler Brothers Grain Co. in Watonga, OK. Wheeler Brothers is a family owned grain business that was founded in 1917, and I am a fourth generation family member employee of the company.

I am here today to present testimony on behalf of the Oklahoma Grain & Feed Association (commonly known as OGFA). OGFA is the voluntary trade organization of the state's grain and feed industry. Our member's customers are the grain producers of this state, whose success determines the livelihood of our members.

OGFA appreciates the opportunity to present its views regarding the writing of the 2007 Farm Bill.

The topics I am going to address today include: **1)** commodity programs; **2)** land grant institution research; **3)** Conservation Reserve Program (CRP); **4)** Environmental Quality Incentives Program (EQIP) and **5)** crop insurance program reform.

Commodity Programs

Commodity programs should not create artificial markets, which in essence make planting one commodity more financially attractive than another. Planting decisions should be based on prices derived from free market world supply and demand factors. The 1996 Farm Bill, dubbed "Freedom to Farm," went a long way toward correcting these inconsistencies, and we hope future commodity programs continue along the same lines.

Additionally, commodity programs should be geared toward those persons actually farming the ground. A July 2nd, 2006 *Washington Post* article entitled "Farm Programs Pay \$1.3 Billion to People Who Don't Farm" illustrates this point. The article states that in the past 6 years, at least \$1.3 billion in subsidies were paid to individuals who do no farming at all and in many cases there was not a seed planted. The article further states that developers buy farmland and advertise that homeowners can collect farm subsidies on their new backyards.

OGFA recommends that counter-cyclical and loan deficiency payment programs be terminated in the wheat program and that current direct payments be increased. Not only will this get more money in the hands of producers, but it will be “WTO friendly” as it is not a traditional price support program.

Drought and high fuel and fertilizer costs have put many southern plains wheat farmers in financial trouble. To continue our national policy of providing affordable, high quality food to the consumer, these wheat farmers need assistance.

Land Grant Institution Research

We believe land grant institutions should receive more funding for research in genetic crop improvement and in production system efficiencies. In particular, wheat has very little private sector research investment and is thus more reliant on public sector scientific initiatives for research. This in part may be due to foreign consumers’ objection to genetically modified wheat. However, as the world consumer eventually becomes more accepting to the idea of GMO wheat, the research for such will be significantly behind other crops without more public sector research investment.

Conservation Reserve Program (CRP)

Highly productive land should not be taken out of production through government incentives. Whole farm CRP acres have had a devastating effect on rural western Oklahoma due to the combination of acres being taken out of production and payments often going to absentee landowners who contribute little or nothing to local economies. This has an additional effect of establishing barriers to farmers, particularly young farmers trying to become established. The government should not compete for the rental of productive land.

The “25% county acreage maximum” rule needs to be re-examined. For example, in Ellis County, Oklahoma, the number of acres in CRP approaches 50% of the acres that were actually cultivated in 1988. Acres that were included in the old Soil Bank program in the 1950’s were erroneously included in the counting of total acres of farm ground. This allowed the number of CRP acres in many counties to be almost twice the amount that it should have been.

Emphasis on conservation must be changed from a “land and financial retirement program” to one that emphasizes environmental benefits. The focus should be on highly erodible, marginal or environmentally sensitive lands. On productive land, the focus should be on filter strips. Current CRP rules on filter strips, however, do not allow the wheat / stocker producer to use this program because of grazing restrictions. It is not practical for the producer to “fence off” filter strips during the stocker grazing season. The rule needs to be changed to allow grazing of filter strips during the “non-growing” season. Such a change in the rules would be good public policy in that research has shown that filter strips improve run-off water quality by as much as 30 percent regarding nutrients and silt.

Environmental Quality Incentives Program (EQIP)

The EQIP program needs to be modified to get funds into the hands of the “true” producers for real conservation efforts. Landowner use of EQIP funds to simply improve the recreational use of their land is not good use of conservation funds.

