S. Hrg. 110–126

PART III: CHALLENGES AND OPPORTUNITIES FACING AMERICAN AGRICULTURAL PRODUCERS

HEARING

[BEFORE THE]

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

APRIL 25, 2007

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

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PART III: CHALLENGES AND OPPORTUNITIES FACING AMERICAN AGRICULTURAL PRODUCERS

Wednesday, April 25, 2007

U.S. SENATE,
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
Washington, DC

The Committee met, pursuant to notice, at 9:30 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Tom Harkin, Chairman of the Committee, presiding.

Present: Senators Harkin, Conrad, Lincoln, Nelson, Salazar, Brown, Casey, Klobuchar, Chambliss, Lugar, Cochran, Roberts, Coleman, Crapo, Thune, and Grassley.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman HARKIN. Good morning. The Senate Agriculture, Nutrition, and Forestry Committee will come to order. This morning today we will hear testimony on farm programs and other topics from witnesses representing a diverse range of views on broader farm bill topics as well as the particular concerns of specific commodities and crops.

Most of us commonly use the term "farm bill" when referring to the legislation we are considering today. Yet, by simply calling it the "farm bill," we understate its far-reaching consequences for our entire Nation and beyond our borders, and we fail to give the full credit due to the vital contributions of American agriculture and rural communities.

This legislation must fulfill a wide range of objectives covering agriculture, food, renewable energy, conservation, nutrition, trade, the rural economy, and a lot of other subjects. All of these needs and demands have to be balanced out in the bill that we write.

A core mission in this legislation, as it long has been, is promoting profitability and income potential in agriculture. In doing so, we have to recognize that the food and agriculture sector is among the most rapidly changing of our economy. There are tremendous new challenges, but also unprecedented opportunities. With new technology, demographic shifts, the rapid expansion of biofuels, and the growth of global markets and competition, agriculture is at a crossroads. There is a good reason why we write farm bills for a limited period of time.

As we review and rewrite the legislation, we must take the opportunity to update our food and agriculture policy so it is effective, efficient, and responsive to the needs of the rapidly changing agriculture sector.

On the first panel, we have representatives of the two largest general farm organizations and two witnesses who will give our Committee additional and somewhat different perspectives on farm programs. The remaining two panels include witnesses representing wheat, feedgrains, upland cotton, rice, oilseeds, peanuts, and pulse crops. These commodities account for roughly one-half of the average U.S. farm cash receipts for crops. Three of these crops—corn, soybeans, and wheat—are grown on about 70 percent of the cultivated cropland in the United States. Of course, these crops are very important to the U.S. economy, as Federal farm policy has recognized over the years. By the same token, given their value and large acreage, the policy we write for these commodities has very substantial consequences for our Nation.

When we wrote the Farm Security and Rural Investment Act of 2002, we had the benefit of a significantly larger budget and the flexibility that goes with more money. It is true that commodity programs cost significantly less than was estimated 5 years ago, but under the strange logic of budget scoring rules, we do not get credit for that, and the prediction of stronger commodity prices reduces our budget for future years. That means we will have to scrutinize carefully every proposal as we put this farm bill together.

So I look forward to hearing from today's witnesses. We have a tremendous challenge ahead of us to craft a sound farm bill that will help improve income, profitability, and new opportunities for our Nation's agricultural producers, while also meeting the variety of additional needs and objectives the legislation must address.

With that, I will turn to my Ranking Member, Senator Chambliss, for his opening statement.

STATEMENT OF HON. SAXBY CHAMBLISS, A U.S. SENATOR FROM GEORGIA

Senator CHAMBLISS. Thank you very much, Mr. Chairman, and thank you for holding this hearing today on economic challenges and opportunities facing American agricultural producers. This hearing will provide agricultural producers and non-producer groups an opportunity to provide their views and concerns to the members of this Committee during an extremely critical time for American agriculture.

Last year, in our Committee's field hearings, I heard from most of the producer groups before us today about their experience with the commodity programs in the 2002 farm bill. Since that time, these producer groups who deal with farm programs on a daily basis have had time to further analyze their needs and desires for the 2007 farm bill. Today they will provide their specific proposals, and I look forward to their testimony that will help guide us in our work to construct a farm bill that meets the needs of all of the agriculture community.

We also have before us today a couple of organizations who are not the traditional producer groups, and I am sure they will provide an interesting theoretical perspective also.

I want to personally welcome my dear friend and fellow Georgian, Armond Morris, who is with us to testify on behalf of Southern Peanut Farmers Federation. Armond is a diversified family farmer from Irwin Count, Georgia, and currently serves as Chairman of the George Peanut Commission. I appreciate him joining us.

Mr. Chairman, I just learned that those of us in the peanut family lost a young man yesterday. The son of Don Koehler, who is Executive Director of the Georgia Peanut Commission, was tragically killed in an automobile accident yesterday, so our prayers and our thoughts go out to Don and his family as they suffer through this tragedy.

So, Mr. Chairman, I do thank you for holding this hearing and look forward to these witnesses today.

Chairman HARKIN. Thank you very much.

Now we will turn to our first panel, and we will just go down the line this way: Mr. Buis, Mr. Stallman, Mr. Flory, and Reverend Beckmann.

First we will hear from Mr. Tom Buis, the National Farmers Union. NFU President Tom Buis has been a top advocate for family farms and rural America on Capitol Hill for nearly two decades. Before coming to Washington in 1987, Mr. Buis farmed in central Indiana and still owns his Indiana farm. Most recently, Mr. Buis served as NFU's Vice President of Government Relations in the organization's Washington, D.C., office.

Mr. Buis, welcome to the Committee, and with you, as with all of the witnesses, all your statements will be made a part of the record in their entirety. Because we have a lot of witnesses to hear today, we are going to ask that you sum it up in 4 minutes, just the main points you want to make. I will not get nervous until we get over 5.

[Laughter.]

Chairman HARKIN. So welcome and please proceed, Mr. Buis.

STATEMENT OF TOM BUIS, NATIONAL FARMERS UNION, WASHINGTON, DC

Mr. BUIS. Thank you, Mr. Chairman, members of the Committee. If I do not use all my time, I promised Bob Stallman I would yield it to him in the interest of unity.

In my written testimony, I have included the complete farm bill principles that were adopted by the NFU delegates, but in the interest of time today, I just want to focus on a couple of issues, what I see as a couple of exciting opportunities in rural America and two recent studies that we have commissioned, one on concentration in the marketplace and the other on an out-of-the-box, sort of new safety-net concept that I would like to outline.

We conducted numerous farm bill listening sessions around the country to gather input from farmers, ranchers, and citizens in rural communities, and the level of optimism that I witnessed is greater than at any time in my lifetime, primarily because of two exciting economic opportunities: one is renewable energy—ethanol, biodiesel, wind, cellulosic—and the second is consumer-driven demand for fresh, source-verified, natural, direct-from-the-farm food. Both of those offer exciting opportunities for farmers to get a profit from the marketplace, which should be the No. 1 goal of this farm bill.

One area of big concern is to enact a strong Competition Title that helps create, fair, and open competitive markets. According to our most recent study done by Drs. Heffernan and Hendrickson at the University of Missouri, the concentration and the processing and retailing sectors of agriculture continue to increase, except for one sector, and that is the production of ethanol where the market share of the top four firms has declined from 73 percent in 1987 to 31.5 percent today; while the production by farmer-owned ethanol facilities has increased to 39 percent, making them the largest producers of ethanol. And I thank you, Mr. Chairman, and members of the Committee for the good public policy that helped drive that reversal of fortune, which basically defies those who have claimed that concentration is inevitable and it gives credibility to those of us who advocate that increased competition actually leads to higher prices to farmers and is good for rural communities.

On the commodity safety net, we also commissioned a study—once it became evident to us that we were going to be dealing with significantly diminished resources to write a new farm bill, and when this became apparent, we commissioned an economic study by Dr. Darryl Ray at the University of Tennessee that looked at a purely countercyclical safety net based on cost of production. The proposal would provide, according to Dr. Ray, the same level of the current safety net in the current farm bill, plus save an additional $2 to $3 billion per year. I think that is a really important development because we are all trying to figure out how we protect farmers in times of low prices, because any farm bill, as we know, works in a good year, when you have high prices, but it is the low years we have to worry about.

This level of support at 95 percent of the cost of production would only provide Federal assistance if commodity prices are low and provide no assistance when prices are high. Our proposal would eliminate the direct decoupled guaranteed payments. The direct payments, as we are finding out, are difficult to defend when you have $4–a-bushel corn and are often amortized immediately into higher land prices and cash rents.

The savings gained by eliminating the direct payments we feel should be used to fund a permanent disaster program. Emergency ad hoc disaster assistance is getting more difficult to enact, often leaving producers without assistance for several years after the weather disaster occurs. Permanent disaster assistance is a critical and inseparable part of an adequate safety net. Adopting a countercyclical safety net based on cost of production also addresses the problems we faced the past 2 years with skyrocketing input costs. It is the single biggest uncontrollable variable farmers face. A safety net based on prices or a direct payment do not address the volatility of higher energy prices, which farmers, as price takers, cannot pass on to others, as most businesses can and do.

In summary, Mr. Chairman, I would hope you would look at both of those studies and our complete testimony. We would be glad to work with you and provide additional information about both.

[The prepared statement of Mr. Buis can be found on page 89 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Buis. I can assure you we are looking at it even as we speak.

And now we turn to Mr. Bob Stallman, American Farm Bureau Federation. Mr. Stallman is a rice and cattle producer from Columbus, Texas, serving his fourth term as President of the American Farm Bureau Federation. Prior to becoming the American Farm Bureau Federation President, Mr. Stallman was President of the Texas Farm Bureau, and I am told he is the first President to hail from the Lone Star State.

Bob, welcome again to the Committee. Please proceed.

STATEMENT OF BOB STALLMAN, AMERICAN FARM BUREAU FEDERATION, COLUMBUS, TEXAS

Mr. STALLMAN. Chairman Harkin, Ranking Member Chambliss, and members of the Committee, thank you for the opportunity to discuss the economic challenges and opportunities facing American agricultural producers today and to present our recommendations for the 2007 farm bill which are designed to address those challenges.

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

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

Following is a summary of the four key principles underlying our proposal.

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

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

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

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

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

One, we support continuation of the three-legged stool safety net structure of the Commodity Title, including maintaining direct payments and the loan support program. But we recommend that the current countercyclical payment program should be modified to be a countercyclical revenue program using State crop revenue as the trigger rather than the national average prices.

Two, given the determination in the WTO Brazil cotton case, we support eliminating the fruit and vegetable planting restriction on direct payments. We support continuing the restriction for countercyclical payments.

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

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

Five, we support changing the Dairy Price Support Program to support the price of butter, nonfat powder, and cheese instead of only the price of milk. We support this only if total Federal spending does not increase under this approach.

Six, we support haying but not grazing on CRP acreage with some reduction in the rental rate. Similarly, we support the use of selected CRP acres to harvest grasses raised for cellulosic feedstock with a reduction in the rental rate. In both cases, production practices that minimize environmental and wildlife impacts would have to be utilized.

Seven, we support an additional $250 million annually to expand the EQIP program and to allocate 17 percent of all mandatory EQIP funding for fruit and vegetable producers. For the Nutrition Title, we support funding for additional purchases of fruits and vegetables.

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

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

Thank you.

[The prepared statement of Mr. Stallman can be found on page 187 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Stallman.

Now we turn to Mr. Bill Flory. Mr. Flory is a fourth-generation farmer from northern Idaho. He grows three classes of wheat, barley, bluegrass, timothy hay, garbanzo beans, and timber. In 1994, he was President of the Idaho Grand Producer, and in 1998, he was President of the National Wheat Growers. He currently sits on the Idaho Soil Conservation Commission and is here today to testify on behalf of the American Farmland Trust.

Mr. Flory, welcome to the Committee and please proceed.

STATEMENT OF BILL FLORY, AMERICAN FARMLAND TRUST, WINCHESTER, IDAHO

Mr. FLORY. Mr. Chairman, thank you, Ranking Member Chambliss, and Committee members. Good morning. As you said, I am Bill Flory, a fourth-generation farmer. Currently I am on the Idaho Soil Conservation Commission and am working with American Farmland Trust.

During the past several years, American Farmland Trust has conducted an extensive research and outreach campaign with hundreds of farmers, ranchers, policy experts, academics, environmentalists, nutritionists, and rural activists. What we have learned and observed during this process is a dynamic picture of agriculture. Mr. Chairman, agriculture has evolved dramatically, and the future holds out even greater change. The 2007 farm bill should, therefore, serve as a bridge for our Nation as we evolve and develop our thinking on how we support producers, help the environment, and ensure an adequate food, fiber, and now fuel supply for the Nation.

Farm policy has always had an appropriate role in helping provide both a safety net of steady, reliable income assistance when disaster strikes and tools to manage risk. Unfortunately, though, existing commodity programs are narrowly focused on supporting prices, not revenues, and, consequently, large numbers of producers have fallen through the safety net.

For example, in situations when yields are low but prices are high, the current countercyclical programs do not make payments even though they are needed. Thus, in years of drought or flood, a farmer may have a significant drop in yields and a drop in revenue. However, if prices remain high, a producer's drop in revenue might not be covered by the current program. This has happened time and time again to wheat, barley—my main crops—and sorghum and other producers in the last 5 years.

The 2007 farm bill is an opportunity to repair this hole in the safety net. In order to do so, the safety net should target revenue—that is, price times yield—rather than just price, as existing programs do. Creating such a system will provide greater protection for producers. The Government would provide a per acre payment based on projected national revenue, which would be forecast every year before planting. Soon after harvest, Government payments would be made to farmers based on the difference between the actual revenue and the earlier projected revenue. Under such a system, the Government covers systemic risk due to weather, natural disasters and/or price risks during the course of the growing season based on actual market conditions. Such a system, therefore, could provide protection to producers for disasters, drought, weeks or months after harvest rather than waiting for any ad hoc disaster program.

Just as importantly, such a system would be based on market prices rather than on Government-set targets and as such would eliminate the inequities created by a system that sets target prices higher for some than for others.

Finally, by removing these market-wide or systemic risks, you also gain tremendous efficiencies in the crop insurance sector, the result of which will be lower taxpayer costs and reduced producer premiums on the individual insurance coverage. Producers can protect themselves from individual/local risk through crop insurance, and the Government will protect against global or national risk via a Government payment. This is an integration of a national difficult payment program with private insurance and is a key factor in the successful revenue-based safety net.

Mr. Chairman, one more thought. Farmers and ranchers account for nearly half of all the land in America. These acres have a tremendous impact on our Nation's human and natural environment. Most farmers are good stewards. No one I know wants to leave their land worse off for their children and grandchildren than the shape it was in when they were awarded it. AFT found strong support for rewarding stewardship, and I strongly believe in the concept of a rewards program. I believe this concept is alive and well out in the countryside, but the Conservation Security Program is in need of significant help and nurturing.

I urge this Committee to recommit itself to finding a workable "green payment" program as an additional stream of income to reward and inspire producers across the landscape for their stewardship of our Nation's resources.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Flory can be found on page 124 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Flory.

Now we turn to Reverend David Beckmann. The Reverend David Beckmann is one of the foremost U.S. advocates for hungry people. He has been President of Bread for the World for 15 years, leading large-scale and successful campaigns to strengthen U.S. political commitment to overcoming hunger and poverty. Before that, he served at the World Bank for 15 years overseeing large projects and driving innovations to make the Bank more effective in reducing poverty.

Reverend Beckmann, please proceed.

STATEMENT OF REVEREND DAVID BECKMANN, BREAD FOR THE WORLD, WASHINGTON, DC

Rev. Beckmann. Thank you very much, Chairman Harkin, Ranking Member Chambliss, members of the Committee. Bread for the World is a Christian citizens movement against hunger. Our members and churches across the country urge Congress to do things that are good for hungry and poor people.

This Committee has done a lot for hungry people. I think everybody who is here this morning on the Committee has been a hero on one or another Bread for the World issues, so I am delighted to be here with you, and I want to say there is a deep connection between U.S. agriculture and hunger. So farm groups over decades have helped us achieve progress for hungry people in our own country and around the world.

Bread for the World is focusing this year on asking you to modify the farm bill in ways that we think would make it better for hungry and poor people in our own country and around the world.

In 2002, Bread for the World focused mainly on the Nutrition Title and the Food Aid Title. They are clearly important to hungry people. And in this farm bill, too, we think it is important to strengthen the Food Stamp Program. We think that you should both strengthen and reform the food aid program.

But after 2002, we started hearing from church leaders in Africa and other parts of the developing world that our farm programs were making problems for farm and rural families in their countries, very, very poor people. And as we have delved more deeply into the farm bill as a whole, we have come to the conclusion that it could be changed in ways that would be a lot better for rural America, too, especially for rural Americans of modest means.

All of you know that there are a lot of people in rural America who are really struggling. Poverty and hunger are more widespread in rural America than in urban America. But most poor people in rural America are not farmers, so they do not get much help from the farm bill. And, of course, people who have small farms get less help from the farm bill than people who have large farms.

My cousin in Nebraska, Senator Nelson, has 2,000 acres in Seward County. They have received a lot of help from the farm programs. But I have other friends in Nebraska, a couple that has a small operation. They are struggling to live, and they are not getting any help.

I think you all know the statistics. Most of the help in the Commodity Title goes to relatively affluent families. Some of it goes to very wealthy families. People get used to any system that you create. But this system just does not strike us as right, and it seems to us that it gives you an opportunity to shift resources in ways that would do a better job for rural America, especially for people of modest means.

The way that the U.S. and the other industrialized countries manage our agriculture is also tough on farm and rural people in developing countries. Many of them produce crops that they cannot sell in the industrialized countries, or they are competing against subsidized exports from our country.

There are poor people in the developing countries who benefit from subsidized food, but 70 percent of the undernourished people in the world make their living from agriculture. So, on balance, the way we are organizing our agriculture here now is an obstacle to the progress that is underway against hunger and poverty in the world.

The fact that corn and some other commodity prices are high right now gives you an opportunity to make some shifts. There are other ways that you can help farmers in this country, through rural development, conservation, risk management, savings schemes. If you would shift in those directions, you can help farmers here and not have these negative effects on poor and hungry people around the world.

I am grateful for all that you are already doing for hungry people. I am asking you to make the farm bill even better for hungry people in our country and around the world, to make it better for rural Americans of modest means, and also to make it better for poor and hungry rural people in Africa and the other developing parts of the world.

[The prepared statement of Rev. Beckmann can be found on page 83 in the appendix.]

Chairman HARKIN. Reverend Beckmann, thank you very much, and I personally want to thank you for so many years of speaking truth to power. You always have and I appreciate that. And I want to make it clear for the record that I serve as an honorary member of the board of Bread for the World, and I am very proud of that and very proud of the work that Bread for the World does.

Now we will turn to questioning. We are going to do 5–minute rounds, and we will try to be strict because we have a lot of people here this morning.

I will just start off with a general question. We have all talked about lower spending for commodity programs than was anticipated when we passed the farm bill 5 years ago. It is not all bad. I have repeatedly heard farmers tell me they want to get more income from the market than they do from the Government, anyway. I think it is appropriate for the Government to help producers withstand the vagaries of weather and markets. I am the first to offer a strong, effective safety net for ag producers. But I also know we have a tremendous capacity to produce agricultural products in this country and that producers will not prosper if we eliminate all the risk.

Now, some of the witnesses referred to the three-legged stool of direct payments, countercyclical payments, and marketing loan benefits in the current farm program. We also provide significant risk management through the Federal Crop Insurance Program. So for many producers, we have a pretty solid safety net structure, while other producers repeatedly need disaster assistance.

I guess my question is: From your perspective, where do Commodity Title programs overlap and duplicate coverage available through Federal crop insurance? What gaps leave producers most vulnerable to weather and price disruptions?

I guess to sum up that question even more succinctly: What can we move away from and move into that will cost us less money but still support a viable safety net for farmers—a safety net that is a true safety net, just for low prices, weather, that kind of thing? Mr. Buis?

Mr. BUIS. Thank you, Mr. Chairman. I think that moving—well, first of all, the biggest single gap that I see out there is when a producer does not have a crop, and it is primarily due to weather-related disasters. So filling that gap is very important. Ad hoc assistance does not work much anymore.

But the second thing is, So how do we do it? Our concept is to take the direct money to help fund a permanent disaster program and other farm bill priorities, and the reason I say that is because, as a corn farmer in Indiana getting $4 a bushel for my corn, I should not be getting a direct payment while someone in western Kansas or western Nebraska has lost their crop and is not getting sufficient resources to continue on in the future. I think that is a better use of Federal funds.

Chairman HARKIN. Mr. Stallman?

Mr. STALLMAN. Mr. Chairman, we tried to address your question very directly in our proposal by putting in place a county-based catastrophic assistance program. That is——

Chairman HARKIN. Based on revenue.

Mr. STALLMAN. No, this is based on disaster losses of more than 50 percent in counties that are declared disaster areas. This is the disaster portion of our safety net structure. Then that allows elimination of the CAT, elimination of the NAP program, which our producers say has not worked very well, and re-rating of the Crop Insurance Program then to provide cheaper buy-up coverage above that. When you——

Chairman HARKIN. Can I just interrupt? It seems that you both are for some kind of permanent disaster program. If we have a permanent disaster program, what is to prevent farmers from just planting knowing that they are going to get a disaster payment anyway? We have had that problem in the past. You know, we have been around this place a long time. We did away with that in 1981.

Mr. STALLMAN. Absolutely, and that is a concern of ours, and that is why the catastrophic verbiage is in there, because that is for losses greater than 50 percent. That is catastrophic. And the scenario we have been going through trying to seek ad hoc disaster assistance with the political and budget hurdles that that entails every year is unsustainable, and it is not very predictable. And this provides a base level of support to replace the CAT program and then buy up coverage above that with a re-rated Crop Insurance Program, coupled with the countercyclical revenue-based safety net substituting for the countercyclical program.

Chairman HARKIN. Got it.

Do you have a view on this, Mr. Flory?

Mr. FLORY. Mr. Chairman, we believe that a national-level program is a better option for providing the safety net and, again, not based just on price but based on revenue.

We have commissioned an economic study to analyze the cost/benefits of our program, and we believe that the integration of Government systemic coverage and private crop insurance will result in a cost savings of over $1 billion annually in the amount of Government subsidy we provide for crop insurance today.

Chairman HARKIN. OK. Reverend Beckmann, this may be my last chance I get to ask a question. Food stamps do a great thing in this country, but we find out that people—we instituted food stamps to provide food for hungry people, to provide nutrition. Now we find out that some of the most obese people in the country are those on food stamps, they have the worst diets, and they have the highest rates of diabetes.

What could we do in food stamps to provide more nutritional food for people on food stamps?

Rev. Beckmann. Well, it is an odd thing that in our country, the kind of hunger we have in our country often contributes to obesity. Virtually all the food stamp families are running out of food the last week of the month. We know that now because we have EBT and we can see on the computer that nearly all the money for food is gone by the end of the third week. So those moms do not each much for a week. They protect their kids for a few days, then the kids do not eat much. Then when the food stamps come in or they get a wage check, then they are vulnerable to binge eating. So you eat crummy food, there is irregular eating, and this contributes to obesity.

Just making the Food Stamp Program stronger, so that people could eat for the whole month, would be a powerful way to tackle obesity among low-income people. In addition, we favor incentive programs that would give people additional food stamps to buy quality food.

Chairman HARKIN. Thank you very much. I went about a minute over.

Senator Chambliss?

Senator CHAMBLISS. Well, here we were looking for you guys to come in here and give us solutions to our problem.

[Laughter.]

Senator CHAMBLISS. Mr. Buis, I hear you saying no direct payments. Bob, I hear you saying keep them basically the same. Mr. Flory, you are saying increase direct payments. So here we go.

Let me start with you, Mr. Stallman. On your flex acres issue, we had specialty crop folks in yesterday, and I told them what you were going to come in here and say today because I had already seen your proposal. And I asked all of them, I said, "What if we eliminate the flex acres provision and we replace that with $250 million in funding for conservation programs to specialty crop farmers? What is your reaction to that?" And the general conclusion from all of them was that by the elimination of the flex acres issue in the farm bill, the specialty crop growers would suffer about $3 billion in losses of revenue. And, obviously, $250 million would not come near replacing that.

If you have any comment on that, I will give you an opportunity to respond to that. Plus, is it your position, Bob, that with your proposal on flex acres, that is a green box issue now for WTO concerns?

Mr. STALLMAN. I will answer the last part of that first, Senator Chambliss. Yes, that is our concern, and that is why we are proposing the elimination of that. The Brazilian cotton case ruling was pretty clear. Although that was not a direct part related directly to the cotton, it did set the stage basically for those payments to be categorized as amber box as opposed to green.

It does not surprise me that the fruit and vegetable sector says that that is not enough. We have had this discussion internally with our own fruit and vegetable producers. Our attempt was to recognize the level of support that has to be given up now, basically, if you forego the direct payments to go in fruit and vegetable production, and so that was the basis for our calculation.

There was an ERS study last year, Report No. 30, I think, in 2006, that indicated that in the aggregate the shift would not—or the change in the provision would not create a $3 billion level, basically, of angst for the fruit and vegetable producers, and it is for a very simple reason. You have to have a lot different skill set. You have to have more capital. You have to have access to market channels, labor issues. There is a whole host of things that right now, if a producer wants to shift into fruit and vegetable production on acres that is currently receiving payments, it is not—the level of the payment is not an impediment for that to happen. And so we do not believe the impact would be $3 billion. We do believe there would be an impact that would be regional in nature and probably crop-specific crops. But in the aggregate, we do not believe that the impact would be as great as what has been projected by the industry itself.

Senator CHAMBLISS. Mr. Flory, you raise an issue that is a constant issue in every farm bill that I have been involved in, this being my third one now, and that is that oftentimes, as hard as we try to make sure that payments go to those who need it, there is no way that we can ensure that in every part of the Commodity Title that only those farmers who are having a tough year are going to get a helping hand from the Federal Government.

I am curious about your proposal to provide additional direct payments to those farmers like I talk to in Kansas who have suffered every year for the last 5 years, and you are right, the countercyclical program means nothing to them. They do need more in direct payments.

Do you have some sort of trigger in mind to cause an increase in those direct payments, a trigger such as disaster of some sort? And if you can elaborate on that a little bit, I would appreciate it.

Mr. FLORY. Mr. Chambliss, thank you. First of all, we are not advocating larger direct payments. I may have misspoken or that may have been misinterpreted. Our proposal is within the current budget numbers that are projected, and direct payments—we see direct payments as a potential transition tool long term. Direct payments we think should be transitioned to conservation over time.

To address your issue of who gets payments when they need them and when they do not need them, our national revenue proposal allows payments—or provides payments on a systemic as well as on an individual base within individual crop insurance provides those when needed based on revenue and on price and will not distort planting intentions or particular actions of farmers that the market is not sending them already.

Senator CHAMBLISS. I may want to ask you about that again later, but I will come back.

Thank you, Mr. Chairman.

Chairman HARKIN. Thank you, Senator Chambliss.

Now Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. Thank you for this really very important hearing, and thank you very much for the speed with which you have turned to rewriting the farm bill. I think it is critically important that we move as expeditiously as possible, and you certainly are leading the way, and I thank you for it.

I would like to ask the witnesses, I have been reading this series in the Washington Post about agriculture, and the Washington Post has been suggesting that there is widespread abuse and that almost all the farm program payments go to wealthy people. And while I would be ready to acknowledge there are areas that need reform in agriculture, I think most people on this Committee would recognize there is a need for reform. The basic message that there is no need for support for agriculture strikes me as completely off base. I would just like to know your reaction.

Mr. Buis, how would suggest or for what reason is there a requirement for support for agriculture in your judgment?

Mr. BUIS. Thank you, Senator. I, too, have been reading those stories, and I think it often paints an unfair picture of rural America. You know, they compare apples to oranges, and who gets the support and at what level. Oftentimes people use the 2 million total farmer number and then divide it by the payments. And we all know that a great many of those people are not real farmers. They do not count on their income. And I think you have sort of three classes of farmers: you have the very small, sometimes hobby farmers, sometimes for real; you have the people in the middle that are doing it full-time for their only source of income; and then you have some very wealthy farmers and farming operations that are probably more than just agriculture.

Our concern is about that group in the middle, and the variability in prices that they cannot control, the variability in inputs that they cannot control I think compels us to have farm programs to help them out in these tough times. It is a matter of national security.

If you look at what has made this country great, I think it is farmers producing ample supply and high-quality food and fiber throughout our Nation. That is threatened in the future, especially if we do not continue a very rural economy of family farmers.

Senator CONRAD. Well, I thank you for that. You know, one of the things that struck me about these articles, you do not see much reference to the cost of food in this country, the lowest cost of food of any country in the history of mankind. You do not see much reference to a plentiful and healthy supply of food. You do not see much reference to that. You do not see much reference to the health of the agricultural sector in this country. You do not see much reference to the fact that we are a major exporter for this Nation. You do not see much reference to that. You do not see much reference to what is the true status of most farm families, at least as I know it in my State.

I remember one of their articles indicated that—they were talking about farmers who were earning $250,000 to $500,000 a year, made it sound as though that was their net. There was no reference to that was their gross. There was no reference that every input cost came out of that. There was no reference that the land cost came out of that. There was no reference to all their living costs came out of that. There was no reference to the feed cost, the fertilizer cost, the operating cost, that all of that came out of that.

So it left a very serious misimpression about the earnings of family farmers.

Mr. Stallman, what would you say in answer to the Washington Post series of articles?

Mr. STALLMAN. Well, Senator, we have been just as disturbed as you by those articles. We have actually tried to respond, both in seeking editorial boards and also by submitting editorial opinions and letters—without a great deal of success, I might add.

It is easy to take selective facts, distort them, and come up with a different picture than what reality suggests is the case, and that is how we view the Washington Post articles. Your fundamental question about why do we still need to maintain supports in this country for agriculture is really twofold: one is to level out the great variability that exists in terms of net farm income due to weather, due to rapid changes in input costs, all of the things that were just talked about; and the other reason is we are still in a very unlevel playing field with respect to the world. That is another issue.

Senator CONRAD. I am just out of time. I would just like to rivet that point. The fact is our European friends provide 5 times as much support to their producers as we provide to ours, and they outdo us on export subsidy 87 to 1. So if people want to abandon our people to a total unlevel playing field, they will have to take the consequences.

I thank the Chairman.

Chairman HARKIN. Thank you very much, Senator Conrad, and I just want to for the record thank you for your comments on the expeditious moving of the farm bill. But we would not be halfway as far as we are now were it not for the foresight of Senator Chambliss in chairing this Committee last year and having the hearings around the country and establishing the record. So I just want to make it clear that we have worked together on this, and I thank Senator Chambliss for moving the ball forward beginning last year.

Now we will recognize Senator Roberts.

Senator ROBERTS. I left, but I came back.

[Laughter.]

Senator ROBERTS. But I would be delighted to yield to the distinguished former Chairman.

Chairman HARKIN. Senator Lugar then.

Senator LUGAR. I thank the distinguished Chairman, and I thank the current Chairman and the past Chairman for a great deal of the statesmanship that has brought us to this point.

I am trying to explore this year in drafting legislation that tries to take a look at all farmers and everything they produce on the farm. It is not a new concept, but before this Committee we have heard people talk about whole farm income. And I think that is very important.

We had testimony from the fruit and vegetable people who are disadvantaged currently or for others who are not among the five major crops, and the fact is that each one of us who are farmers obtain income in many ways from the farm. My hope would be we could think through a safety net for maintenance of farm income so that, regardless of whether you had livestock or fruits and vegetables or an orchard or whatever, you were considered a farmer and had at least the benefit of the same sorts of supports of trying to maintain income and maintain your farm.

There could be debate, and there would be, as to what level of safety net provides that and whether it ought to be based upon 5 years of experience or 3 years of experience, there being ups and downs in the process. But at least I would like consideration this year of something that is not crop specific, that does not have the vested interests of particular groups of people who come to us with one crop in mind or one section of the country from time to time. And to couple this with farmer savings accounts, once again not a totally new idea, but one that is increasingly among many farm groups and those interested in nutrition programs offer opportunities for farmers to put away some money in the event they have a reasonably good year under favorable circumstances in that savings account, as a rainy-day fund for the days that are not so good.

Now, once we get into this type of a proposition, obviously it is so markedly different from our current system that any change of this magnitude creates many questions, and we are trying to study these before putting pen to paper finally and producing a bill, which we plan to do in the days ahead, so there can be honest debates on the language itself for Title I.

My initial estimates are that this will have great savings, and, therefore, the debate then in the Committee will be on our objectives in conservation, our objectives in further nutrition support for people throughout the country, on a number of objectives that usually are covered by the farm bill, but by necessity cannot be covered quite so generously.

At the end of the day, my guess is that we will probably still have savings of money which would be applauded by taxpayers who are not farmers or who are not advocates before us today, but at the same time, that is not my total objective. It is, rather, equity for farmers generally as well as for the American people in terms of nutrition.

Now, this is not on paper and, therefore, it is unfair to ask each of you for any comment you might have about that general thrust. But, nevertheless, I will ask you anyway, and, Tom Buis, would you give us a judgment for a moment?

Mr. BUIS. Well, you know, I think it is an interesting concept, Senator, that we would be glad to take a look at. I think given the budget climate and the other challenges we face, we need to look at a lot of options on what really accomplishes the goal of the farm bill and the farm programs.

Senator LUGAR. Bob Stallman, do you have a comment?

Mr. STALLMAN. With respect to farm savings accounts, we have supported that concept for a lot of years. We have always been just short of getting something implemented there.

Our delegates have not explored whole farm revenue recently. I remember in the mid–1990's, as we were moving to the 1996 farm bill, we looked at some of those proposals. And, rightly or wrongly, a lot—and this is just sort of anecdotal. A lot of our members were concerned about the level of private information that would have to be provided to document basically whole farm revenue and payments under such a program, i.e., tax returns and something like that. And they had a great concern about that, so I do not know if that can be resolved, but that was one of the concerns back then.

Senator LUGAR. Mr. Flory?

Mr. FLORY. Mr. Lugar, yes, we see the CSP and conservation type programs, the concept of rewarding stewardship, as being alive and well in one method. It also transcends all commodities. It is not commodity specific, and it should not be regional specific. And some thoughts on this would be: one, it needs to be funded; two, it needs to be—simple forms need to apply—as I sit on a State Conservation Commission, forms need to apply federally as well as across State lines, one application, allocation of time, people, and money, efforts more efficient. And it should not be—you know, conservation should not become an entitlement. There should be a strong oversight and requirement for reasonable and measurable benefits from it. Conservation could provide that solution, Senator.

Senator LUGAR. Reverend Beckmann?

Rev. Beckmann. What you are talking about sounds like almost precisely the sort of farm bill that Bread for the World would like to see. We will have to see it, but we would campaign to get those kinds of reforms enacted by Congress. Bread for the World is working with a working group that includes the Conference of Catholic Bishops, the Lutheran Church the Methodist Church, the Presbyterian Church, Evangelical Churches and Jewish groups. Each of them have their own decision making process, but I am pretty sure that the religious community would be really thrilled by this kind of reform.

Senator Conrad is right that some of the abuses in the current system are giving farmers a bad name. It does not make any sense. Reform along these lines, it seems to me, would revivify broad American support for strong support for farmers.

Senator LUGAR. Thank you.

Chairman HARKIN. Thank you, Senator Lugar.

Now Senator Roberts.

Senator ROBERTS. Yes, thank you, Mr. Chairman and Mr. Chambliss, for calling this hearing today and providing the leadership as we move forward in the preparation of the always difficult task, like pushing a rope, of writing a new farm bill.

Senator Conrad, thank you for your remarks.

Is there anybody here on the Committee or anybody in the audience that does not recognize the fact that we have to have champions for production agriculture? I am talking about the people who actually produce the food and fiber for this country and the world, and that is not somebody that is a hobby farmer. People keep talking about a small family farmer versus a big farmer. That reminds me of the story of the 5–foot–3 farmer from Vermont who is a part-time farmer reading Gentleman's Quarterly on his swing porch with his orchard, as opposed to the fellow that is 6–foot–2 that belongs in the Farm Bureau, out in my part of the country who farms 10,000 acres, but somehow or other the Washington Post cannot get that—just cannot get that.

I am happy that you said the remarks that you did, Senator Conrad, and I support you all the way, because I think these folks are taken for granted.

I am happy to see we have two Kansans on the witness list today: on the second panel, Ken McCauley from White Cloud, Kansas, and President of the National Corner Growers Association; on the third panel representing the North American Millers Association is Lynn Rundle from Manhattan Kansas, home of the ever optimistic and fighting Wildcats.

[Laughter.]

Senator ROBERTS. John Thaemert is the President of our National Wheat Growers and Jerry McReynolds is the Secretary-Treasurer of that organization, so as you can see, Mr. Chairman, Kansas continues to play leading roles in our Nation's farm policy debate.

Well, after suffering from years of drought and subsequently low yields, this year Kansas producers finally—finally—will see optimal growing conditions with significant moisture. However, just before we got really excited about it, we had an April freeze, and it really blanketed our State and others, and it jeopardized the crop, shifting the mood from optimism to concern.

Our producers also faced the challenges of ever expanding Government intervention and regulations, increasing production costs, large holes in the safety net, just to name a few. In fact, there has been no safety net in the Great Plains, on the High Plains, where we do produce a lot of the crops that we need to feed this country.