Crop Insurance Program Reform

This past Oklahoma wheat harvest, some of our member’s customers experienced instances whereby a Federal Crop Insurance adjuster estimated a producer’s wheat yield at “x”, and the producer decided to not take the insurance payment but instead harvest the wheat for seed. In the end, the field ended up yielding anywhere from “3-4x” above the adjuster’s estimate.

We recommend either the yield estimate part of the program be changed or alternatively allowing the producer to take the insurance payment, but allowing the option of harvesting the crop and repaying the insurance amount. Between a yield estimate made in late March and harvest time in early June, a positive weather pattern can make a significant positive impact on wheat yields.

This concludes my oral statement. I would be pleased to answer any questions you might have.



OKLAHOMA FARM BUREAU

2501 N. STILES • OKLAHOMA CITY, OK 73105-3126 • 405-523-2300

**STATEMENT OF STEVE KOUPLIN
PRESIDENT OF THE OKLAHOMA FARM BUREAU
AND DIRECTOR ON THE
AMERICAN FARM BUREAU FEDERATION BOARD
TO THE U.S. HOUSE OF REPRESENTATIVES AGRICULTURE
SUBCOMMITTEE
ON CONSERVATION, CREDIT, RURAL DEVELOPMENT AND RESEARCH**

SEPTEMBER 18, 2006

Hello. My name is Steve Kouplen. I am president of the Oklahoma Farm Bureau (OFB) and a member of the board of directors of the American Farm Bureau Federation (AFBF). Nationally, Farm Bureau represents the majority of agricultural producers in the country. Oklahoma Farm Bureau is the largest agriculture organization in our state with more than 162,000 member families.

I am a cow-calf producer from Beggs in Okmulgee County in the eastern part of Oklahoma. Mr. Chairman and members of the Committee, thank you for taking the time to hold this hearing. Our nation's farmers and ranchers have a lot at stake in the Farm Bill debate and we appreciate your willingness to listen to our ideas and concerns.

The face of production agriculture has changed considerably since the enactment of the 2002 Farm Bill. Unpredictable weather conditions and markets, uncertainties in international trade and increased input costs have formed turbulent times for farmers and ranchers. Oklahoma producers in particular have experienced hardship this year due to widespread drought including severe losses in crop, hay and livestock production. In addition to the drought, skyrocketing fuel, fertilizer and other energy related inputs have raised our production costs.

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The majority of those involved in production agriculture throughout this country will tell you that their ultimate policy vision would be a "level playing field" or a "chance to compete in open markets." Farm Bureau shares this vision; farmers and ranchers should live in a world where they are allowed to compete in open markets without tariff barriers, without export subsidies, without currency manipulations and yes, without production-distorting domestic subsidies. Most, if not all of Oklahoma's producers, will tell you that they would prefer getting their income from the marketplace rather than from government payments. This ideal could become a reality if all trade barriers are removed and the playing field is leveled for U.S. agricultural producers.

In order to bridge the gap between where we are now and where we want to be in the future will require time and transitional policies. The short-term reality is that we will continue to need a safety net in years that revenues decline in response to low yields and/or low prices combined with the high costs of doing business, which is currently the case for many agricultural producers today.

As the focus moves to the 2007 Farm Bill, it is vital that Congress and the USDA build upon the success of the current Farm Bill and implement policies that help make the United States a place where producers have the ability to remain in production agriculture and expand their operations if so desired. As the average age of producers continues to rise, we need to identify ways to assist beginning farmers and ranchers who are interested in production agriculture.

Since the World Trade Organizations (WTO) talks were indefinitely suspended in July and it is uncertain when the talks will resume, Farm Bureau supports extending the current Farm Bill for at least one year, after making minor adjustments to comply with recent WTO rulings. An extension will provide our farmers and ranchers with the consistent support they need given the current inequities of the global marketplace.

The U.S. should not unilaterally disarm our farm programs or give up negotiating opportunities when our trade partners remain unwilling to take the same steps. We should continue to work towards an agreement in the WTO, as well as bilateral and regional trade agreements that accomplish our objectives to free up trade. When this is accomplished, we can modify our domestic programs accordingly, and to the extent necessary, based on the final outcome of the WTO negotiations.