In my time as a congressional staffer, a Congressman, and a Senator, I have worked on no less than seven major farm bills leading into this debate. Each one was unique, and this round is certainly no exception. I agree that new policy ideas are essential to the long-term success of agriculture. I am aware of all the work that has been done on the programs being based on revenue instead of price. I encourage that. I understand that. I especially want to thank Senator Lugar for mentioning farm savings accounts. We had that as a promise way back in 1996 when the Farm Bureau and the wheat growers and everybody else endorsed it. That is really a Finance Committee jurisdiction, and I know that Senator Conrad and I are going to work hard on that.

But I do not think it is in the best interest of agriculture to take from one title of the farm bill at the expense of another, and I worry that some may want to travel down that road this year. Mr. Chairman, as you know, I voted against the current farm bill. At the time, I warned our wheat producers that had the bill been in place since 1982 previous to the passage of the farm bill, no countercyclical payments would have been made in 9 of those 17 years. Those were some of the toughest years that we had. That is why we offered the Cochran-Roberts substitute.

Unfortunately, that trend worsened over the life of this farm bill, bringing the number to 14 out of 22 years. Since the bill's passage, our wheat producers have received no countercyclical payments, little benefit from the Loan Deficiency Program. That is not right. That is discrimination. That is two-thirds of the years that a farm bill has been in place that the Great Plains really have not received any assistance. That is just not right, and we should not let that happen again.

At the same time, while severe weather decimated yields, we reduced supply and thus increased the price of wheat well beyond the target price. Additionally, when producers have no crop to harvest, there is no use for an LDP program.

Now, during these difficult times, our wheat producers had only two programs they could rely on. One was direct payments, and the other was crop insurance. Bob Kerrey, Dick Lugar, and I did not work for 18 months to improve the Crop Insurance Program so we could get 95 percent participation way out there in western Kansas, eastern Colorado, all throughout the Great Plains, to have the Crop Insurance Program in addition become a target for revenue for other programs. And if you do not want disaster payments, the best answer is a good Crop Insurance Program. And, by the way, when you lose a crop, then your crop history goes down, and you are in a world of trouble in that regard as well.

Access to foreign markets is also very critical, as has been said by our witnesses, to our farmers and ranchers. You cannot write a farm bill for the EU or Brazil or Canada or potential agreements in the WTO, but we should be aware of our global commitments. In this regard, the direct payments are our least trade-distorting program in the Commodity Title. Since direct payments have been the only program in the Commodity Title that provide any safety net to the majority of producers in my home State, I do get concerned when I read that some want to cut funding to direct payments and reduce assistance for crop insurance. I will try very hard not to let that happen.

Efforts to minimize cut, trim, or reduce these programs will not sit well in farm country, certainly not with this member, and that should be the case from Texas to North Dakota and the Great Plains as well. And I urge members who are representing those States to certainly take notice.

Were it not for direct payments and crop insurance the last 4 or 5 years, many Kansas producers would be out of business altogether. Just ask their bankers. Too many are not.

Kansas does produce more wheat and sorghum than any other State. Both of these crops have indicated their No. 1 priority in this farm bill is to protect the direct payments. That being said, I think my decision is very clear.

I look forward to working with my colleagues and producers in the fields to write a realistic and reasonable and predictable bill. I thank the witnesses for their attention and for coming and for their advice and their expertise and their leadership for production agriculture.

Thank you very much, Mr. Chairman, Chairman Chambliss.

Senator CHAMBLISS. [Presiding.] What would you like to do with direct payments?

[Laughter.]

Senator ROBERTS. I think we ought to stick them where they are needed, sir.

[Laughter.]

Senator CHAMBLISS. Thank you, Senator Roberts.

Senator Salazar?

Senator SALAZAR. Thank you very much, Senator Chambliss, and I also want to thank Chairman Harkin for the great work that he has done in this effort, picking up from where Chairman Chambliss had taken off last year.

Let me just at the outset, as we move into these important titles of the farm bill, I want to echo what Senator Conrad said, that I think that Washington and the Washington Post and lots of our urban brethren and sisters are disconnected to what is happening in rural America.

When Senator Pat Roberts travels through Kansas, when I travel through the eastern plains and I see communities like Otis and Pritchett and a number of other communities that essentially are withering on the vine, I see an America out there that has been forgotten, and, frankly, in many ways it has been both—not only a Republican administration has done that, in my view, in the last 6 years, but even before that a Democratic administration, that we have not yet found the right policies and initiatives to make sure that rural America is having an opportunity to survive the way that urban America survives. My own State of Colorado was one of the fastest-growing States in the Nation in the 1990's, yet in my view there were about 12 counties of the entire State, along the I–25 corridor, that benefited from that growth, and the rest of the State, which is mostly agriculturally dependent, was declining both in terms of population and economic vitality.

And so I think what we are doing here in this farm bill in trying to chart a course for agriculture as a national farm policy is very important in how we revitalize rural America. I very much look forward to working with both my Democratic and Republican colleagues to come up with the best farm bill possible.

I want to ask a question about energy to both you, Mr. Buis, and Mr. Stallman. You say that as we look forward to the future that things are exciting out there in farm country. And I have seen a lot of that happen throughout my State as we embrace this clean energy future, which I think is going to bring an unprecedented 21st century opportunity for rural America.

Mr. Stallman, I noticed in your testimony, provided by an organization that has many members in my State, that you are OK, it seems, leaving the Energy Title of the farm bill with respect to the kind of funding that it got in 2002. I do not, frankly, know that that is going to be enough if we really are going to be part of this biofuels revolution that is going to help agriculture.

So my question to both of you is: What is it that we can do to make sure that when we get into Title IX of the farm bill, we are doing the most to take advantage of that vision that you described, Mr. Buis? Mr. Stallman, why don't I start with you, and then Mr. Buis.

Mr. STALLMAN. Well, we certainly support the renewable energy dynamic that we are in now. There is no question about that. One of the issues we discussed internally was——

Senator SALAZAR. Let me push you a little bit. You support the energy dynamic. It is easy to talk about this thing in terms of rhetoric, but when we look at the fiscal constraints that we are in, there is only so much money for the farm bill. The position of your organization is we ought not to put any more money into the Energy Title of the farm bill. Is that correct?

Mr. STALLMAN. That is not our position in total. With respect to the CBO baseline and the restrictions we are under now, we are saying we should not shift from other titles in the farm bill into energy. Part of the issue is that many of the support elements that are in place for renewable energies are outside the jurisdiction of the Ag Committee. There could always be more dollars, I suppose, put in grants for things to promote cellulosic feedstock and those kinds of things, and our proposal did actually address that to some extent with using CRP ground for cellulosic feedstock production. But once again, with limited dollars, we had to make a decision about, how those should be allocated, and we made the decision that there should not be shifting between the titles given the limited dollars in the CBO baseline.

Senator SALAZAR. Mr. Buis?

Mr. BUIS. I think we should be very aggressive. Without a doubt, this is the single most exciting thing that has come along in my lifetime in agriculture, and there is a lot of enthusiasm, not just about ethanol but biodiesel and cellulosic and wind energy.

I think there are a couple of things you could do. One is step up the research and development. You know, ethanol just did not occur last year. It has been a 30–year effort, and it took a lot of hard work to get to where they were in a position to capitalize on higher energy prices. It took a lot of work to increase the efficiencies.

When we called it "gasohol" back in the 1970's, it was not energy efficient, it was not economically efficient. And, in fact, our real expertise probably came from people that made alcohol in their backyards. It was not very sophisticated. But people had a vision, and it took a while to get there, and I think the Federal resources that can be directed to help——

Senator SALAZAR. Would you support shifting some of the money from the other titles into Title IX for energy? Or do you have a different——

Mr. BUIS. I think I would. I think that safety net concept that we laid out today provides $3 billion in savings out of the Commodity Title and still provides the same level of protection. That could be used for not only a permanent disaster program to take care of those people that do not have a crop, but it could also be used for energy priorities or conservation priorities, Senator.

Senator SALAZAR. Thank you very much. I look forward to working with you on these issues, the Commodity Title, the permanent disaster insurance, and lots of other things that we obviously have a discussion underway. I just would say one final thing in conclusion. When Senator Conrad made his statement about, I think, the insensitivity of the Washington Post, I often wonder what would have happened if in 2007 this Congress was even considering the creation of an Agriculture Committee. Given that we have so many people who frankly do not understand the importance of agriculture, especially, I think, in the other chamber, I do not know that we would have an Agriculture Committee today. So I am glad, Chairman Harkin, that you and the rest of the members of this Committee continue the tradition of being advocates for that part of America that needs a lot of advocates.

Thank you.

Chairman HARKIN. [Presiding.] Thank you very much, Senator Salazar.

Now we turn to Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman, and thank you, gentlemen on the panel. I appreciate very much the comments.

You know, the question that we really have as we look at a farm bill is to focus on what we really are pursuing here. I think we are pursuing food, fuel, and, yes, Senator Chambliss, fiber, and as long as we are going with the "F" words, feed for the livestock industry, because that is what we are really about here. I would like to have us think about the farm bill for 2007 as the Food and Fuel Security Act, recognizing that it is also about fiber and feed.

In that regard, you are right, Tom. When you go back to the 1970's and 1980's, even in 1991 when I was elected Governor of Nebraska—or 1990, taking over in 1991, we had one ethanol plant that produced 30 million gallons of ethanol. When I left, we had seven. I do not want to take full credit. I just want the record to reflect it happened during my watch. Now we are looking at 14 or 15 plants. We are looking at $4 corn, and we recognize that this is the most exciting thing that we can recall. And I think we are at the beginning of it, not at the end of it. But what we have to also put in perspective is how we move from a corn-based product to a multi-cellulosic-based product.

In that regard, we import ethanol right now, and there is a tariff on it, as there should be; otherwise, we would undermine our fledgling ethanol industry here in the United States. I have a bill—I hope you will take a look at it, S. 426, called the "Biofuels Investment Trust Fund Act"—that will take the money from the tariff on ethanol, put it into this trust fund, maybe $30 million—we are not sure exactly what it is, but it is a fairly significant amount of money for specialized research, finding the ways to convert other cellulosic material into an ethanol product or other biofuels product, because we are not really facing the chicken or the egg. We have to have both. We have to have the technology as well as the source of that cellulosic material.

I wonder, Tom, if you have any thoughts about how we might go about making sure we are doing both.

Mr. BUIS. Well, I think your legislation sounds like a great start because if we do not do both, then we are probably just going to get to a ceiling on production. In the case of ethanol right now, with all the expansion that has occurred, if we just count on splash blending ethanol at the current level, we are soon going to be overproducing. So for those people who do not like high corn prices, you might wait a while because we are about to catch up with the market, what the market can endure.

So we have to keep going, and removing those hurdles toward a higher level of ethanol, putting that research money and finding money—and, you know, it is not a question of do we have the money. It is do we have the priorities. You know, $5, $6 billion is a small amount to invest in our Nation's energy security.

Senator NELSON. For our energy security, absolutely. We grow our crops to grow our fuel these days. I also agree with you on a permanent fund for disasters in a farm bill. There is one thing about the budgeting here that has really bothered me is we do not have the equivalent of a rainy-day fund like we had in Nebraska. We taxed the people. We paid for the kinds of benefits and programs they needed. We put some in the rainy-day fund. We gave the rest back in tax cuts. We had a rainy-day fund. We do not have a rainy-day fund or a drought fund, which is probably a better description of what we are looking for.

So I think that we can do that, and actuarially, with the exception of Katrina and a major disaster like that, we can look and see what our disasters are every year, and I agree that can take a look at what the disaster payment can be and then ensure a catastrophe above that level. We also have to find a way to deal with multi-year disasters in a single location because the Crop Insurance Program will not do that. As you mentioned, the base will shrink. It will shrink down to zero with about 8 years of drought as we have had in certain parts of Nebraska.

So we have got to find a way to be able to overcome that. But it needs to be about production agriculture, it needs to be about the future. I appreciate your comments very much, and I know that the Chairman is going to work as hard on 2007 as he did on the 2002, and we will come up with a product that I think will serve the American agriculture and our needs very well.

Thank you very much, Mr. Chairman.

Chairman HARKIN. Thank you, Senator Nelson.

Now Senator Lincoln.

Senator LINCOLN. Thank you, Mr. Chairman, and thank you so much for the series of hearings that you are having here, and certainly your incredible leadership on this farm bill and in 2002.

We have had great leadership from Senator Harkin and Senator Chambliss, and I think we have so many things here to be excited about. We talk about energy, we talk about opportunities ahead of us for this great Nation. And so I look forward to working with you to produce something that I think will be very, very productive for our entire Nation.

We thank our panel for being here. I, too, would like to echo the concerns that Senator Conrad, the Chairman of our Budget Committee, brought forward today in terms of really misrepresenting many facts in a way that distorts some of the incredible jobs that are done by farm families all across this country. Whether they are big or small, as Senator Roberts pointed out, they work hard every day.

I come from a seventh-generation Arkansas farm family, and, Mr. Buis, you mentioned the in-between, that middle farmer. And yet when I look at farmers in my State—I visited with one recently—and I look at my own family where my mother now, who is a widow, is able to rent her land, and that was the investment she and Dad made, was in their land, in their farm and in their land, with the idea that that would be their retirement.

And I look at one of our larger farmers, which I visited with the other day, who had six tenants. He had to be a large farm in order to be able to survive growing the crops that he grows. But he also provides, as he rents from three widowed women and two absent landowners who want to keep their farms and believe very strongly in their heritage.

So sometimes often big and small get intermixed or misrepresented in many ways for those of us in different regions of the Nation, and I think that is so important to keep in perspective.

One of the things that Senator Conrad—he mentioned abundance, he mentioned affordability, he mentioned our ability to do a lot of things, and in doing so I think really reinforced to all of us that Government's involvement in providing a safety net for agricultural production in this country is a blessing. And it is also an investment—an investment that we should never underestimate. And I have a problem when people really come and say what a waste of money when we are looking at half of 1 percent of the overall budget, to see an investment in not only abundant and affordable food, but safe.

Safety was one of the issues that I think that we may have missed or he may have surpassed in his listing. A lot of people have talked about the Washington Post. You just have to go to that same publication today to recognize what is happening globally in terms of safety of food and where food is coming from. And if we put our producers out of business in this country, we are going to become dependent on a food source across the globe that is not so safe.

I think today's article about China and the safety of the food supply that has come there, we have looked at what is coming in pet foods, and we are recognizing that those could also be in human food products as well.

We know that some of our trading partners have been particularly poor in meeting international standards, and we subject only a small fraction of the food that comes into this country to very, very close inspection. So I just hope that we will also keep in mind our ability to produce a safe food supply as well. I think that is important.

Mr. Buis, I understand that the NFU would support the elimination of direct payments to allow for the changes in the countercyclical payment that you have mentioned, but also to fund that permanent disaster program that you talk about.

Is your organization's support for the reduction or the elimination of those direct payments contingent on the Committee's ability to follow through on those priorities? It seems as if what I was hearing you say with Senator Nelson was that whether or not you would support moving those fundings away from the Commodity Titles toward other titles in the farm bill as well.

Mr. BUIS. Well, I think what I was saying is the score that we had in the economic analysis provides about $3 billion extra money after you pay for the 95–percent cost of production, countercyclical safety net. Those ought to be used for other priorities. I do feel, however, that——

Senator LINCOLN. You do not prioritize where you send that——

Mr. BUIS. I do.

Senator LINCOLN. Oh, OK.

Mr. BUIS. Permanent disaster assistance has to be included. And, again, I think the direct payments, one of the strong supports for the direct payments is when a producer does not have a crop, but they at least have something. But putting it out there in a shotgun approach where people who do not need it are getting it, it looks like if we redirected part of those funds into people who actually suffer losses so we can avoid those Washington Post stories about the dairy cows down in Texas or Louisiana where the Space Shuttle debris fell and they got a payment, and have a permanent disaster program that is really based on providing the assistance to those who suffered the loss, I think that is a fair, common-sense approach to all of this.

Senator LINCOLN. Well, we appreciate your insight and certainly the work you have done there in looking at where that $3 billion might go. It goes quickly. We can certainly tell you that. We appreciate it.

Mr. BUIS. But at least I am offering some extra money back.

Senator LINCOLN. Thank you.

Chairman HARKIN. Thank you, Senator Lincoln.

Senator Brown?

[No response.]

Chairman HARKIN. He is not here right now. Senator Cochran? [No response.]

Chairman HARKIN. Senator Crapo?

Senator CRAPO. Thank you very much, Mr. Chairman, and I, too, want to join with those who thanked you for holding these hearings and the aggressive schedule you have set for us to move forward in developing our next farm bill.

I wanted to take an opportunity in my first chance here to speak to point out that we have three Idahoans here to participate in our hearing today. We have Mr. Bill Flory, who has already testified, from the American Farmland Trust. We also have Mr. Evan Hayes from the National Barley Growers Association, and Mr. Jim Evans from the USA Dry Peas, Lentils, and Chickpeas Association. So we think you have made very wise choices in the witnesses you have selected to provide advice here today.

I join with those who have raised concerns about the misperception that seems to be so broad as represented by the discussion today about the Washington Post. It truly is unfortunate, as we try to develop policy for the food and fiber of our country, that we have to deal with such significant levels of misperception and misinformation. So, again, that is another reason I appreciate your giving us a chance to hold these hearings.

I want to use my time today with Mr. Flory. Mr. Flory, again, welcome to the Committee. I had a question with regard to your proposal that we move to a revenue-based system with regard to our disaster assistance. Can you explain to me if the approach that you have discussed were adopted, what kind of budget implications would it have for the farm bill as we are now operating?

Mr. FLORY. Thank you, Senator. Like I indicated before, we have had Dr. Zuloff take a look at this and analyze the cost/benefits, and we believe the integration of crop insurance on a national systemic level as well as on an individual producer level will result in cost savings of over $1 billion annually to the Government in the subsidy of crop insurance. Part of that will happen because of less risk to the private crop insurance industry. When there is a large change in price based on international events or a large change in yield based on international events, that would be covered on a national program, and the balance would be picked up—the local risk, whether it is hail insurance, a drought, some local event, then would be covered by the individual's own purchase of private crop insurance.

Senator CRAPO. All right. Thank you very much. I would like to explore that a little further, but since I just have a couple minutes left, I want to move to one other issue very quickly; and that is your discussion of being good stewards of the land and your experience with the Conservation Security Program. As you know, that program has been well received in Idaho by those who have been able to participate in it in the watersheds that have been able to be covered. And yet some of the other producers who were concerned about the lack of availability of CSP in their areas feel that it puts them in a competitive disadvantage with those even in their own watersheds or in neighboring watersheds.

I am just curious as to how we could work to improve and fine-tune this program to make it less complicated and more accessible. Do you think that changes to the program are needed? And if so, what would you suggest?

Mr. FLORY. Senator, yes, I do think there are some great opportunities in conservation, CSP being one of them. And as a Tier III CSP holder, you know, I can address the environmental benefits that it has, when on my farm, in a fully direct seeded situation for over 6 years, when there is a 50–year storm, that there is 4 inches of rain in less than 5 hours on my freshly seeded fields, there are no rills, there is no sheep, my freshly seeded crop remained intact, and that was 2 years ago.

That certainly is in the public benefit, and I am quite proud of that, and I think as an industry, we are all stewards of the land and chief environmentalists of our own immediate and long-term future. But CSP is underfunded. It is a great concept. I will look anybody in the eye and suggest that my stewardship in a Tier III contract is important to me short and long term and important to the public.

But when it comes to funding it, we think that, intermediate-wise, anyway, direct payments can be and should be considered to be converted toward conservation. Direct payments right now are very specific, commodity specific; conservation is not. There is a great opportunity there. Even though I am primarily a wheat and barley producer, those are program crops. I still support the concept of conservation across all watersheds, all crops, you know, and across the U.S.

This also provides subtle but very effective risk management, too, but conservation should not become an entitlement where you just walk in, sign the papers, and wait. NRCS, as chief technician, and hopefully FSA, as administrator of this, I can envision a great opportunity there that our detractors, those who question funds coming to production agriculture, our detractors would sit quietly and say well done, you know, environmental benefit, you know, locally, nationally, and we do not mind infusing money over the long term into production agriculture for those results.

Senator CRAPO. Thank you, Mr. Flory. I see my time has expired, but we can pursue this further together.

Thank you.

Chairman HARKIN. Thank you, Senator Crapo.

Senator Casey?

Senator CASEY. Mr. Chairman, thank you very much for this hearing and for the speed with which you are moving the farm bill, and we appreciate all the work you have put into it, as well as this Committee.

I come from Pennsylvania, and a lot of what we are talking about here does not have a direct impact necessarily on our State on a large scale. So we are not a major grain-producing State, but we are a major grain-using State for our dairy farms and hog farms and other livestock operations. So the decisions that we make with regard to this farm bill in terms of commodity payments or supports are, in fact, in the long run important to the people of Pennsylvania, and especially those in need of reliable stock and supply of affordable feed for their livestock.

So I think we have got a lot of work to do, and I know that if there is one thing that brings all of us together, it is that we have got to take a very close look at the recommendations made by all the organizations as we make determinations about the farm bill.

But, first of all, Mr. Buis, I wanted to direct my first question to you, and I wanted to read from your testimony. I was struck by this statement and also heartened by it, the first page of your testimony, and I guess I cite this in the context of Pennsylvania and our dairy farmers, it being our largest agricultural sector, over 8,500 dairy farms, but that number is ever shrinking. And they affect the real lives of some real families across our State, the basic problem being, as you know, and many people in this audience know today, the differential that they suffer from the cost of production versus the price they can obtain.

But I was struck on the first page in a list of bullet points that you say, "We support a new farm bill that includes the following provisions," and you have got about 10 or 12 listed on this one page, but you said, and I quote, "supporting dairy programs that include a strong safety net and a supply management system to protect producers from a market collapse," and also, "dairy prices should reflect cost of production shifts for producers."

I just wanted to have you elaborate on that and provide some perspective on this challenge that I know families in our State face, but I think it is a national problem as well.

Mr. BUIS. Sure, and I totally agree with you, and so do all of our delegates, on the importance of dairy and the tremendous changes going on in the dairy industry, and the challenges they face are probably greater than any other sector at this time: rising input costs, lower-than-normal milk and cheese costs. And how we move forward, you know, the 20 years I have been in Washington, we always seem to get sort of regionalized in dairy policy, and divided, and we do not end up moving forward, and a lot of things get shoehorned into dairy policy, and it makes it very complicated and the end of the day does not work very well for dairy producers.

I think we need to take a big look at what is going on, both with the market orders and the safety net, and dairy producers deserve a safety net just as much as the corn or wheat or soybean farmers do. And we feel very strongly about that.

Senator CASEY. Well, I appreciate that, and I appreciate you including that in your testimony.

I have limited time, and I promised Senator Klobuchar I would stay on time, so I want to be cognizant of my time. But, Mr. Stallman, I wanted to direct my second question to you with regard to the specialty crop block grant program. We, of course, had a panel yesterday that had, I think, a difference of opinion with you on this, and I do as well. But let me just ask you something very specific, and I want to sure I am characterizing your position on this correctly, that your stated reason for ending this program is that State governments are using the block grants to offset budget shortfalls. Is that an accurate summation of your testimony with regard to this question?

Mr. STALLMAN. In some States, we believe that is exactly what happened, that the funds basically were not used to benefit the producers, and that is our biggest concern with the block grant program. That probably is not true for all States because I have had reports that a couple of States did a good job of taking care of their producers.

Senator CASEY. And is there any way that you—and I would ask you to do this and ask the indulgence of the Committee, of our Chairman, to get this information, a list of the States where you can identify that problem?

Mr. STALLMAN. We can go through and provide some additional information that is more State-specific, yes, sir.

Senator CASEY. That would help, I think, to amplify the record.

What do you think are some of the ways—and I know I am actually over time now. If you can just very succinctly tell us ways to fix that problem.

Mr. STALLMAN. Well, I think you have to put some restrictions and rules in place, which kind of undermines the initial theory about putting the funds out there and let the States use them however they wish. You are going to have to figure out a way to target it better directly to fruit and vegetable producers if that continues.

Senator CASEY. Thank you. I am out of time.

Chairman HARKIN. Thank you, Senator Casey.

Senator Coleman?

Senator COLEMAN. Thank you, Mr. Chairman.

Mr. Chairman, let me start by thanking you for your leadership. You are working us hard. We had a long hearing yesterday and one today.

One of the fascinating things about this issue is it really does afford the opportunity to work in a bipartisan way. Our battle I think is with those who wonder why we should have a farm bill in the first place, and I associate myself with the words of our Budget Chairman, my colleague from North Dakota, and my colleague from Arkansas, too, about safety. We have the safest, most affordable food supply in the world. We need to keep it that way. I would be remiss now—everyone is recognizing their folks from their State. We had our Minnesota dairy folks here yesterday, and we have got for sunflowers, John Swanson here today. We are all in this together, and I think that is a good thing.

I want to focus on one issue, and I am going to actually turn to Mr. Stallman and Mr. Buis and talk about energy. Saying that we are in this together is obviously to work in a bipartisan way. I did not hear much difference as I listened to Mr. Buis and Mr. Stallman. I take it, Mr. Stallman, you are for all the advancement, innovation, and everything that Mr. Buis wants. But what you are saying is if we are stuck with the CBO baseline, let's not steal it from direct nutrition payments, let's not steal it from commodities. The fact is that in the energy bill we can do some things with energy, but we are not going to be dealing with disaster assistance, that there are some other opportunities, and I think that is why we have to look beyond this Committee. I think it is important beyond this Committee to look at some of the things going on in the energy bill to accomplish what we are both talking about.

The one area of concern, as we have seen this great avenue of sense of opportunity and hope, with the importance of getting rid of our dependence on foreign oil, stopping the addiction that we have that fuels thugs and tyrants like Ahmadinejad and Chavez. And we see it in our farm fields. In Minnesota, we pride ourselves on being the Saudi Arabia of wind. It used to be a boutique energy resource. Not anymore. We are doing about 500 million gallons of ethanol a year. I think we are projected to reach 1 billion by 2008.

But here is the concern I have, and in the time I have, I will turn to Mr. Stallman and Mr. Buis. Wall Street is coming in. I am all for bringing investment. I am all for getting capital out there and generating more capacity. Obviously, we have got to deal with distribution, which is a big issue. But there is this question about the profits coming back to those in the community. There is no question that there is a greater return on investment if it is spent in the local area, if it is distributed in the local area.

So the question is: How do we continue to encourage investment, national investment, and at the same time make sure that we are doing some things to ensure that money is kept in the local community? And I would invite your input into this beyond this hearing, but I would be interested in the time we have, Mr. Buis and Mr. Stallman, if you have some suggestions about how we do that.

Mr. BUIS. Well, I think it is the biggest concern in rural America about renewable energy, is how do we keep control of this hot new economic opportunity. One thing that we have had and kicked around is targeting the Federal programs that encourage production, including tax breaks to locally owned or farmer-owned entities, or controlled. You could still have investment coming in, but the control stays in the local community. And, you know, that has really been the biggest surprise of ethanol production and biodiesel, is what it has done to those rural communities. The only place is in rural America where you are seeing the boards come off the storefront instead of going up, and you are seeing the spin-off economic activity. And I would say it is because they are locally owned and the profits stay in that community and get reinvested in that community. And we should do everything we can to make sure that we do not lose that opportunity.

Senator COLEMAN. Thank you.

Mr. Stallman?

Mr. STALLMAN. Well, in an ideal world, farmers coming together to add value to their products through whatever business structure they like and producing ethanol and biodiesel, that is ideal. And targeting grants, targeting some startup funds, those kind of things, as Tom has indicated, are ways of doing that. But obviously you cannot stop—at least I do not think we want to stop capital flows because those capital flows are still important to creating production of a product that adds additional demand at the producer level. So, ideally, whatever we can do in terms of cooperative business structures for farmers and targeting some startup costs will help that, although some farmers are now talking about cashing out and selling to those same investors. So it is a choice that they have to make one way or the other.

Senator COLEMAN. I would like, again, continued input as we continue this discussion.

My time is up. Thank you, Mr. Chairman.

Chairman HARKIN. Thank you very much. We have a 15–minute vote that just started right now, so I will be glad to run over and vote and come back. Senator Klobuchar is next, if you would like to go ahead and continue to question. And then when the second bells ring, then if you will just recess the Committee—I hope to be back by that time. So Senator Klobuchar.

Senator KLOBUCHAR. [Presiding.] I would be glad to take the gavel, Senator Harkin. Thank you for your leadership, Mr. Chair.

[Laughter.]

Senator KLOBUCHAR. Thank you, all of you, and I just wanted to mention, first of all, like Senator Coleman, I am from Minnesota, and, Mr. Buis, one of the Farmers Union alums, national alums, Dave Frederickson, who is a former national Chair, national president, is my ag guy. He came out of Minnesota. Hilary is the one here, and he came out of retirement to join our staff and is having fun learning the BlackBerry and e-mail, so you can report that back, and is doing a very good job.

Like a lot of the other Senators, I just wanted to put out there the fact that I just came back from a tour in the Red River Valley, and our farmers are fans of the 2002 farm bill. They want to keep that safety net in place. They know that we saved $23 billion and we came in under projection, and we think it is very important. I have heard this from Farm Bureau people as well, Mr. Stallman, how important it is to keep that safety net as well as look at permanent disaster relief and have a strong Energy Title.

Like Senator Casey, we have a lot of dairy farmers, and we would like to continue the milk and sugar programs.

I wanted to follow up on some of the questions about energy, and I noticed, Mr. Buis, that you were talking in your testimony, your written testimony, about the work that the National Farmers Union is doing with carbon trading, where you basically are serving as a middleman or an aggregator to get farmers in the Chicago Climate Exchange. I am also on the Environment and Public Works Committee and have met with those folks.

Could you talk a little bit about that? And what are the obstacles you see to farmers enrolling in that?

Mr. BUIS. Absolutely. I think the biggest obstacle is one of education and getting people informed that the farming practices that they adopt that they can get compensated for helping capture carbon out of the air.

You know, I see farmers as playing a key role in helping clean up our environment, not just providing food and feed and fiber and fuel, but we also have this tremendous opportunity to help our Nation with the environmental program.

The Carbon Credit Program has worked extremely well. In the first few months that we were up and running last year, we signed up 1.1 million acres into the program. They have expanded it now to a greater number of States. It was originally only in 14 Midwestern States. They are going further west. They have got rangeland programs, grassland, and I think you heard testimony yesterday from some folks at the University of Minnesota that one of the best carbon-capturing commodities is actually prairie grass, and that can be grown all over the world.

Senator KLOBUCHAR. Thank you for mentioning that. With many other members on this Committee, we are pursuing how we can move toward the next step in ethanol, building on our successful corn ethanol as well as the biodiesel work that we are doing.

Mr. Stallman, I noticed in your testimony, your written testimony, you talked about the need to look at power generation using manure, and when I was visiting one of our dairy farmers who is interested in this, who operates, actually, a methane digester, he had the line, "It is only waste if you waste it." I thought you might want to use that. But could you comment more about some of the work that we can do to encourage farmers to produce electricity from this renewable resource?

Mr. STALLMAN. Well, two main areas. One is continued research to make those processes more economic, and the other is grants to help producers put in place those kinds of production systems. Those are fundamentally the two areas. And I guess a third point would be information about what the potential and opportunities are to maybe a lot of producers who have not really thought about it a whole lot yet.

Senator KLOBUCHAR. Just to change the topic a little, Mr. Buis, I notice you mentioned country-of-origin labeling and the frustration with the fact that this was supposed to be implemented. I always say that we should be talking more not "Where is the beef?" but "Where is the beef from?" Could you elaborate a little more on how you think this would help American farmers if we got this into place and, you know, any ideas you have for us to get it moving?

Mr. BUIS. Well, I think it is imperative that we finally get the law that was passed in 2002 implemented. You know, the only reason it is not is those people that have a vested interest in bringing in less expensive and often lower quality products make a ton of money off of it. From a producer's standpoint, we are proud of what we produce in the United States and proud to put our name on it. And we will compete with anyone, anytime, anyplace, but let's identify that product.

For those who want to continue to delay and delay and delay, I just think it is hurting our competitiveness. We now import 20 percent of the food that is consumed in the United States. Most Americans do not know that. Most Americans poll after poll would choose American food and American food products. It is not only an economic issue, but I think a public safety issue as well.

Senator KLOBUCHAR. Well, thank you. As you can see, I better go vote so the Committee stands in recess to reconvene after the conclusion of the vote, which will most likely be 10 to 15 minutes. I guess I will use this for my gavel.

[Laughter.]

Senator KLOBUCHAR. Thank you.

[Recess.]

Chairman HARKIN. [Presiding.] The Committee will resume its hearing, and I thank John Thune for being—boy, that must have been a real spring.

Senator THUNE. I was just trying to keep up with you, Mr. Chairman.

Chairman HARKIN. I recognize Senator Thune.

Senator THUNE. Thank you, Mr. Chairman, and I appreciate your efforts in putting together a good, strong record as we prepare to write a farm bill, and I credit you for inviting all the groups that have been in in the past several weeks and yesterday and today. Obviously, the backbone of U.S. farm policy has been and will continue to be an effective and reliable Commodity Title. I was involved with that process as a member of the House Ag Committee back during the 2002 farm bill, and since that time, I think the current Commodity Title has been providing fundamental economic support for U.S. commodity crop producers, while encouraging sustainable crop production. And it has benefited, I think, agriculture in a couple of ways: one, through the direct and countercyclical payments, and then through the loan deficiency payments and CCC marketing loans. And, combined, I think those two programs have successfully served their purpose by providing a dependable revenue stream and market-based financial support during marketing periods with low commodity prices.

The one thing in spite of those accomplishments, though, that I think is important to point out is that the 2002 farm bill did not eliminate the need or demand for ad hoc disaster assistance. And over the life of the 2002 farm bill, Congress has authorized approximately $8 billion for nationwide emergency agricultural disaster assistance, not including hurricane-related spending.

So it seems to me, at least, that as part of the 2007 farm bill, it would be really important to try and come up with a way that we can eliminate the need for some of these ad hoc disaster programs once and for all. We had for too many years farmers and ranchers who had suffered losses due to natural disasters and wondered whether they were going to receive the assistance they needed to survive financially until the next year. And this year is a good example. We are still trying to pass disaster assistance for crop production year 2005, and a couple of years later.

So it at lot of times unfortunately around here ends up becoming a political football, and so my hope would be that as we formulate the 2007 farm bill that we could come up with some sort of a Disaster Title that authorized timely, comprehensive assistance whenever losses occur as a result of natural disasters.

I have got a couple of questions, and I know you are trying to keep this thing moving along, Mr. Chairman, and you have a lot of panels, but having to do, a couple things, one, with an Energy Title, and I would like to direct this question, if I might, to Mr. Buis. But the question has to do with should a program, an energy dedicated crop program use acreage enrolled in existing conservation easement programs, or should energy crops be grown on acreage enrolled in a new and separate program such as an Energy Reserve Program?

Mr. BUIS. Thank you, Senator. I think that is a really good question. It has been debated a lot within our organization, but the feeling is that if we allow energy production on the CRP acreage, that is going to basically compete with the crops that are going into energy production out of the private sector. And one of the real benefits of this program is finally farmers are getting a price from the marketplace, which is where everyone wants to get it. Bringing in additional Government-supported acres just to provide subsidized energy feedstock for big power companies or big ethanol manufacturers does not make a lot of sense from the farmers' perspective.

It is OK to run some pilot projects, and I know as we move into some cellulosic energy with switchgrass and stuff, maybe we can experiment with some on a limited basis. But we should not look at that as approximately 40 million acres of increased feedstock just to depress the prices in the private sector.

Senator THUNE. Mr. Stallman, in your testimony you detailed a farm bill proposal for a permanent disaster program, which I just referenced earlier, and when coupled with re-rated crop insurance, how much is this program expected to cost the taxpayer? And do you believe that that type of a program would once and for all eliminate the need for ad hoc disaster payments?

Mr. STALLMAN. Well, we have structured our proposal for the Catastrophic Assistance Plan to capture the dollars from the elimination of the CAT program and the NAP program, and basically fund the program that way. And then because that takes the lower level of risk away from the current Crop Insurance Program, you re-rate crop insurance and, thus, have the opportunity for the same premium for producers to buy up at a higher coverage level than what they can now.

So our proposal basically is to do it within the confines of the current farm bill and with dollars coming out of the current CAT and NAP program.

Senator THUNE. Is that a better proposal or a better solution than simply modifying the existing Crop Insurance Program to adequately provide for disaster loss assistance?

Mr. STALLMAN. We think it probably is. I think we have 63 different recommendations as to how to improve crop insurance, and it has become very difficult to tinker with the program, if you will. So we think this is a fundamental shift in providing that catastrophic disaster assistance. But coupled with a re-rated program and coupled with a countercyclical revenue-based safety net, we believe within the dollars that we have to work with, it provides an overall better safety net than what we have now.

Senator THUNE. Just a general question that you can answer quickly, because my time is already gone. But is a permanent comprehensive disaster program authorized under the Disaster Title needed in the 2007 farm bill?

Mr. BUIS. Yes.

Senator THUNE. And given the budgetary constraints that we are going to be working with—and that is the problem I visited with the Chairman about, because I think we need to do this. But we have got some interesting budgetary constraints that we are dealing with this time around.

Mr. STALLMAN. Our goal is that as long as it is within the budget that we have to work with, yes, we should have a standing Catastrophic Assistance Program. If we have to start capturing monies from other areas of the farm bill, then we would not be supportive of that.

Senator THUNE. Mr. Buis?

Mr. BUIS. Yes, we do support it, and the farm bill safety net concept that we have roughly saves $3 billion, and about half of that we would anticipate needs to go into a permanent disaster program.

Senator THUNE. Mr. Chairman, thank you. I appreciate your answers.

Chairman HARKIN. Thank you, Senator Thune.

I want to thank this panel for your excellent testimony and for your patience, and we will dismiss this panel.