We continue to support the Doha Round. Third-party studies by the World Bank and the Organization for Economic Cooperation and Development show that gains to developing countries from agricultural reform come almost entirely from tariff cuts rather than domestic support reforms. Farm Bureau has repeatedly indicated a willingness to adjust our farm programs when there are real gains to be had from lower tariffs around the world.

We are committed to the potential of multilateral, regional, and bilateral trade negotiations and strongly support the renewal of Trade Promotion Authority (TPA) when it expires in 2007. Extending TPA will allow the executive branch to continue negotiating regional and bilateral trade agreements that benefit American agriculture until a comprehensive WTO agreement is struck that allows multilateral agreements to proceed.

While we support a one-year extension of the current Farm Bill, that should not prevent those of us in agriculture from continuing further policy discussions in preparation for the next Farm Bill. Oklahoma producers are generally pleased with the current farm program. The 2002 Farm Bill has worked well in providing a safety net for producers when commodity prices are low.

When crop prices are low and costs are high, no farm is immune to difficulty, especially those with greater risks. Families responsible for providing America's food and fiber receive payments based on current and historical production rates. Time and again, this has proven to be the best manner for distributing assistance to the farmers our country depends on through thick and thin for a safe, affordable and abundant food supply.

Many producers are facing severe financial risk because of a significant hole that has developed in the safety net. The problem lies in the fact that while crop insurance is a useful tool to deal with production risks, coverage levels continue to decline in times of multi-year droughts. Since the amount of coverage depends on the average yields of previous years, every consecutive year of drought drives down the amount of insurance farmers can buy for their crops.

To address the issue of supporting revenue rather than prices, maybe consideration should be given to combining the farm program with the crop insurance program that pays producers based on revenue shortfalls. At a minimum, crop insurance subsidy levels need to be high enough to allow producers to purchase a higher level of coverage.

Mr. Chairman and Members of the Committee, there is one more issue other than the Farm Bill that I would like to mention today and that is the recent demotion and subsequent early retirement of our state conservationist Darrel Dominick. Darrel's forced retirement was unwarranted. Darrel's character and commitment to working with partners in conservation was beyond reproach. Oklahoma producers and the conservation community deserve some accountability from the USDA on this issue.

Thank you again for the opportunity to share our thoughts with you. I would be happy to answer any questions you may have.

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Oral Testimony of
Trey Lam
Pauls Valley, Oklahoma
National Watershed Coalition

Presented to the
Subcommittee on Conservation, Credit, Rural Development and Research
Of the Committee on Agricultural
U. S. House of Representatives

El Reno Field Hearing
September 18, 2006

My name is Trey Lam; I live and work along the Washita River in Garvin County, Oklahoma. I'm an agricultural producer, a Garvin Conservation District board member, and a representative of the National Watershed Coalition. On behalf of the Coalition I appreciate the opportunity to provide testimony at this hearing.

My home county has 13 USDA-assisted watershed projects that include 146 flood control dams. These dams provide over \$10 million in annual benefits in flood damage reduction, soil erosion control, water supplies, recreation and fish and wildlife habitat. The dams benefit over 2,890 farms and ranches, protect 125 bridges and hundreds of miles of roads, and provide protection for 135,000 acres of floodplain. Two of the lakes formed by Watershed Program dams provide the sole source of water for more than 7,000 residents in Pauls Valley and Elmore City. These and thousands of other projects across the nation are important to the land and water resources of this nation.

Principal to our perspective on this program is the notion that it is a federally assisted partnership. State and local entities must be full and equal partners in shaping the future, just as they were when the legacy of this program was created. The Watershed Program works where other federal water resource programs won't. This success can be credited to Local Watershed Sponsors, who make decisions as close to the on-the-ground issues as possible.

While the watershed program has its own authorizing legislation, the current Farm Bill has served as an important piece of legislation to drive the rehabilitation of aging dams built under the Small Watershed Program. The NWC believes that the current Farm Bill process presents a continuing important opportunity for Congress to extend the public benefits derived from work performed under the Watershed Program.