We will call up our second panel at this time: Mr. John Hoffman, Mr. John Pucheu, Mr. Larry Mitchell, Mr. Ken McCauley, Mr. Dusty Tallman, and Mr. Paul Combs.

We want to welcome the second panel. Again, thank you for your patience. We still have one more panel to go yet today, and we will get to them as soon as we get through this panel.

As I said with the first panel, your statements will be made a part of the record in their entirety. I am going to ask 4 minutes, correcting my time there, 4 minutes. If you could just sum up the major point that you want to get across to us so that we can have more time for questions and answers, I would appreciate that, and we will work down the same way.

We will start with Mr. John Hoffman, American Soybean Association. Mr. Hoffman is a soybean farmer from Waterloo, Iowa and First Vice President of the American Soybean Association. A member of the Iowa Soybean Association since 1989, Mr. Hoffman farms about 600 acres of soybeans annually on his corn and soybean farm.

Mr. Hoffman, welcome again to the Committee. Welcome back, and please proceed.

STATEMENT OF JOHN HOFFMAN, AMERICAN SOYBEAN ASSOCIATION, WATERLOO, IOWA

Mr. HOFFMAN. Well, good morning, Mr. Chairman and other members of the Committee. I am John Hoffman, a soybean farmer from Waterloo, Iowa, and First Vice President of the American Soybean Association.

My Dad is 80 years old today, Senator, and I grew up and the rule of thumb was you should start planting corn if the ground is fit on the 25th of April. So I want to thank you for scheduling this hearing when the ground was not fit on the 25th. It rained.

Chairman HARKIN. I guess it is raining in Iowa today. I called back and they said it was raining pretty hard.

Mr. HOFFMAN. Yes. But I certainly do appreciate the opportunity to present the ASA views on economic opportunities and challenges facing U.S. soybean producers and how they might be addressed in the 2007 farm bill.

Mr. Chairman, one of the biggest opportunities facing U.S. agriculture is the uncertainty about commodity prices and production caused by increased volatility in energy markets. While farm prices today are high by historical standards, they could drop suddenly if world petroleum production were to rise and prices fall. Additionally, we should not underestimate the ability of producers worldwide to increase production in response to higher energy prices, thereby causing prices to fall. In this environment, it is critical for our producers to have an adequate safety net to protect farm income.

U.S. soybean farmers support the basic structure of the 2002 farm bill, with some minor adjustments. We believe the "three-legged stool" that includes the marketing loan, the countercyclical program, and direct payments, combined with crop insurance and disaster assistance, can provide an adequate safety net for farmers in years of low prices and reduced production.

I say "can" because the 2002 farm bill established target prices and marketing loan rates at levels that did not provide an adequate safety net for producers of oilseed crops. The soybean target price of $5.80 per bushel triggers countercyclical payments only when season average soybean prices fall below $5.36 a bushel. Prices have not fallen below $5.36 during the past 4 years under the current farm bill. And even if they had, the countercyclical payments are made on only 85 percent of the production formula that uses outdated payment yields established in the early 1980's. This safety net is too low to be meaningful to soybean producers.

Our proposal for the Commodities Title of the 2007 farm bill would adjust target prices for all program crops to a minimum of 130 percent of the Olympic average of season average prices in 2000 through 2004. At 130 percent, the soybean target price would be increased from $5.80 to $6.85 a bushel. Subtracting the 44–cent direct payment, the effective target price would therefore be $6.41. Considering the target prices for other commodity crops, we consider this to be an adequate and reasonable level of income support for soybean producers.

Our proposal would also adjust marketing loan rates to a minimum of 95 percent of the same 5–year Olympic price average. These adjustments would only marginally affect soybeans. However, some current loan rates do not reflect recent market price relationships between crops, and they need to be adjusted.

Mr. Chairman, attached to my written statement is a table showing current and our proposed marketing loan rates and target prices for all program crops. Also attached are tables showing the cost of these adjustments for individual commodities, and a table showing the overall cost for all target price and loan rate adjustments of about $900 million year.

We understand the Committee has limited resources to accommodate these or any other proposed changes in the current Commodity Title. We strongly support funding these adjustments in farm support levels through the reserve account for the 2007 farm bill, expected to be included in the fiscal year 2008 budget resolution. However, to the extent new funding is not available, we encourage you to consider making these adjustments using resources from within the Commodities Title.

A second economic opportunity facing U.S. soybean farmers is the development of a domestic biodiesel industry. Biodiesel is a key new market for U.S. soybean oil, which has historically been in surplus, resulting in lower soybean prices. Efforts to establish biodiesel as a viable renewable fuel received a major boost when Congress enacted the biodiesel tax incentive in the JOBS bill and extended the incentive in the Energy Act of 2005. We strongly encourage extension of that incentive by the 110th Congress.

While domestic biodiesel production has expanded in response to the tax incentive, so too has the likelihood of significant biodiesel imports. Unlike ethanol, biodiesel imports do not face an offsetting tariff equal to the tax incentive. Moreover, foreign biodiesel is often produced and exported through the benefit of Government subsidies. These imports can enter the U.S. at less than the cost of domestically produced biodiesel, endangering the growth.

Finally, ASA supports authorizing the funding of the permanent disaster program assistance 2007 farm bill. We also strongly support increased MAP and Foreign Market Development.

Thank you for the opportunity this morning.

[The prepared statement of Mr. Hoffman can be found on page 129 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Hoffman.

Now we turn to Mr. John Pucheu, National Cotton Council. As Chairman of the National Cotton Council, Mr. Pucheu and his brother own and operate a diversified farming operation in Tranquility, California. Wouldn't you like to live in Tranquility?

[Laughter.]

Chairman HARKIN. It is in the San Joaquin Valley. Welcome, Mr. Pucheu, and please proceed.

STATEMENT OF JOHN PUCHEU, NATIONAL COTTON COUNCIL, TRANQUILITY, CALIFORNIA

Mr. PUCHEU. Thank you, Mr. Chairman, for holding this hearing today. My name is John Pucheu, and I serve as Chairman of the National Cotton Council.

The cotton industry believes farm legislation that preserves the structure of the current law is critical to our ability to meet current and future challenges. Our program recommendations meet the primary challenges facing the cotton industry: preserving what remains of our domestic customer base while adjusting to meet the challenge of growing export markets. An effective cotton program should contain a marketing assistance loan available without limitation and an accurate world price discovery mechanism, a direct payment feature to provide predictability for growers and lenders, a countercyclical feature that provides assistance in times of low prices, and planting flexibility. We oppose reductions in payment limitations, changes in eligibility requirements, and modification in the existing adjusted gross income test. Existing limits are punitive and inequitable for efficient producers of high-value crops.

We also support continuation of the extra-long staple cotton program. We will recommend adjustments to the administration of the marketing assistance loan to reflect changing market conditions.

Last year, we worked with USDA to implement significant changes to improve the flow to markets. An industry working group is developing proposals to further enhance the flow to market wile preserving an effective safety net.

We support inclusion of a provision in the new farm bill to assist our struggling domestic textile industry. Even though U.S. consumers are buying more cotton products at retail, raw cotton consumption by U.S. mills has decline 50 percent due to a flood of subsidized imports. Like the renewable fuels industry, downstream users of cotton need assistance to preserve a viable production base. We are recommending a low-cost program for domestic mills that will be paid for by modifications to the cotton program.

Our position on payment limits may be controversial, but limits expressed in fixed dollar amounts adversely affect our most productive operators and are highly inequitable. Because they are applied on a cumulative basis to all crops, limits disrupt sound marketing decisions and cause cropping decisions based on program benefits rather than market signals.

Cotton farmers are not waiting for others to solve their problems. They have invested in a highly successful, self-financed market development program and a user-funded classing system which serves as a model for the world. U.S. producers continually adopt new technologies to maintain competitiveness and quality and to employ sustainable production practices.

China is our most important market, but her purchases of U.S. cotton are down 62 percent compared to last year. China rations access to its fiber markets to protect its domestic cotton producers and manmade-fiber manufacturers. China must provide a more predictable access to its markets in return for being the beneficiary of access to the robust U.S. consumer market. China and India must be more active participants in the ongoing WTO negotiations.

Cotton farmers are deeply concerned by efforts in the WTO Doha negotiations to isolate cotton and squeeze unfair and inequitable concessions from the U.S. The U.S. should not make additional concessions on domestic support until our market access objectives are met and exceeded. The U.S. should not make further inequitable concessions on cotton. We sincerely appreciate the recent letter to USTR that reinforced these views and that was signed by 58 Senators.

U.S. exports of cotton have fallen short of expectations this year. The termination of step two hurt U.S. competitiveness, and subsidies and trade restrictions by other countries are harming our exports, and export commitments to China are low.

U.S. cotton remains in the loan primarily because of China's limitations on access to their market, yet U.S. markets are open to Chinese textile products. We are concerned by the Department's imposition of additional financial penalties on farmers should they forfeit their loan if demand does not rebound. Imposing new penalties on producers in mid-season is not a solution. We are working to develop positive steps to make U.S. cotton competitive.

Mr. Chairman, the cotton industry is a critical component of the U.S. economy, especially in the 17 States where it is produced and its products are manufactured. We look forward to working with you and your colleagues to ensure that it remains viable.

Thank you for the opportunity to testify today.

[The prepared statement of Mr. Pucheu can be found on page 168 in the appendix.]

Chairman HARKIN. Thank you, Mr. Pucheu.

Now we turn to Mr. Larry Mitchell. As CEO of the American Corn Growers Association from—what State are you from, Larry?

Mr. MITCHELL. I used to farm between two little towns in Texas called Dallas and Fort Worth.

Chairman HARKIN. Oh, I see. A couple of small burgs down there. Welcome back to the Committee, Mr. Mitchell.

STATEMENT OF LARRY MITCHELL, AMERICAN CORN GROWERS ASSOCIATION, WASHINGTON, DC

Mr. MITCHELL. Thank you, Chairman, and I appreciate you holding this meeting today, and on behalf of ACGA and our President, Keith Bolin, who is hoping to plant his corn crop soon, we bring our suggestions for Title I today of the farm bill. Our suggestions come from the Food from Family Farm Act, which is also supported and been worked on by the National Family Farm Coalition and is signed off on by over 60 organizations to this point. I will cut to the chase and tell you what we are looking for in Title I.

We are looking to re-establish a floor price for commodities from the marketplace using the nonrecourse loan program and setting those loan rates as close as possible to the cost of production for those commodities. We are looking for the re-establishment of a reserve program or a system of reserves—reserves for national security, reserves for national energy security, as well as international famine relief. And we are also looking at a way of dealing with overproduction when those problems do exist. Of course, right now we are looking at—everything is pretty close to what we need. We are raising about what we are using on corn, but this is a fairly recent phenomenon.

One of the ways we would like to see a movement toward dealing with overproduction is to give farmers an incentive to plant dedicated energy crops on acres that they are currently planting crops in excess, a program that has been introduced, I know, but Ms. Klobuchar and Mr. Peterson on the other side of the Hill to establish an energy reserve, separate and apart from the CRP, to give those producers an opportunity and an incentive to plant some of those other crops. We look at this somewhat like we looked at soybeans over the last four decades where four decades or so ago we did not really raise too many soybeans. Today what are we raising? Seventy million acres or more on a pretty constant basis. You know, it was not even a program crop until 1996.

We are looking at a portfolio of dedicated energy crops to help us over the next four decades, such as soybeans have in the past, because I cannot imagine what the price of corn, wheat, and cotton would have been over the last decade if we were not planting any soybeans.

We feel that these provisions would best serve farmers, consumers, taxpayers, the environment, and our rural communities. It may not be the best farm bill for integrate livestock factory farms. It may not be the best one for our food processors who are currently reaping record profits. And it may not be the best program for international grain traders. But we represent farmers, and we represent our rural communities, and we feel that we have got the best plan at hand to deal with the budget situation that this Committee finds itself in, because I think we can save a significant amount of money if our farmers were to get their price from the marketplace as opposed to getting that price from taxpayer subsidies.

We have also looked at some of the problems that this might present for the WTO, and I think if we were to take this plan to the WTO as a serious proposal, I think we might be surprised at who would support it, because we have already got some feelers out there, and it looks pretty good.

I think there are those in this country that are less afraid that they would not accept it and more afraid that they would accept this sort of a program.

One other point, as my 240 seconds are beginning to wane here, I would ask you and others on this Committee to consider a legislative initiative such as that proposed on the other side of the Hill by Ms. Herseth to halt the closing of our county FSA offices. Until we get this farm bill written and find out what is going to be in this farm bill, it seems a bit shortsighted to be closing FSA offices right now before we have even gotten this farm bill written to find out how it is going to be implemented.

One thing we do know is that every farm bill that we write gets more and more and more complicated, and I do not suspect this farm bill is going to be any better in that line.

Thank you, sir.

[The prepared statement of Mr. Mitchell can be found on page 139 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Mitchell, and, again, in looking over your testimony last night, I liked the ten questions you put in your written statement.

Mr. MITCHELL. We got a pretty good response from that. We thought it was similar to what Secretary Johanns had asked, just a little different set of questions to bring forward.

Chairman HARKIN. They are pretty interesting.

Now we turn to Mr. Ken McCauley, President of the National Corn Growers Association. He is from White Cloud, Kansas, where he farms corn and soybeans with his wife and son.

Mr. McCauley, welcome to the Committee.

STATEMENT OF KEN McCAULEY, NATIONAL CORN GROWERS ASSOCIATION, WHITE CLOUD KANSAS

Mr. MCCAULEY. Thank you, Mr. Chairman, members of the Committee, Senator Roberts. On behalf of the National Corn Growers Association, I appreciate this opportunity to present our views of U.S. ag policy and the challenges that lie ahead for our industry.

My name is Ken McCauley. I am President of National Corn Growers Association, and I am from White Cloud, Kansas, as you said, where I farm with my wife and son.

The National Corn Growers Association represents more than 32,000 dues-paying corn growers from 48 States. We also represent more than 300,000 farmers who contribute to the corn check-off programs and 26 affiliated organizations.

NCGA's 2007 farm bill Commodity Title proposal reflects our view that the time has arrived to adopt fundamental policy changes. This Congress has a rare opportunity to consider major reforms at a time when prices are strong for most crops and exports are expected to reach a record $77 billion in 2007. And thanks to your continued support, renewable energy from home-grown crops are now playing a much larger role in enhancing the country's energy security.

First, it is important to note that NCGA supported the 2002 farm bill for the improvements it made to our agricultural policy. Looking forward, though, today's farm safety net is simply not designed to meet producers' long-term risk management needs given the dynamic changes underway in U.S. agriculture.

Our rapidly changing corn industry has created many new opportunities for producers. Projected price trends for corn and other commodities indicate that the current marketing loan assistance and countercyclical programs will provide, at best, minimal support over the next 5 years.

NCGA is proposing reforms to the farm bill that would ensure better protection against volatile markets and significant crop losses. In early March, our delegates voted in strong support of a "county-based revenue countercyclical program integrated with Federal crop insurance for corn, and potentially other commodities."

Rather than target low prices, the new Revenue Counter Cyclical Program would compensate producers when a county's actual crop revenue falls below its target level. In most recent years, RCCP payments would be triggered by the same losses that lead to the great majority of the crop insurance indemnity payments. The RCCP is then integrated with Federal crop insurance to ensure a more targeted and cost-effective farm safety net.

Integration of these core programs would reduce the price risk and widespread production risk now borne by private insurance companies. With private insurance companies only paying for losses not covered by the RCCP, the lower indemnities paid to farmers would significantly lower program costs. Analysis provided to us indicate farmer-paid premiums or buy-up revenue insurance would drop significantly.

Another key advantage is the built-in standard disaster aid that automatically delivers payments in counties that suffer low crop revenue, saving almost $1.8 billion spent annually on ad hoc disaster assistance.

The final component of NCGA's proposal is to change the nonrecourse loan program to a recourse loan program, a step that would significantly increase the market orientation of U.S. farm policy. A recourse loan would continue to give producers harvest time liquidity which increases their ability to market their crop at a more profitable time.

NCGA believes the time is right for these reforms and urges the Congress to provide the necessary resources to take advantage of this opportunity. The integration of a county revenue countercyclical program with Federal crop insurance secures substantial budget savings from a more efficient delivery of individual revenue insurance as well as spending offsets from replacing the nonrecourse marketing loan and price-based countercyclical program.

Based on 95 percent county target revenue coverage and a 2–year transition period, the annual cost of this new safety net is projected at approximately $500 million above the CBO's March baseline. At this level of protection, we are confident in our proposal's potential for long-term savings and promise as a superior farm safety net.

Mr. Chairman, NCGA stands ready to work with you and your colleagues in the months ahead as you begin crafting this new farm bill. I thank you again for this opportunity and look forward to answering any questions that any of you might have. Thank you.

[The prepared statement of Mr. McCauley can be found on page 134 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. McCauley.

Now we turn to Mr. Dusty Tallman, a wheat grower from Brandon, Colorado, currently serving as Chairman of the National Association of Wheat Growers Domestic and Trade Policy Committee, here on behalf of the National Association of Wheat Growers.

Mr. Tallman, welcome to the Committee. Please proceed.

STATEMENT OF DUSTY TALLMAN, NATIONAL ASSOCIATION OF WHEAT GROWERS, BRANDON, COLORADO

Mr. TALLMAN. Thank you, Mr. Chairman, members of the Committee. I appreciate the opportunity today. We would like to talk about a few of the challenges facing the wheat industry and then make our recommendations for the 2007 farm bill.

Wheat growers across the U.S. have realized that our industry is suffering from several challenges, and we are trying to address those. We have had some wheat summits here lately and are trying to get the industry together with us to decide what positions we need to take to address those challenges. The challenges range from lower net returns per acre than some of the other program crops, lower levels of support than other program crops. Wheat has a very limited access to advanced genetic technologies than some of the other crops do. And we have kind of got a flat demand and have for several years worldwide. An awful lot of our wheat gets exported, but there are other places in the world that do a better job of subsidizing their production and selling their wheat cheaper than we do.

We have spent the last couple of years looking at various farm bill proposals, and we have kind of decided what we have heard from a lot of the panel today, it is not broken, let's not try to fix it. We do think there needs to be some adjustments made because wheat has been on the short end of the stick for the last 5 years.

We support the current farm bill, even though we have received little or no support from two of the key commodity programs: the countercyclical program and the loan deficiency payment. We have had severe weather across much of the wheat-growing region. In Colorado, we have had 6 of the last 7 years with below average crops, which has led to significantly lower yields and, in places, no yield at all, and an LDP does not do us much good when you do not grow a bushel of wheat.

In addition, in 2002, our target price was set lower than market conditions indicated it should be, and there has been no countercyclical payment for wheat for the entire life of the farm bill so far. That safety net failure has hurt many of our growers. The only benefit we have seen from the 2002 farm bill has been the direct payment.

We have got a chart in the testimony which shows the inequities of how the payments have gone to the different crops.

We understand the need of the producers of the other crops. We do not think that their safety nets ought to change, but we do need to work on creating a more equitable situation for wheat. In that light, we are recommending that the direct payment be continued and for wheat be set at $1.19 and a target price of $5.29 and maintain the current loan program. We arrived at those figures based on using cost of production. We have heard that from a lot of groups, that it is not so much what you can sell something for. It is most important what your cost of production is.

That gives wheat an effective price of $4.10, and when you look forward in the projections for the next 5 years of a new farm bill, we still probably would not have a countercyclical, but we do deliver a lot higher level of support.

We have heard that many organizations think the direct payment has a direct increase on rental rates and land prices, and yes, they do, but so do countercyclical, so do conservation payments, so does the high price of commodities across the country. I do not think we want to do away with any of those.

We took into serious consideration our negotiations and obligations looking at farm policy. The direct payment is still the closest to a green box thing we have, and if you can get the fruit and vegetable problem solved, it is green box.

Last, we would support an increase in payment limits commensurate with the increase in the direct payment. We understand it has been a very heated issue in the past, but we believe that you cannot use means testing to decide who does and does not get payment, especially since payment limit proposals in the past have always targeted direct payment more than they have the others. And wheat producers have relied simply on the direct payment.

We thank you for having the meeting here today, and we look forward to working with you and the rest of the Committee on the farm bill. Thank you very much.

[The prepared statement of Mr. Tallman can be found on page 246 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Tallman.

And now we will end up this panel with Mr. Paul Combs, USA Rice Federation and U.S. Rice Producers Association. Mr. Combs of Kennett, Missouri, is a rice, cotton, soybean, and wheat farmer, currently serving as Vice Chairman of the USA Rice Federation, and is Chairman of the Federation's USA Rice Producers Group.

I understand you are testifying on behalf of both groups this morning. Welcome, Mr. Combs. Please proceed.

STATEMENT OF PAUL COMBS, USA RICE FEDERATION, KENNETT, MISSOURI

Mr. COMBS. Good morning, Chairman Harkin, Senator Roberts, and Senator Lincoln. I am pleased to appear today on behalf of both rice organizations.

The rice industry strongly supports continuation of the current farm programs within the Commodity Title of the farm bill. We believe the structure of three-pronged safety net of a nonrecourse marketing loan, direct payment program, and countercyclical program, along with planting flexibility are working as designed to ensure a safety net for producers.

We strongly oppose any further reduction in the payment limit levels provided under the farm bill and oppose attempts to apply means test. Payment limits have the negative effect of penalizing viable family farms the most when crop prices are the lowest and support is the most critical.

We were very disappointed that the recently announced Free Trade Agreement with South Korea singled out U.S. rice as the only commodity for which no new access will be granted. The failure or refusal of our Government to further open markets like Cuba and South Korea underscores very clearly the importance of a strong domestic farm program safety net for rice producers.

While we support the overall structure of the commodity programs, there are some specific legislative adjustments within the programs that are needed. First, the statutory loan rate for rice is set at a national average of $6.50 per hundredweight, and it has remained unchanged since 1989. Since the enactment of the 2002 bill, the support provided by the rice loan compared to variable costs of production has fallen by 33 percent. As such, to the extent that additional funds become available above the baseline, we are seeking a modest increase in our rice loan rate from the current rate of $6.50 to $7 per hundredweight.

Second, while the statutory loan rate for rice is set at $6.50, there are currently three distinct loan rates by class that are set by USDA. USDA has recently undertaken efforts to rebalance these loan rates, and we have concerns with the approach used by USDA in the process. After analyzing the issue, we believe the most appropriate course is to set the loan rate at the same level for all classes of rise, and we urge this Committee, as you draft the farm bill, to include statutory language directing USDA to set the national loan rate for each class of rice at the same level as established in the farm bill.

Third, we are concerned with the current methodology used by USDA in calculating the adjusted world price. The current process employed by USDA is essentially a black box approach and provides little transparency. We believe by putting in place a transparent, verifiable formula for calculating the adjusted world price, the industry could have greater confidence in the process, and we look forward to working with you and the Committee on this issue.

In reviewing the USDA farm bill proposal, it is disappointing that many of the changes, particularly in the Commodity Title, would have the damaging effect of weakening and in some cases practically eliminating the farm safety net that the farm bill is intended to provide. The proposed $200,000 adjusted gross income rule would injure U.S. farmers as they fight to compete on a very lopsided global playing field. It would make our farm policy unpredictable, inequitable, and punitive to farmers and those in rural America who rely on a strong farm policy.

The provision would also have serious consequences as it relates to rental arrangements between landowners and producers, and we urge you and the Committee to oppose this provision of the USDA farm bill proposal.

We support maintaining a strong Conservation Title in the farm bill that emphasizes working lands programs, such as the Conservation Security Program, but not at the expense of current commodity programs. Conservation programs alone cannot function as a replacement for the current commodity program safety net.

Overall, we support a continuation of the basic commodity program structures with the changes we referenced earlier. We continue to believe that our current farm programs are a fiscally responsible approach to farm policy and provide a safety net when needed.

Thank you again for the opportunity to testify, and I would be pleased to respond to questions at the appropriate time.

[The prepared statement of Mr. Combs can be found on page 101 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Combs, and I thank the entire panel for your excellent testimonies.

I have two thrusts. One, this has to do with the planting of fruits and vegetables on program acres. A dispute panel of the World Trade Organization has determined that the current restrictions here of planting fruits, vegetables, and wild rice on base acres affects whether the United States can categorize direct payments as green box. Now, if we eliminate the planting restriction, we would anticipate some increase in production of fruits and vegetables. It is not clear whether this would be good and that the consequences would be—how dramatic those consequences would be.

I just want to know, each of your organizations, do you have any position on the planting flexibility issue? Mr. Hoffman.

Mr. HOFFMAN. Yes. The jury is really out with the corn consultations on whether fruits and vegetables should be planted on program acres. So I think for the next 3 to 5 years, we do not really know. The cotton case set a precedent, of course.

Chairman HARKIN. Yes.

Mr. HOFFMAN. But there will be further rulings, and in light of the high prices and low outlays that are projected over the next few years, ASA's position is that we should not remove the planting restriction.

Chairman HARKIN. OK. Mr. Pucheu?

Mr. PUCHEU. We support the current restrictions, and I am a specialty crop producer in California, and you just do not jump in and out of specialty crops. So I do not think—if the restriction was removed, I do not think you would see a huge surge in the production of specialty crops.

Chairman HARKIN. Mr. Mitchell?

Mr. MITCHELL. If a farm bill were passed similar to what we proposed here today, there would not be payments anyway. So I do not think there would be a problem with elimination. But contingent on passage of something similar to what we are talking about, under the current bill I think that is a protection that should be afforded to that sector of production agriculture.

It also goes back to the issue of, Are we going to write our farm bills at Geneva or within the WTO, or are we going to write them here? I know we have got to interact with the thing, but, you know, we have, I guess, been out of compliance on this by WTO ruling for some time now. So, you know, it is not that we are a strict adherent to all of the rulings of the WTO.

Chairman HARKIN. Although I would say I must give a rejoinder on that, there is a clause in the Constitution of the United States, which we are sworn to uphold and defend, that says that treaties are the supreme law of the land. So we do have to be cognizant of that in terms of any legislation we pass here.

Mr. McCauley, what do you think about that? How about your organization?

Mr. MCCAULEY. We recognize the issue, and we really think that it is probably a little bit deeper than just a WTO issue, because you do have these groups wanting to be part of the farm bill, wanting to share the money. I think it is an issue of how much and where does it come from, what is the issue that farmers today that get Government support have a lot of strings. Are we talking about how this—does this go as research? You know, we are hearing a lot about food safety this week here, the marketing issue.

I think as everyone said here, it is important to recognize just how it gets done, but I think it is probably a little bit more than just a WTO issue. So we do recognize that our policy says that we are for free trade. We want to make sure we do not want to do it just because somebody says we have to, but we do recognize that.

Chairman HARKIN. Got it.

Mr. Tallman, on the planting flexibility.

Mr. TALLMAN. Sure. The National Association does not have a policy. We have addressed it several times, and really have not been able to decide which side of the issue we are going to come down on until we get a little more formal acknowledgment of where the cotton case is going.

Chairman HARKIN. Mr. Combs?

Mr. COMBS. Mr. Chairman, the rice industry supports maintaining the restrictions. I am not a lawyer, but we understand it is not settled completely in the WTO, and to the extent that our administration would fight for our programs in the WTO instead of apologizing for them, that would be helpful.

Chairman HARKIN. Well, I think it is an important issue for us to consider because I am hopeful that this Committee and the Committee in the House as we hammer out this farm bill will do all we can to promote more consumption of fruits and vegetables in this country, in our schools and in the general public, food stamps, WIC program, things like that, whatever we can do, to follow the new dietary guidelines published by the USDA. At the same time, if we are going to do that, then we are going to have to promote more production. How we do that I am not quite certain right now, and that is why I asked that question on the program crops and whether we—because we do face a problem in WTO.

Now, you may say it is not clear cut, but it is close. I mean, I do not think it is a close call. I think they are going to come after us on it when we look to the cotton case.

My time is up, and now I would turn to Senator Roberts.

Senator ROBERTS. Well, thank you, Mr. Chairman. I have often wondered if the specialty crop folks would like to have an approved conservation plan and go into the FSA office and fill out all the regulations and have to buy crop insurance like all the other program crops. I think they should be welcome to do that if they would like to get in the program.

Let me say, Mr. Pucheu, do you understand that Stephen Foster, when he wrote that song, "Those old cotton fields back home," he was talking about Kansas?

Mr. PUCHEU. I know there is a lot of new cotton in Kansas.

Senator ROBERTS. We had about 160,000 acres, 180,000 acres, headed for 200,000, and then this business some called ethanol, and we are seeing some acres going to corn for some reason. But I just wanted your understanding of that. I am trying to wake up John McGuire back here, you know, to make sure he understands the close relationship I have with the National Cotton Council.

Mr. McCauley, Ken, it is always a pleasure to have a good Kansas producer seated on the panel. I applaud your organization for coming up with some innovative ideas to move agriculture forward. I am going to ask a question that I wanted to ask Bob Stallman of the Farm Bureau on the previous panel.

Several organizations, including yours, have suggested moving the countercyclical program to one based on revenue rather than price. That was always No. 3 in my farm speech, saying we had to study it. And basically you come up with a county-by-county basis. Other proposals look at a national plan, a statewide plan. We even heard about a township plan. I am not sure we could do that. But, at any rate, can you explain why you all settled on a countywide basis and then your proposal does not cut any direct payments either, as I understand?

Mr. MCCAULEY. That is right, Senator Roberts. We do not propose cutting the direct payment at all. We think that provides a lot of security and stability for the farmer 1 year to the next. We have heard all about what we should do with that this morning, but that is where we stand on the direct payment.

We chose county yield because that would get you as close as we think we need to be to what that farmer is actually producing on his farm. There are a lot of individuals that would like to get it down to the township because of the variability within a county. But we think that is close enough.

The other thing that is really important here is that, with our proposal, a producer could still buy up production with the traditional crop insurance policies that they have today at the level of risk they feel they need. So we think that is really one of the important aspects of this, that the farm safety net from the FSA office would be at this level with what we are proposing with the RCCP, but your crop insurance would still be in effect.

Senator ROBERTS. I appreciate that, and thank you for your work on it.

Mr. Tallman, it is good to see you again, Dusty. I have known you for a long time. The only difference between where you are from and western Kansas is the State line. Are you going to let any water out of the John Martin Dam so I can float on an inner tube in Dodge City in the Arkansas? Or are you going to keep all that water for yourself?

Mr. TALLMAN. We are going to try to keep it all.

Senator ROBERTS. That is what I figured.

[Laughter.]

Senator ROBERTS. Your organization is advocating for an increase in the direct payment. As you are aware, there are some groups who do not like the direct payment because they say it is completely absorbed in the increased rental rates and land values. Can you explain why this is not an issue or why you do not believe this to be true?

Mr. TALLMAN. Well, I do think that—and, by the way, instead of reading my statement, I was just going to ask that yours be reread again from earlier this morning. You did a lot better job of presenting your ideas than I did.

Senator ROBERTS. Well, but you would have to get permission from the Chairman, and he is a tough fellow.

Mr. TALLMAN. We just do not think they are. Any income stream you can attach to a piece of property is going to increase the value of that property. You know, if I lived 20 miles east of Denver, my property would be worth an awful lot more than it is in eastern Colorado or western Kansas. The direct payments, yes, I would say they probably do increase the rental rates, but so do CRP payments, CSP, any kind of an income stream that comes to that piece of property that they can feel fairly sure is going to be there, and probably the prime example is my friends here with corn, $4 corn. I am sure that has had a lot more effect in the Midwest than the direct payment has on corn ground.

Senator ROBERTS. I appreciate your answer.

Mr. Chairman, I yield back.

Chairman HARKIN. Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman, and I apologize not getting back in time for the first panel. I may have a few questions I would like to submit for the record. We are on a tight schedule around here, kind of damned if we do and damned if we do not. We miss the votes on the floor, or we miss the Committee. So we are back and forth.

But we are grateful to this panel of witnesses. We appreciate very much you being here. We also really appreciate the men and women, the farmers that you represent, the producers across this country who do continue to provide a safe and abundant and affordable food supply for the world. And I think that, you know, as we look at that and realize what a blessing that is for this country and for the globe, whether it is dealing with the economy in rural America or whether it is feeding the hungry, Americans do it really well, and the American farmers are really those that we have to thank. So we thank you for that.

I just wanted to pose a question to all of you in terms of support in moving funding out of the Commodity Title and into other titles of the farm bill. We all support so many of the good things that are in the farm bill, but we also know that conservation and nutrition and a host of other things are really not possible if we cannot keep production agriculture in production. But I am just interested whether you do support cutting the existing safety net for farmers in favor of funding other initiatives that are out there. And I do not know, in terms of seeking improvements to the current safety net rather than cuts, I guess the bottom line really is—do you feel like that there is less of a need for a safety net now than there was in 2002 when we put together a bill that I felt like was very strong and supportive of producers?

Mr. HOFFMAN. I guess I will start. You know, we do have some pretty good prices right now, particularly in soybeans and corn. But if you look at our input costs from 2002, my costs at home on a farm in Iowa are probably double. You know, we are highly dependent on energy, so our costs have doubled. So, in effect, our safety net has been effectively reduced at this particular time, too, because of the cost structure.

So I think it would be pretty shortsighted to write a farm bill to reduce the Commodity Title, the safety net support. I think we need to look forward to a time that we are in right now with increasing demand around the world, not just feed and fuel, but demand for our products is going up.

So the farm bill needs to be crafted in such a way that incentivizes production in times of low prices, and I think that is exactly what the current structure of the farm bill is doing, with a few minor improvements.

Senator LINCOLN. Thank you.

Mr. PUCHEU. I think the safety net is very important to the cotton industry at the present time because we are going through a period of low prices, and this is mainly because of our transition in our markets from supplying primarily a domestic textile industry to now we export probably 75 percent or more of our crop.

Mr. MITCHELL. I think part of the answer to your question, Senator, is the definition of "safety net," and that is why we proposed the farm bill that we did, because our definition of a "safety net" is a minimum price floor for our commodities so that we are not dependent on taxpayers. And under the current circumstances that you face in writing a farm bill, the current budget, we feel that we have got the best option. That way you do have a way of moving additional funds into the Energy Title, into CSP, into Nutrition.

I would have to say that contingent on passing something like we are talking about, we would be reluctant on moving a whole lot of money to those other areas, with the exception of probably the Energy Title. I think that a few dollars go a long ways in that title in helping build rural economies and helping our country move toward energy independence.

Mr. MCCAULEY. We do not feel that we should move the Commodity Title money to any other title, for one big reason: that it does provide a lot of stability for agriculture as a whole, but for that farmer who has an opportunity to invest in a rural development project close to him, that stability will let him go to the bank, borrow the money, do the things. And I can tell you personally that has been a real benefit to me. It has allowed—it will allow farmers and bankers the stability to keep that there. So we think the Commodity Title money should stay where it is.

Mr. TALLMAN. We would have to agree with that, I guess with the direct payment and our crop insurance in at least the areas affected by the drought, that has kind of been all the income that has kept us going over the last few years. And if you were to reduce that amount, I think it would hit quite a few producers that would be in more trouble than they are. We have been using our equity as it was in those drought States.

Mr. COMBS. Senator Lincoln, we do not support moving money out of the Commodity Title. Assuming that crop prices will remain high forever is one that history tends to disprove.

Senator LINCOLN. Well, and it is so interesting, too, because we are all very interested in alternative fuels and alternative energy sources, and that being a relatively new title in the bill does not seem like it would necessitate us moving money or resources from one of the long-term titles of our bill, but maybe looking for new dollars to be able to support new endeavors and new opportunities for our producers to yet grow into another industry side or certainly another value added to their production and their crops.

Mr. COMBS AND MR. Pucheu, some use varying statistics that cite the majority of farm program payments are going to fewer than 20 percent of the farmers as a reason to place further payment limits and eligibility requirements on farm programs. And yet we know that per pound or per bushel support is consistent across producers, regardless of their size.

Given the risk and the investment that many of your producers have in their operations in order to compete in a very uncertain global marketplace—you mentioned China and our ability not to be able to address that market, Korea, not being able to, again, have market access in those places. Can you describe the impacts of the proposal to change the existing payment limitations and eligibility requirements and what type of production shifts are likely to occur? I personally do not think we are going to grow cotton or rice in other parts of this country. It is going to probably go somewhere else. But we would love to hear your——

Mr. PUCHEU. Well, the shifts would be out of cotton and rice into something else, probably. You are seeing the shift out of cotton this year into soybeans and corn.

I think when you are talking about 20 percent of the farmers getting a significant portion of the money, I think, again, as was raised with the first panel this morning, you have to look at how you define a farm, too, and what is a full-time commercial farm. And if you look at it that way and take people that are not full-time farmers out of it, I think your statistics would look at little differently. And then——

Senator LINCOLN. Well, there is also statistics that say that about 90 percent of the production comes from 10 percent of the producers.

Mr. PUCHEU. Right, your commercial farms. You have to have a certain scale of operation to be able to afford the equipment you need. You know what a cotton harvester costs or a rice combine. You need a significant amount of acreage to spread that over.

Senator LINCOLN. That risk.

Mr. Combs?

Mr. COMBS. I agree with what Mr. Pucheu says. The land that is getting the payment is the land that is producing the crop. We also happen to be in the farm machinery business, and with cotton pickers costing and combines costing over $400,000, the economy of scale that is needed to be efficient in a global marketplace is not there when you artificially limit the access to the safety net by imposing payment limitations.

Senator LINCOLN. Well, and when your world market price is at a pretty low price.

Thank you, Mr. Chairman.

Chairman HARKIN. Thank you.

I have one follow-up question. There has been some reference this morning to Washington Post articles. There were several of them last year and a whole series of them in December. A Washington Post article last summer made the case that a significant portion of our farm program payments go to individuals who do not even farm. The Post article claimed that the farm programs have paid $1.3 billion to such individuals just since 2000.