We ask that you authorize funding in the Farm Bill and then join us in working with appropriators to insure authorized funding is fully appropriated. All across this nation, local sponsors are working diligently to secure land rights and generate matching funds. Based on the credibility and accountability of these local sponsors much has been achieved in anticipation of federal watershed rehabilitation funds. A reliable steady appropriation from Congress is needed to assist sponsors in making efficient use of often limited local resources.

Focusing Farm Bill land treatment programs on watershed boundaries designated by the USDA Watershed Program will not only yield the desired on-farm benefits but could also enhance and extend the public benefits derived from existing watershed projects. Through this coordinated approach, conservation goals in both program areas can be achieved. This coordinated approach may reduce the perception of land treatment program duplication and make more funds available

for unique watershed program specific areas such as flood control and municipal and industrial water supply.

We ask that as you develop the Conservation title of the new Farm Bill, that you continue to consider the importance of the USDA Watershed Program as well.

In closing, I recognize that this subcommittee does not have direct responsibilities in the area of appropriations. However I would be remiss if I did not point out that the impact of the decline in funding for the Watershed program can certainly be seen around the nation as well as in Oklahoma. We believe that the Administration's recent funding requests are not in touch with the reality of the documented demand for the program. In Oklahoma we have a significant number of well-planned projects that are waiting on the necessary funding to be completed. Fluctuations in the USDA Watershed Program budget make it difficult to maintain experienced watershed personnel and sufficient technical assistance.

We appreciate the recent efforts of this committee to provide oversight for the watershed program. We support your efforts to educate the Administration at all levels concerning the necessity to embrace and acknowledge the value and success of the Watershed Program and the investment, benefits and partnership it represents. We believe that the Watershed Program is a model of effectiveness and accountability. We pledge our continuing support for your actions on behalf of watershed sponsors across the country.

Thank you again for the opportunity to appear before you today.

Farm Bill Hearing
 El Reno, Oklahoma
 September 18, 2006

My name is Hope Pjesky, my husband Ryan and I are young farmers from northwest Oklahoma where we produce wheat and cattle. We are a rarity in today's agriculture, since we are 20 years younger than the average farmer. Being young farmers gives us a different perspective on many issues from older, well established and soon to retire farmers. Young farmers' issues deserve attention since we are the future of food and fiber production in America.

Family farms are in many ways just like other small businesses. But one important difference is that when we have to pay more for our production inputs we cannot pass that increased cost on to the buyer of our product, we have to sell our products according to the commodity market prices. If we could demand a fair price for our products like other businesses then I would not be in favor of any government intervention in our industry. Farmers also have more weather related risks than other industries. American farmers take on risks that most other people would never consider in order to produce a safe and affordable food and fiber supply to meet America's needs.

Many statistics cited in the United States Department of Agriculture (USDA) theme papers on the Farm Bill are ambiguous. USDA uses gross farm sales numbers to classify farm size, which is extremely misleading. Farming is a very capital-intensive business and production input costs are very high. Unfortunately farm operators are able to keep only a very small portion, if any, of the sales income that they receive. The largest portion goes towards the ever-increasing cost of inputs. Farmer's necessary expenses have always been high compared to our income, but in recent years we have seen a doubling in price of many essential inputs including fuel, fertilizer and anything made of steel such as fence posts and spikes for our chisels. Our operation, for example, had gross farm sales of approximately \$500,000 last year. I assure you that we enjoyed very little actual profit from that number. USDA would classify our farm as huge - it certainly is not. Our operation is a normal sized, family farm that employs no outside labor. Another disingenuous part of USDA's analysis is using gross farm sales numbers when talking about commodity program payments, when much of that sales number is likely to be non-program crops and livestock. In our case, the vast majority of our sales are stocker cattle, which we have previously purchased and have loans against which must be paid off at the time of sale.

Using USDA's farm size definitions, the approximately 1/3rd of farms that they classify as Commercial Farms and Intermediate Farms should be the focus of Farm Programs. After all, they produce 92% of the food and fiber. In my opinion farm programs should focus on the farmers that are actually feeding and clothing the American public. On the other hand, the approximately 2/3rds of farms that the USDA classifies as Rural Residence Farms should not be eligible for Farm Programs since they produce only 8% of the food and fiber. These are small "hobby" farms. Their operators are involved with agriculture as a lifestyle choice not for a profession. We should not subsidize their quality of life.

Farm Policy should not become Environmental Policy. Farmers should not be required to undertake conservation activities to be eligible for risk management program benefits. Cooperative Conservation works - Conservation Compliance does not. Private property rights must not be infringed upon. Conservation policy needs to balance the economic viability of producers and their communities with environmental quality. I would be very opposed to any policy that mandated that we had to farm in a certain way in order to be eligible to participate in

the farm program. Not all farming practices are practical in all areas of the country. Mandating the use of one farming practice such as minimum-till or no-till in order to be eligible to participate in the farm program would be disastrous.

I support programs similar to the Farmland Trust. Protection of agricultural lands from conversion to other uses is an admirable goal. The purchase of development rights requiring that land will remain in privately owned agricultural or forestry uses, with no restriction on what those agricultural and forestry uses will be in the future, is a good use of conservation dollars.

Many beginning and young farmers are being shut out by the Conservation Reserve Program (CRP). CRP is a good program as it was originally intended. However, CRP is being expanded from its original focus of preserving highly erodible lands to include highly productive land that is not environmentally sensitive. Young farmers cannot compete to rent land when the CRP program will pay landowners more than the reasonable rental rate for the area. CRP also has a negative impact on rural communities. When land is taken out of production there is no longer a need to buy production inputs from local businesses. Also, sixty percent of CRP payments go to the Rural Residence Farms that were discussed above which in my view are not really farms.

Lets discuss farm programs' effect on agricultural land prices. Many agricultural economists say that if farm programs ended, agricultural land values in many parts of the county would dramatically decrease. Our state of Oklahoma is forecast is have the biggest drop in land values. This terrifies many older farmers. Would you be surprised to hear that it excites many young farmers? I think that most young farmers might support abolishing farm programs altogether if it would guarantee such large decreases in land values. High land prices deter new entrants into farming and constrain expansion. They also increase farmers' production costs and the tax burden on landowners. However, I disagree with the economists' analysis of what has caused land prices on increase. I think many factors, other than Farm Programs, contribute to the high cost of agricultural land. Investment in farmland by non-farmers is a big factor in the high price of agricultural land. This land is often used for non-agricultural purposes or enrolled in CRP. Prices are also driven up by people who want to establish Rural Residence Farms because they like the lifestyle and city dwellers who buy land simply so they will have a place to hunt.

Another issue that has been discussed is payment limitations. I support stricter payment limitations. The biggest farmers out there (that really are huge) should not be encouraged to continue getting bigger and bigger while normal, medium sized farmers cannot afford to make even the smallest expansion in their operations because of rising land prices. There is no justification for individual farmers or agricultural entities receiving hundreds of thousands of dollars from the government each year. Farm programs should also take into consideration non-farm income. Payments should not, in my opinion, be going to individuals who make large sums of money in other professions and farm on the side.

We should work to develop risk management tools to deal with the inherent fluctuations in revenue and income associated with farming. I support an insurance program that pays producers based on revenue shortfalls. This program should be designed to stabilize revenue. Farmers should be able to purchase coverage, at a reasonable rate, that would ensure that they could at least break even. This program should provide all food and fiber producers, who choose to participate, with a minimum safety net. This could be though individual commodity insurance policies or a whole farm revenue insurance program with both a yield and a price dimension.

Farm Savings Accounts should be created to allow farmers to put off counting some revenue in good years until later years. This will allow farmers to more effectively manage tax liability. Currently, farmers have only two choices in high revenue years. They can pay tax – most may not have the cash on hand to do so, or they can purchase equipment to reduce tax liability in the current year. This saddles them with 3 –5 years of payments on an expensive asset without any added depreciation in the future on that asset. Income designated to a Farm Savings Account should have a limit on the time it sits untaxed, possibly 5 years.