The lead paragraph references an asphalt contractor who built his dream house on rice base and receives about $1,300 a year. Now, let me read that. It says here, "Even though Donald R. Matthews put his sprawling new residence in the heart of rice country, he is no farmer. He is a 67–year-old asphalt contractor who wanted to build a dream house for his wife of 40 years. Yet under a Federal agricultural program approved by Congress, his 18–acre suburban lot receives about $1,300 in annual 'direct payments' because years ago the land was used to grow rice. Matthews is not alone," and then it goes on to say that there is about $1.3 billion in subsidies. "Some of them collect hundreds of thousands of dollars without planting a seed. Mary Anna Hudson, 87, from the River Oaks neighborhood in Houston, has received $191,000 over the past decade. For Houston surgeon Jimmy Frank Howell, the total was $490,709. 'I don't agree with the Government's policy,' said Matthews, who wanted to give the money back but was told it would just go to other landowners. 'They gave all this money to landowners who don't even farm, while real farmers can't afford to get started. It is wrong.'"

"A few hundred yards up a gravel and dirt road, oilman Rene Hammond purchased 20 acres in May of 2003. His two-story house and garage sit on part of the land and are appraised at $338,140, records show. His payments have been about $4,500, according to USDA records. 'The money is free,' Hammond, 48, said, adding that he thought the money should go to real farmers. 'You don't have to do anything but keep the ground.'"

"When Donald Matthews bought his 18–acre tract from Petty in 2002, he never expected to receive farm subsidies. 'I was informed by Mr. Petty there was a rice base and I was entitled, and I said, "What do you mean I am entitled? I am not going to farm rice."' But nine of Matthews' acres are classified as agricultural land for which he has received more than $5,000, records show."

"Diana Morton Hudson is a corporate securities lawyer whose 87–year-old mother, Mary Anna Hudson, owns an interest in two tracts of land in nearby Matagorda County. USDA records show that Mary Anna Hudson has received $191,000 since 1997 on land she doesn't farm. 'We just pay someone to mow it, and it just sits there,' Diana Hudson said."

"Later, she added: 'I'm a corporate securities lawyer. I couldn't even locate these two parcels in Matagorda.'"

Well, how can we justify these payments to the taxpayers of this country, Mr. Hoffman? How do we justify this?

Mr. HOFFMAN. Well, I am not familiar with any of those cases you cited. You know, they probably are real cases——

Chairman HARKIN. Well, I have never had—no one has ever come to dispute these articles in the Post. No one has ever said these are not real people and these are not happening. I want to know how we are supposed to—and I am not picking on—I am going to go down the aisle. Mr. Pucheu, how do we justify this to the taxpayers of this country?

Mr. PUCHEU. I do not know how we justify it. I do not know what the answer is. But the vast majority of payments are going to commercial farmers like the panel.

Chairman HARKIN. But the $1.3 billion to individuals who do no farming at all? We could use that in our baseline.

Mr. Mitchell, how do we justify this?

Mr. MITCHELL. I do not think we can justify it, and I commend you for trying to fix this in 1996 in the final deliberation of the bill. It was your amendment that was going to require people to plant a crop before they could get those payments.

Chairman HARKIN. That was my amendment.

Mr. MITCHELL. If I am not mistaken, it failed by 1 or 2 votes.

Chairman HARKIN. That is exactly right.

Mr. MITCHELL. You and I and a lot of other people saw the problem at that time. But I think it is a lot larger problem than just some urbanites or suburbanites that are getting these payments. We saw issues in Texas where very large rice acreage is still drawing the payments, but they have gone into the cow-calf business. Now, I would think that the cattlemen would be as concerned about this as the fruit and vegetable growers are about their restriction. In other words, that acreage is getting a subsidy, and they are in the cow-calf operation, and I think that would put them on unequal footing.

But to come back to our proposal, you have got to raise the crop to get the benefits under our plan.

Chairman HARKIN. This article went on to point out about how some cattle farmers in Texas continue to receive these payments, even though they are raising cattle on what was formerly riceland.

Mr. McCauley, how do we justify these payments?

Mr. MCCAULEY. Well, I do not think we can justify it to a person who has built a house on it and is sitting there in his yard. I think some of the reasons that went around freedom to farm, our ability to move from one crop to another, was the reason for it as a farmer. But a person not farming, not doing anything with the land except being non-ag use, you had the right idea.

Chairman HARKIN. I had that amendment.

Mr. MCCAULEY. Yes. I agree with you.

Chairman HARKIN. Mr. Tallman, how do we justify these payments?

Mr. TALLMAN. I agree. I do not think there is any way you can justify them. I would assume some of that also comes about by—in our country when people put ground in CRP, quite a little of it was sold fairly soon, it was—we actually sold some to—I think it was a group of doctors out of Iowa, and I do not even know who owns the ground anymore. It has never been farmed. It has put in grass, and it stayed there. They receive the check every year.

Chairman HARKIN. Mr. Combs, how do we justify it?

Mr. COMBS. Mr. Harkin, I do not think you can justify it on that handful of examples that the Washington Post has or the New York Times can dig up or the Wall Street Journal. But that was part of the direct payment program to make it decoupled and green box. And to the extent that there is more rice base in Texas and we could move that to Missouri where we are planting more than our base, that would be beneficial, but that costs money in the program. So there is a tradeoff on all of it. I am not trying to justify that handful of examples.

Chairman HARKIN. Well, I am just saying it comes to $1.3 billion. I have asked people to dispute this, if that is right or wrong, and I have never seen any disputation of that figure at all. I mean, that is a lot of money going to people who do not even farm. And these are things that we are going to have to answer. This is not the last of those articles—well, I do not know. I assume they are not the last of those articles that we are going to see.

Did any other Senators have anything to add? I will thank the panel very much—Senator Chambliss, go ahead.

Senator CHAMBLISS. Sorry, Mr. Chairman. I have had a wrath of folks in town today that I had to go visit with.

Mr. Pucheu, let me start with you. Some believe that marketing certificates are simply a way to get around our payment limits. From a practical standpoint, what happens to the cotton marketing system if we eliminate payment certificates in the next farm bill?

Mr. PUCHEU. Well, we have got a real problem because I belong to a large cooperative that markets Western cotton, and to try and separate cotton that is eligible and not eligible would be a major problem. If you did not have certificates, you would have a lot more cotton forfeited in the loan, which would greatly add to the Government cost. So in the long run, the government is better off by having certificates than not having them.

Senator CHAMBLISS. Is it a way to evade payment limits?

Mr. PUCHEU. It is a way to efficiently market the commodity and not build stocks.

Senator CHAMBLISS. Mr. Tallman, in your testimony you note that you have examined the various revenue proposals and found that they do not work well for wheat. Have you looked at the Farm Bureau's State-level revenue proposal? And if so, what are your thoughts about that?

Mr. TALLMAN. We have. We have looked at the Farm Bureau's. I think we have looked at all of them except a couple that we have just gotten in the last night or two.

Wheat grows in kind of a different part of the country. Our yields range from 15 bushel to 100 bushel, depending on where it is grown in the country. On a State level, it looks like it was very difficult. It looks like you are still going to have producers out there that are going to need disaster—even if you have a revenue program. We have not looked at the county, I guess.

Our thoughts were that we have got 70 percent RA insurance, 70 percent CRC insurance. In our opinion, that is what these programs do, is they insure you against a 70–percent—or up to a 70–percent level. Let's write the farm bill right now and fix the insurance in a year or two and try to make it better to where we do not have to work.

The other problem with wheat was that if you base wheat on a historical basis, Colorado, we have ranged from a State average from 24 to 34 bushel the last 6 years under this drought. We are going to start out at a very low target revenue on the State level. And it is just not going to be good for us, at least in that State, and I know that there are a few other States that have similar problems.

Senator CHAMBLISS. So is it a fair statement to say that the Wheat Commodity Title in the 2002 farm bill has worked for wheat growers in some parts of the country, but it has not worked for wheat growers in other parts of the country?

Mr. TALLMAN. The direct payments work very well for us. We do not have anybody that has gotten benefits from the countercyclical or the loan programs, and it is because our target price was set too low.

Senator CHAMBLISS. Mr. Combs, there has been discussion by some to reduce direct payments and to use the savings to pay for higher loan rates, target prices, disaster assistance. How would rice producers feel about a proposal like that?

Mr. TALLMAN. We would oppose that. We think that the current program is balanced and fair with the three-legged approach.

Senator CHAMBLISS. Let me ask you the same question about marketing certificates. From a rice grower's standpoint, is that a way to evade payment limits or does it help you from a market——

Mr. COMBS. It is a way to orderly market the crop. Over half the crop is marketed by three rice cooperatives in the South and California, and it would just add tremendous burden, both on those cooperatives and on the FSA offices in those counties to take away their ability to use generic certificates.

Senator CHAMBLISS. All right. Mr. Pucheu, last, what we do not want to do—and I will address this really to the whole panel, but what we do not want to do, gentlemen, is to draft a farm bill this year that is going to run into WTO problems. We do not want to have something to come up from a litigation standpoint in the middle of the stream that is going to all of a sudden throw each of your programs into an uproar. And if it happens to one, it would happen to all of them.

So as we go through this, let me just say, John, you obviously know what has happened in the cotton industry and how it has affected us, and now not only have we lost step two, but they are looking at whether or not that was adequate to really provide a solution to the Brazil case.

We want to make sure that with respect to all of our WTO obligations, with respect to all of our bilateral agreements that are out there, that we are not going to violate something in the middle of the stream here. So as we go through this, please give us your thoughts and your input in that vein as well as in what you think is going to be in the best interest of your growers, because certainly an interruption in the program, whatever it may turn out to be, is going to be a lot more catastrophic than what we may do relative to a penny or two here or there.

So thank you very much for your input to this point. We look forward to staying in touch with all of you.

Thanks.

Chairman HARKIN. Thank you, Senator Chambliss. I think that is an excellent point. We do have to be cautious about that as we proceed.

Senator Grassley?

Senator GRASSLEY. Mr. Chairman, first of all, I want to compliment you for bringing up—as I was coming into this meeting late, since this panel took over—the issue about the abuse of the farm program, and that brings emphasis to something you and I have talked about and I am working with Senator Dorgan on, and that is, to have a hard cap payment limitation. That will save money, but it will also give us the ability to spend money elsewhere where it is needed where the benchmark is $15 billion below where we are now.

But also I say that because, as a member of the Senate Finance Committee, it is our responsibility not only for your Committee but other committees as well to find some revenue to make up for some of the shortfall we have in the budget this year. So for all those reasons, it is very good that you brought that up.

I am going to put a statement in the record.

[The prepared statement of Hon. Charles E. Grassley can be found on page 81 in the appendix.]

How would the revenue program that your organization suggests interact with crop insurance? Would adoption of the program improve delivery of insurance to farmers? And how do you judge the current state of the Crop Insurance Program if that is part of your reason for the revenue assurance aspect? Does it provide adequate revenue coverage for farmers? Would you tackle those questions? They are all kind of related. I see them as related, at least.

Mr. MCCAULEY. I sure could, Senator Grassley. We believe that when you integrate the crop insurance and the Government program together, our proposal looks very well that you are saving a lot of money that is overlap. And I do not think it is—you know, I do not know exactly where it goes, but I think it is probably just maybe waste, maybe just the fact that it just churns around in the system. But I do not think it is anybody's desire to hurt the crop insurance industry, at least from the National Corn Growers.

We also think that the crop insurance industry could benefit from this and see it as an opportunity, because all of a sudden you have got 100 percent of the farmers involved in this level, which is the farm program, and you have got the rest of the farmers out there that have not been participating that should have cheaper premium policies to buy up coverage if they need it or just buy more if they want to feel more secure.

So we feel the integration is a benefit to not only the taxpayer, which you will have less money spent on both those areas, the farmer who can actually buy up the coverage, and maybe even the Government FSA office having a simpler program to work with.

Senator GRASSLEY. Also, on a second question to you, I had 15 town meetings in the last break in parts of my State on the farm program and got opinions from the grass roots. And I think I had representatives—and I do not know whether they are—I do not think they are in the leadership position right now of the association that were suggesting that we spend a lot less on direct payment. And it was my view that the Corn Growers Association—so I am asking you at the national level—was in support of the direct payments because it was one way of avoiding the trade-distorting aspects of other safety net programs.

Mr. McCAULEY. The direct payments do fit into the green box very well, and that is why they are there. We think the direct payments do a lot more than that. They create stability for the farmers, for the bankers, for the system as a whole, from 1 year to the next because, as we all know, there is always a time when you do not fit into one of the areas of a loss or market or wherever these programs seem to go.

We think that the direct payment fits into that. We have talked about direct payments all day, and we have a position that we want to keep them.

Senator GRASSLEY. As is.

Mr. McCAULEY. As is.

Senator GRASSLEY. OK. Thank you, Mr. Chairman.

Chairman HARKIN. Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman.

I would just like to echo the words of my friend, Senator Grassley. I know.

[Laughter.]

Chairman HARKIN. Is this a new relationship?

Senator LINCOLN. That is right. But to simply say we do appreciate you bringing up the egregious abuses that exist there in those that do not use the safety net programs for their intent. You know, clearly that is not the intent of the safety net programs, and I think that it is all of our jobs to look for a way where we can eliminate those types of circumstances, but not do so at the sake or the mercy of those good-faith producers who are working hard to produce a crop but simply get caught in the circumstances of growing different crops in different circumstances.

And so I certainly hope that we can work together to realize that nobody wants to defend those types of circumstances or those types of causes. And we recognize that they were never the intent of what safety net programs were designed to do. And I would imagine, as you heard from the panel, every grower out there wants to eliminate those types of abuses in order to make sure that we can keep the good work that our producers across this country are doing. And I hope that we can work together to come up with that because I think there is a solution to be had where, again, we are eliminating abuses and going back to the original intent of what a safety net program is designed to do.

I just had one last question for Mr. Combs, and we have talked—I know that Mr. Tallman has talked a little bit about it, and Mr. Hoffman mentioned about your input cost and the increase of input cost, whether it is fuels or other things that you have seen on your operations. But there are numerous plans to provide the countercyclical revenue insurance to producers. I wanted to know if you all had looked at those plans similar to what has been described or others have answered to and how they would impact rice producers and maybe even perhaps, you know, how productive any of the Crop Insurance Programs have been or could be to rice growers?

Mr. COMBS. With regard to rice, both the administration proposal and the Farm Bureau proposal and the National Corn Growers proposal are not as good as the current countercyclical program. We tend to have a price loss rather than a yield loss. We spend up to $1,000 an acre precision leveling and putting irrigation on farms to ensure pretty well that we do not have a yield loss, and, therefore, the Crop Insurance Program tends not to work for us, and we tend not to have the yield losses and we tend to have more price losses with the possible exception of Hurricane Katrina. So the revenue-based approaches to countercyclical did not work as well for the rice industry.

Senator LINCOLN. Does anybody else want to comment on that?

Mr. PUCHEU. They also do not work as well for the cotton industry. I know Dr. Bruce Babcock at Iowa State looked into the corn program, and I am not sure if it was the final corn program that Ken presented today. But it showed that the current countercyclical program worked better for cotton than these revenue programs did.

Senator LINCOLN. Thank you.

Mr. HOFFMAN. I would echo that for soybeans, too.

Senator LINCOLN. Yes. Great.

Thank you, Mr. Chairman.

Chairman HARKIN. Senator Chambliss?

Senator CHAMBLISS. Just two questions. First of all, to each of you, and I will start with you, Mr. Combs. You are all familiar, I know, with the administration's proposal that no one qualifies for any payments if you exceed $200,000 adjusted gross income. Give me a quick comment, starting with you, Paul, and going right down the row.

Mr. COMBS. You are going to shift the burden to the tenant farmer. You got people in our part of the country right now that are operating on 50–50 rent, where the landowner is taking 50 percent of the risk and receiving 50 percent of the payment. If that landowner is locked out of the ability to market that crop through the marketing loan or access to payments, they are going to shift the crop rent, and what you are going to do is put the burden on the guy that is the beginning tenant farmer who is trying to rent a farm and farm rice to make a living, and you are not going to hurt the landowner.

So the very people that the administration is trying to target are the people that are going to get slammed on this deal in rice country.

Senator CHAMBLISS. Mr. Tallman?

Mr. TALLMAN. Our producers do not like it just because it is kind of a means test, and we do not think that is the way that it ought to work. I do not know how you come up with the $200,000 or $300,000 or what it is, but you could—wheat is kind of a different crop. We will a lot of times sell right at the end of a year. So you are going to have producers that stay under a certain level, can sell December 31st instead of January 2nd or vice versa, sell January 2nd. I think you will end up with people playing more games just to try and stay under that level.

Mr. MCCAULEY. Paul is correct. If you do that, you are going to be making a law that will just give people reasons to try to figure out how to get around it. We do not have policy on a means test, and that is basically what it is. So we think the current payment limit that is in effect today is where we are. That is where our policy is.

Mr. MITCHELL. There is always the challenge of one size fits all, different parts of the country, different crops. It is the same with housing or anything else we deal with, but in agriculture it is even more prominent. And the means test is so much different than payment limitation, and I am not sure that we would stick by that.

One of the main reasons is with a means test and you eliminate somebody out of the program, you have just eliminated the environmental incentives that are inherent in the farm program to some of your largest producers. And I think that there is a benefit for the Nation as a whole for those environmental incentives to be in place for everyone.

Mr. PUCHEU. We support the current limitations. The chances of having a death penalty and the consequences of that, you go into a period of low prices and you are out of the program, you are going to have a serious, serious problem surviving with your farm, even if you are a large farm.

Senator CHAMBLISS. Mr. Hoffman?

Mr. HOFFMAN. ASA supports the current payment limitations. We are opposed to means testing. One possible way that could harm potentially young farmers, particularly, would be if someone was on that bubble, they would bid up cash rents in an area to stay under that at AGI. So that would hurt not only—that would harm indirectly neighboring producers.

Senator CHAMBLISS. Mr. McCauley, I have concerns about your recourse loan proposal, especially as I look at the situation that cotton is currently in. China is currently buying much less cotton than they were this time last year, and so the options that our cotton farmers have are limited, particularly with our domestic textile industry struggling. The loan is in most cases the best option producers have at the moment, not because it is lucrative but because there are not other good marketing options right now.

So I am curious if you have thought through these types of situations that the market might take a sudden downturn in proposing the recourse loan for your commodity and potentially for other commodities. How would USDA recover loan proceeds if the commodity had been sold? And would USDA have a lien on land or other assets of the producer? And how would this affect existing financing?

Mr. MCCAULEY. Well, as far as cotton goes, it is definitely different than corn. There is probably not an answer from a corn grower to tell a cotton grower how good this would be because the cotton price is definitely in the opposite end of where corn is today.21We think that the corn price for the future looks like it would be above the loan road, and that would—and should—tell our growers to concentrate on the market. And I think that would be a good step toward actually showing producers that the market is there and take advantage of it.