Also, farmers should be allowed to use a portion of their income in high revenue years to pay on existing long-term debt and deduct it on their taxes. You could call it a Farmer Individual Retirement Account (IRA). Most people in production agriculture look at our land as retirement security. We wish to use it either to rent out or sell in order to live during retirement. So let us treat extra principal payments on land as an IRA.

Retiring farmers should receive tax incentives to keep their land in agricultural production. Eliminating or reducing capital gains taxes when land is sold from one farmer to another is a great way to discourage the loss of America's farmland to development. This would also be beneficial to beginning farmers and young farmers who are trying to expand. Lower tax rates on rental income when agricultural land is rented to another farmer would also be a positive step for the future of agriculture in America.

The main goal during the history of farm programs has been to ensure a safe and affordable food supply for the American people. That goal is still relevant today. We must not allow ourselves to become reliant on other countries for food and fiber, as we are now reliant on them for energy sources. To achieve that goal, farm programs must maintain a farm income safety net while encouraging efficiency and be driven by the needs of production agriculture. I support a consistent, long-term market-oriented farm policy that contains the elements I have discussed above. This policy should rely less on government and increasingly on the market. It should allow farmers to take maximum advantage of market opportunities at home and abroad without government interference and encourage production decisions based on market demand. My suggestions will allow program money to be more evenly distributed over all food and fiber commodities. And remember - simpler is always better. All programs should seek to reduce complexity while increasing the flexibility to produce in response to market demand.

This concludes my comments. Thank you for allowing me to submit this testimony.

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STATEMENT OF DANNY ROBBINS

Mr. Chairman and members of the subcommittee, thank you for holding this hearing and for providing me an opportunity to present testimony on current and future farm policy.

My name is Danny Robbins. I have served in leadership roles with the National Cotton Council, American Farm Bureau and Oklahoma Cotton Council. I am a 4th generation cotton, cattle and wheat farmer in southwest Oklahoma.

Cotton acreage in Oklahoma has been relatively stable in recent years. The primary reasons are the success of the boll weevil eradication program, an effective, stable farm program, and new cultural practices and technology—including biotechnology. I would also note that our operations require intensive management and that we continue to invest heavily in technology to remain competitive.

This year drought conditions have caused Oklahoma farmers to abandon over 70,000 of the 300,000 planted acres. About 75 percent of all cotton in Oklahoma is in counties with disaster declarations and over 71 percent of all acreage is either abandoned or rated poor to very poor. Mr. Chairman, these crop losses impact growers, as well as gins and warehouses and rural businesses. I urge you to work with your colleagues to pass legislation which will provide emergency disaster assistance.

The rapid decline in raw cotton consumption by domestic mills has created challenges for all cotton farmers who must identify new export markets to replace domestic consumption lost to imported products. The market has placed new and added pressure on our infrastructure including surface transportation and port facilities. We are working with the industry and with USDA and Congress as appropriate to meet those challenges.

During my testimony, I will frequently refer to the success of our current farm law. It is not insignificant that for the past 6 years no farm organization has called for major modifications of current law nor has Congress approved major changes.

We believe the current farm law has and continues to provide a stable and effective national farm policy for our country. The combination of direct and counter-cyclical payments provide an effective means of income support, especially when prices are low, without distorting planting decisions. The primary shortcoming of the 1996 law was the lack of a counter-cyclical payment that triggered when prices are low. As a consequence, farmers were forced to request emergency assistance from Congress year after year. This has been alleviated by the counter-cyclical program provision in current law. The direct payment mechanism helps provide financial stability required by our leaders and suppliers without distorting production decisions.

It is important to maintain a balance between these two mechanisms. Higher direct payments can have unintended impacts. They can provide an incentive for landlords to take their lands out of producers' hands. Higher direct payment can also create unexpected problems with payment limits, which are currently established separately for each program benefit.

It is important to consider that sudden, significant program changes can have different regional impacts due to historical differences in cropping patterns and yields.

We strongly support continuation of the marketing loan. In fact, it is clearly our top priority under all circumstances. Cotton and rice were the guinea pigs for this innovative policy in 1985 and it has served us well. The marketing loan responds to low prices, it does not cause low prices. It is effective because it triggers—when necessary—regardless of the cause of low prices and it ensures that U.S. cotton farmers are not left as residual suppliers when they are unable to compete with the treasuries of foreign governments.

It is also especially important that all production remain eligible for the marketing loan so farmers can make informed, orderly marketing decisions. And, it is important to continue to administer the marketing loan in a manner that minimizes forfeitures and allows U.S. commodities to be competitive in domestic and international markets. For example, an ineffective price discovery mechanism or arbitrary limits on loan eligibility signal our competitors that the United States will be competitive on a portion but not all of our production. This is an open invitation for foreign competitors to increase production even in the absence of, or in spite of, market prices signals—and would return U.S. farmers to being residual suppliers.

The cotton loan structure and world price calculation have served the industry well. There have been minimal forfeitures and robust exports, but some modification may be necessary to respond to the new emphasis on export markets and the termination of Step 2. Simplification of the loan rate schedule and modification of the calculation of a world price should be reviewed as part of any new farm law. We also support elimination of the longstanding prohibition on USDA projecting cotton prices for the purposes of administering the program.

A sound farm policy is of little value to the cotton industry, including most producers in this area, as well as merchants, cooperatives and processors, if arbitrary, unworkable limitations are placed on benefits. Current law requires USDA to determine if individuals meet certain eligibility requirements and there are stringent limitations on each category of benefits. Unfortunately, these limits have been dictated by public perception, not the requirements of efficient, internationally competitive family operations. Because there is continuous pressure on USDA to streamline and downsize, it is reasonable to question the cost and efficiency of USDA administering and farmers complying with complicated limitations provisions. Frankly, we believe limitations should be eliminated but at the very least any limitations in future law should not be more restrictive or disruptive than those in current law.

We believe conservation programs will continue to be an important component of effective farm policy. These programs should be operated on a voluntary, cost-share basis and are a valuable complement to commodity programs. However, they are not an effective substitute for the safety-net provided by commodity programs. The Conservation Reserve Program, Conservation Security Program and Environmental Quality Incentive Programs are proven, valuable ways to promote sound, sustainable practices through voluntary, cost-share, incentive based programs.

Access to an affordable crop insurance program also is an important tool for most farmers. However, given the continued inequities of coverage and service in different regions and for different crops it is probably time for another thorough evaluation of the cost and benefits associated with the multi-peril crop insurance program. This is especially important as the concept of a whole-farm, revenue insurance program is gaining attention as a way to devise a WTO-consistent farm program. While we welcome the discussion, I cannot tell you that a majority of cotton farmers will embrace crop insurance as a major component of future farm policy without a great deal more information. In fact, there are those who would support establishment of a permanent disaster assistance program in lieu of funding crop insurance programs.

Continuation of an adequately funded export promotion program including the Market Access Program (MAP) and Foreign Market Development (FMD) Program are important in an export dependant agricultural economy. It is also valuable to maintain a WTO-compliant export credit guarantee program. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets—but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO compliant.

The U.S. cotton industry understands the value and benefits of effective promotion. In addition to being original and continuous participants in FMD and MAP, growers finance a very successful promotion program through a self-assessment (check-off) program. In large part, and as a result of effective promotion, the average U.S. consumer purchases 35 pounds of cotton textile and apparel products each year. In the rest of the world, consumption is less than six pounds per person per year. Promotion works and it is important that the authority for farmers to operate self-help, self-financed promotion programs be continued.

Mr. Chairman, we understand you and your colleagues will face significant challenges in designing and maintaining effective farm policy in the future. In addition to the need to balance the diverse interests of different regions and commodities, we know you have to compete for financial resources in times of a significant budget deficit. We also realize you will have to consider compliance with international agreements as you craft future farm policy.

Frankly, most cotton farmers and a majority of the industry would be satisfied with an extension of current law. If the current trade negotiations are suspended for a significant amount of time, we would strongly support an extension to current law. This will ensure that when negotiations resume, the U.S. will be able to negotiate from a position of strength. We also know, however, that maintaining existing policy will face hurdles, both domestically and internationally.

Internationally, we are concerned that the Doha Negotiations are isolating U.S. agriculture and U.S. cotton in particular. Our trading partners have clearly “pocketed” the generous U.S. offer on reductions in domestic support and refused to make an adequate response on market access. Our partners continue to demand even more U.S. concessions on domestic support while working to undermine trade liberalization as the primary goal of this negotiating Round. And, while the U.S. cotton industry was targeted for inequitable treatment in the Hong Kong ministerial declaration, China, the largest cotton market in the world, insists on being exempt from market access commitments by claiming status both as a developing nation and a newly acceded member of the WTO.

A Doha agreement that cuts U.S. amber box supports by 60 percent targets U.S. cotton for inequitable cuts, provides little or no real market access gains for agriculture in general, and exempts the biggest cotton user in the world from liberalizing its cotton quota system will not find a warm reception here.

These inequitable demands by our international partners will not work for U.S. agriculture. If other countries cannot match the U.S. level of ambition for market access, while continuing their calls for even deeper cuts in U.S. domestic supports, we should either withdraw or reduce our offer on domestic support. We sincerely appreciate Congress' continued, clear commitment to an equitable agreement during the period leading up to the most recent meetings in Geneva. U.S. negotiators correctly rejected calls for modifications in the already ambitious U.S. proposal and I am certain your and your colleagues' vocal support enabled our negotiators to be more effective during the meetings.

We strongly disagree with Director General Lamy who seemed to say a few weeks ago that any WTO agreement is better than no agreement. We appreciate you and our negotiators for rejecting that approach.

We would be far better off constructing a new farm bill under current WTO rules than we would accepting an agreement with rigid, inflexible, poorly defined limits that contains no real gains in market access. Mr. Chairman, we would rather have a \$19.1 billion amber box ceiling and current rules, than a \$7.6 billion ceiling and worse rules.

We also appreciate Congress' steadfast support for cotton throughout the WTO negotiations and recent statements urging U.S. negotiators of the opposition to an early harvest for cotton. We remain concerned that this strong message has not been fully appreciated. Cotton has already given more than any other commodity in these negotiations. The Step 2 program has been eliminated, the subsidy component has been removed from the Export Credit program and in Hong Kong, and least developed countries were assured of receiving duty free, quota free access to the U.S. raw cotton market as soon as an agreement is reached. An agreement that singles out U.S. cotton for even more inequitable treatment will not earn the support of U.S. cotton producers.

Finally, we are deeply disturbed by continual claims that 80 percent of all program benefits go to fewer than 20 percent of the producers and that only the so-called program crops receive direct benefits from farm law. These comments are misleading and serve to divide rather than inspire cooperation. First, it's important to remember that program benefits do not just come as direct payments. Virtually every commodity receives some type of support, whether through direct income payments, price support programs or barriers to import. For example, for some commodities, the U.S. imposes higher tariffs on imports during times when domestic supplies are the most plentiful. In addition, some commodities receive support through government purchases of the product or by mandating use of the product. Favorable tax laws are also used to provide support for certain products but the benefits are not directly attributed to individual farmers. If specialty crop producers want to play a more significant role in developing future farm policy, we will welcome them as partners. But they will also need to be our partners in efforts to preserve and increase budget resources available to find future farm policy.

It is also misleading to contend that a majority of payments going to relatively small number of farmers. With the natural consolidation of agriculture, it is inevitable that the majority of program benefits will go to the farmers who account for the majority of production. However, it is also true that per-pound or per-bushel support is consistent across producers regardless of size. And, payments to producers represent just a fraction of the costs and risks incurred to enable farmers to produce. This is especially true in the current environment of increasing fuel and energy costs. Today's program benefits are an important safety net and not a wind-fall of profit.

I am pleased to assure you and your colleagues that the cotton industry is prepared to continue to work with all interests to develop and support continuation of a balanced and effective policy for all of U.S. agriculture.

Thank you for the opportunity to testify today. I will be pleased to respond to your questions at the appropriate time.