There is a problem with the way agriculture thinks and farm programs have worked that that nonrecourse loan has always been there just in case. And there are a lot of farmers that depend on that, so they do not really make the discussion.

So we feel that the floor that we have put in this proposal replicates the marketing loan, that at the loan rate times your county yield you would not lose any more money than that. So it would not be exactly like the marketing loan, but it would look very close to it.

Senator CHAMBLISS. Thank you, Mr. Chairman.

Chairman HARKIN. I want to revisit this question about the adjusted gross income. The administration's proposal is that if you have an adjusted gross income—now, that is bottom line, that is what you make, that is what you get—of $200,000 or more, you do not qualify.

I want to ask that question again in this context. First of all, keep in mind, Mr. Combs, we can apply it to landlords. That takes care of your problem. We just apply it to landlords as well as tenants. Apply it to landlords, that they would have to show that they have an adjusted gross income also.

Think about it this way: We means-test food stamps. For anyone to get food stamps, they cannot have more than $2,000 of assets. They have to fall below a certain income line. Now, are they producers? A lot of them work very hard. A lot of them work darn hard every day to feed their families. They are producing for this country. Yet we means-test that. So if we means-test that, why shouldn't we means-test those who are making 200,000 bucks a year? That is more than we make. That is a pretty darn good income.

So if we are going to means-test one end, a big end of our bill, nutrition, why don't we means-test the other end? So I want to revisit that question again. Let's go over it again.

Mr. Combs, why shouldn't we say to the taxpayers of this country, you know, if you need it, yes, if you need this, if you are a struggling farmer, but if you have got $200,000, if you are a landlord and you have got over $200,000, you just don't qualify? Tell me again.

Mr. COMBS. In my example, the landowner did not qualify for the payments, and the 50 percent—the landowner was furnishing 50 percent of the seed, 50 percent of the fertilizer, 50 percent of the fuel, and was entitled by crop rent to 50 percent of the crop.

Chairman HARKIN. Right.

Mr. COMBS. When they cannot access the Government loan to put the rice in the loan and market it that way, they switch to cash rent. So all of the risk of all the—the tenant is then paying for 100 percent of the seed, 100 percent of the fuel, and 100 percent of the fertilizer, and trying to go to a bank and borrow the money to make 100 percent of the crop instead of 50 percent of the crop. He is taking on more risk, and the bank may or may not go along with that.

And so I am suggesting that the tenant farmer is the one that gets hurt in that scenario. I would further suggest that the real beneficiaries of our farm policy are the American consumers who have the safest and most abundant food supply in the world, and if the benefit is accruing to the consumer, it is kind of like Medicare. I have got some friends that are doctors that, you know, maybe 75 percent of their income comes from Medicare, and I guarantee you, they are not means tested. And so if the benefit of Medicare accrues to the patient and the benefit of the farm program accrues to the consumer, then we should not be limiting the farm programs.

Chairman HARKIN. Well, Medicare is a trust fund, and surely you do not want farmers to be put into a trust fund, do you?

Mr. COMBS. I am not suggesting they are in the trust fund. I am just suggesting that other programs—tax incentives, research and development credits—are not means tested. And if the benefit of the farm program applies to the consumer, then we——

Chairman HARKIN. Would you be in favor of lifting means testing on food stamps?

Mr. COMBS. I would not be in favor of lifting means testing——

Chairman HARKIN. There you go.

Mr. Tallman, again, let's revisit this $200,000 AGI if you apply it to landlords and tenants.

Mr. TALLMAN. In my part of the country, we have not had a problem with this. It did not seem to matter how big a farm you were over the last 6, 8 years. Any kind of a profit has been difficult.

One of the things that has always bothered—and I guess that is one of the things that has always bothered me about a limit, is just because you farm, as Mr. Roberts said, 10,000 acres or 1,000 acres, that farmer, if he is in a drought and he is farming 10,000 acres, he has probably lost more money—well, he has definitely lost more money. He is probably going to have a harder time recovering than the small farmer. I think it is a little easier for the small farmer to recover.

One of the questions I always had with the $200,000, or whatever figure it is, is if you are under it and you qualify and they make a payment to you and it puts you over it, does it disqualify you for the payment that puts you over it? And I do not know the answer to that one.

But I have always been of the opinion that it should be more of a dollar-per-acre figure rather than pick a figure out of the air, and say if your net income is at this level, you are not going to qualify. I think that the payments should be tied to the land, and hopefully we can get away from the problems you have in the Wall Street Journal.

Chairman HARKIN. Well, you are not going to get away from them, especially with the budget limitations we have got right now and trying to figure out how we do these budget—we have had a philosophy in this Committee—I do not mean just this Committee; I mean the Ag Committee of the Senate and the House—since World War II that every bushel of program crops that were covered by programs, every bushel should be supported the same. Every bushel should be supported the same. That philosophy has held until now, until recent times. But you see where that gets you. The bigger you are, the more you get. And the more you get, you get land around you and you get bigger. And the bigger you get, the more you get, and it is like a black hole. So the bigger you get, the more you get; the more you get, the bigger you get; the bigger you get, the more you get. It just keeps going on, and questions are being raised. Is this the time to re-examine that philosophy that we have had ever since World War II, that every bushel of every program crop is paid the same no matter how big, no matter how small you are, and that we ought to be re-examining that philosophy, and that is why I ask about the administration's proposal and the $200,000 AGI.

I have got to tell you, I have had the same town meetings that Senator Grassley has had in Iowa—I did not go to the same ones, but similar kinds, and this question comes up every time among farmers. I have had farmers in my State come up to me and say, "Look, I am getting these payments and stuff. I am making good money." They say, "I get it, but I know it is not right." And my State has been No. 1 in the Nation getting direct payments, I might add.

So, again, you know, if we have got a lot of money, good baselines, maybe we do not have to worry about it. But I think now we are going to have to be concerned about it, and it is going to keep coming out.

So I just wanted—any other thoughts on the $200,000, you know, if you would cover landlords and tenants, because that was the issue that was brought up earlier.

Mr. MCCAULEY. I really should just be quiet, but since you offered, if you have to do a means test, I think it is very hard to justify $200,000 as being needed. I think this adjusted gross income proposal that the administration put out has some unique qualities that we have not looked at before. When you look at net farm income or your adjusted gross on your taxes, the number, you could argue with where it should be. I think, you know, if you are just talking about a means test for qualifying, you know, we probably—that is the first step. But when you start talking about variable rate income—Paul brought it up before. If you are sitting on a high income this year and have a low, does that get you into the next year?

I think we have got such variable incomes and you throw cattle and ethanol investments, things like that, you could be coming off of a—if you had a 3–year or 4–year average, there are a lot of things that could work, you know, to make that better. But there is going to be a lot of studying that has to be done before I think we could go there.

Chairman HARKIN. Mr. Mitchell?

Mr. MITCHELL. Well, a couple of issues. You are right in that the bigger get bigger and they buy—but that is limited with the payment limitations if they are properly drafted and enforced. In other words, that stops that spiral.

I still do not know how we deal with the environmental impact when we put our biggest producers completely out of the program. I do not see this Committee having a lot of enthusiasm on passing some sort of environmental police that would go out on farms that are not in the program to enforce environmental requirements. So, you know, there is a bit of a carrot issue there, and I do not think you want to enforce a stick.

Chairman HARKIN. Good point.

Mr. PUCHEU. Well, I think it is the same point Ken was thinking about, the variability—a farmer with a $200,000 AGI 1 year is a whole lot different than someone on salary that has a $200,000 AGI that might go on year after year. We go up, we go down, we are all over the place. We have to make payments on land and equipment out of what is left over. It is not just to live on. And then your lenders, you know, they like certainty, and they do not want the risk of you in and out of the program each year because that greatly increases their risk.

Chairman HARKIN. Mr. Hoffman?

Mr. HOFFMAN. Variability was going to be my point. I remember in 1996 we had a pretty good year, and you are able to get ahead for—that 1 year carries you over 5, 6 years. Hopefully this is going to be another one of them. It looks pretty good coming up here. But that variability could really come back to bite a production farmer.

So, you know, we are looking at expensive equipment, and I think it would be hard to set that figure, wherever it be, and how would you police it? You take your Schedule F into the FSA office or, you know, what is the mechanism to control that?

Chairman HARKIN. Good responses. I was just told by staff that actually the administration proposal was a 3–year average.

Good responses. Thank you all very much.

Let's turn to our third panel: Mr. Evan Hayes, Mr. Dale Murden, Mr. Armond Morris, Mr. Lynn Rundle, Mr. John Swanson, and Mr. Jim Evans.

Again, welcome. I thank you for your patience, very much so. And as for the previous panels, your statements will be made a part of the record in their entirety. We will have 4–minute statements by each of you, and we will just go down the line as before.

First will be Mr. Evan Hayes, National Barley Growers Association. He is President of the National Barley Growers Association. Mr. Hayes raises barley and wheat—at 6,000 feet elevation? That is pretty high up there—near Soda Springs, Idaho.

Welcome, Mr. Hayes, and please proceed.

STATEMENT OF EVAN HAYES, NATIONAL BARLEY GROWERS ASSOCIATION, AMERICAN FALLS, IDAHO

Mr. HAYES. Thank you very much, Mr. Chairman

Mr. Chairman and members of the Committee, Senator Crapo stepped out, but, of course, I would like to recognize Senator Crapo as being from the great State of Idaho and how much we appreciate his services on this Committee.

U.S. agriculture's biggest challenge is the increasing cost of production, fueled by rising energy costs, which affect everything from our inputs to transportation costs. While many farmers have had record-breaking gross incomes this year, I can assure you that we had record-breaking expenses as well. And while commodity prices are currently high, we must not lose sight of the fact that production agriculture has always had the ability to overproduce and cause prices to collapse. That is why U.S. farmers continue to need a farm bill with an adequate safety net.

NBGA has serious concerns regarding the level of support barley receives relative to other crops in the current farm program. We believe barley has lost significant competitiveness in its traditional growing regions due, in part, to distortions in Federal farm program support levels.

In 2006, barley acreage in the United States was only 3.5 million acres, a 10–percent decline from 2005, and the lowest planted acreage since 1926.

Last year, Senator Crapo and Senator Conrad—and I want to thank them for this request—had the Senate Ag Committee ask FAPRI to look at the root cause of the barley acreage decline. We wanted to know if the farm bill might be contributing to it. According to their findings, marketing loan benefits have clearly favored traditional row crops over cereal grains. In the Northern Plains, the average annual marketing loan benefits the last 5 years were $4 per acre for wheat, $8 for barley, $12 for soybeans, and $21 for corn. At the national level, the combination of marketing loan benefits and market returns can help explain the increase in national row crop acreage since the early 1990's and the decline in small grain production.

However, National Barley does support the structure of the current farm bill, but we do urge the Committee to adopt support levels to make them more equitable among the program crops, using an objective method to determine the supports, mainly price history.

Specifically, NBGA supports adjusting barley and other crop marketing loan levels upward to 95 percent of the crop's 2000–2004 Olympic Average of Prices. If this change were adopted, barley's loan rate would be set at $2.35 per bushel, and farmers would be less likely to have their planting decisions influenced by loan rates during periods of low crop prices. This would be a marked improvement over barley's current marketing loan of $1.85, which is 75 percent of the historical base.

NBGA supports adjusting barley and other crop target prices to 130 percent of the crop's 2000–2004 Olympic price. Once again, barley's price at 91 percent of this price history is one of the lowest program costs. Barley's suggested price would be set at $3.21 if the adjustments were made.

NBGA also supports adjusting barley's direct payment level to 42 cents per bushel, or 17 percent of the 2000–2004 Olympic Average of Prices. Again, the current 24 cents per bushel direct payment that barley receives is among the lowest percentage-wise—that is, 10 percent—when compared to price history.

NBGA supports the current level of payment limits and structures, including the continuation of the three-entity rule. NBGA supports the creation of a permanent disaster program, but does not support funding such a program from within the Commodity Title.

I want to once more thank you for the opportunity to testify on behalf of National Barley Growers and would respond to questions if you would like to ask.

[The prepared statement of Mr. Hayes can be found on page 127 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Hayes.

Now we turn to Mr. Dale Murden. Mr. Murden manages an irrigated farm in Willacy and Hidalgo Counties in Deep South Texas, where he raises grain sorghum, cotton, corn, citrus, sugar, and vegetables. He is testifying today on behalf of the National Sorghum Producers.

You are what we might call a "diversified farmer," Mr. Murden. Welcome. Please proceed.

STATEMENT OF DALE MURDEN, NATIONAL SORGHUM PRODUCERS, MONTE ALTO, TEXAS

Mr. MURDEN. Thank you, and on behalf of the National Sorghum Producers, I would like to thank the Chairman and the Senate Ag Committee for the opportunity to discuss the farm bill and its impact on the sorghum industry.

As you said, my name is Dale Murden, and I manage and farm on irrigated farmland in Willacy and Hidalgo Counties in South Texas. We raise grain sorghum, cotton, corn, citrus, sugar, and vegetables.

Last year was a devastating year for producers in the Sorghum Belt. Lack of moisture in South Texas prevented me from growing grain or cotton. This year we have received more moisture, and producers are increasing their grain sorghum acreage and are optimistic we will make the crop. Sorghum acreages are increasing in the semiarid Sorghum Belt as ethanol plants build to access the reasonably priced starch that is located in most of the Sorghum Belt. I myself am involved in building an ethanol plant with our local cooperative, and the starch feedstock would be 95–percent sorghum. The ethanol industry is rapidly changing how sorghum is priced by increasing the local cash price.

Sorghum producers are strong supporters of the 2002 farm bill because it significantly improves the equitable treatment given sorghum producers relative to other feed grains. Priorities for the 2007 farm bill are: to maintain guaranteed direct payments because they are important in the semiarid Sorghum Belt when we do not have a crop; to equalize the sorghum loan rate on the county level with other feed grains; and to preserve a safety net of LDPs and countercyclical payments for commodities, as we all understand the cyclical nature of agriculture.

Our other major priorities are adding water quantity as a priority to the Conservation Title. More work needs to be done to conserve water in the semiarid Sorghum Belt and having a robust Energy Title as the ethanol industry is dramatically changing the sorghum industry. We believe that forward sorghum makes a great feedstock for the cellulosic industry, as it has the capability to produce in every State.

While we are hoping that commodity prices do not drop to loan rate levels again soon, the reality of the farm economy is that prices will drop. We need a safety net to help us through low prices. Direct payments are very important to growers in States that receive less than 21 inches of rain, which is almost all of the Sorghum Belt, as we are in the fourth year of a drought. If sorghum had to rank farm support payments today, direct payments would be most important, as it is a guarantee to our credit institutions. Direct payments are the most important part of the three legs of the farm safety net tool. In the two counties I farm, my cash price is 40 cents above corn, yet my sorghum loan rate is below corn. Even with WASDI and NAS supporting sorghum prices above corn, my loan rate for sorghum dropped and the loan rate for corn increased in 2007 compared to the 2006 levels.

Related to the county loan rate issue, 95 percent of the U.S. grain sorghum crop loan rate is less than the loan rate of corn. As I mentioned, my cash price is sometimes as much as 40 cents above corn, yet our loan rates are lower than corn. Not having an equal loan rate is costing my fellow board members in Kansas $15 to $20 an acre, $10 an acre in Nebraska, and $15 to $20 an acre in Colorado.

In the counties that produce 95 percent of the sorghum crop, the average sorghum loan rate was 15 cents per bushel under corn. In a loan rate situation, this difference costs a producer $10 an acre based on a 70–bushel yield. This makes a difference in which crop a producer chooses to plant in a loan rate environment.

As you write a new Commodity Title, maintaining equitable direct payments, loan rates, and countercyclical rates between all crops should be a high priority.

Once again, I appreciate the Committee's interest in sorghum and look forward to working with you and would be happy to answer any questions you may have.

[The prepared statement of Mr. Murden can be found on page 157 in the appendix.]

Chairman HARKIN. Mr. Murden, thank you very much.

Now we turn to Mr. Armond Morris. Mr. Armond Morris is a peanut producer from Irwin County, Georgia. He is Chairman of the Georgia Peanut Commission and is here today representing the Southern Peanut Farmers Federation.

Mr. Morris, welcome to the Committee.

STATEMENT OF ARMOND MORRIS, SOUTHERN PEANUT FARMERS FEDERATION, OCILLA, GEORGIA

Mr. MORRIS. Thank you, Mr. Chairman, and thank you to our Honorable Senator from Georgia, Mr. Chambliss. We appreciate you all having this hearing and us being invited to testify, and to the rest of the Committee that might not be with us today, and those that are, and we very much appreciate you all.

I am a peanut producer from Irwin County, Georgia. I am Chairman of the Georgia Peanut Commission. I am here today representing the Southern Peanut Farmers Federation. The Federation is comprised of the Alabama Peanut Producers Association, the Georgia Peanut Commission, the Florida Peanut Producers Association, and the Mississippi Peanut Growers Association. Our grower organizations represent about 80 percent of the peanuts grown in the United States.

As you will recall, our program changed significantly in the 2002 farm bill. Peanut growers went from a supply management program to a more market-oriented program. The support price for peanuts, prior to the 2002 farm bill, was $610 per ton. The new marketing loan, established in the 2002 bill, was $355 per ton, but the effective amount for growers was approximately $405 per ton. This was due to a storage and handling fee provision paid by the U.S. Department of Agriculture through the 2006 crop year.

Our industry saw incremental growth in the first few years of this farm bill, but with the increase in energy costs came dramatic changes to the U.S. peanut industry. We saw a 20–percent national reduction in acres in 2006, and we anticipate another 14 percent drop in the 2007 crop year in my home State.

The University of Georgia's National Center for Peanut Competitiveness has determined that our variable costs have increased $91.15 per acre for dryland peanuts and $118.52 for irrigated peanuts since the writing of the 2002 farm bill. I have included two charts from the center that are farm studies illustrating the impact of costs on peanut farmers by comparing the 2004 crop year to the 2006 crop year.

I also did my own analysis on my farm and determined that costs had risen significantly for me. For example, fertilizer increased from $180 per ton in 2002 to $406 per ton in 2007. And since this was written a week ago, it has already gone up $21 more on fertilizer.

Diesel fuel rose from 94 cents per gallon to $2.34 per gallon. Nitrogen more than doubled in cost during the same time period, likewise for ammonium nitrate. I have included these cost comparisons as part of my testimony.

What do American peanut farmers need in this farm bill to assure that we maintain a viable peanut industry in the United States? Our peanut States held meetings throughout each of our States asking a series of related questions. What was evident in the surveys was that our price for peanuts was too low for growers to continue to plant. What we have seen in 2006 and 2007 is a trend that will continue without changes in the program. We know the marketing loan program can work for American peanut producers, but the price has to be a true safety net.

Growers will not plant peanuts for $355. We would like to see an increase in the marketing loan rate to $450 per ton, increase the target price to $550 per ton, increase the direct payment to $40 per ton, establish a loan deadline of June 30th with all peanuts forfeited at that point going to non-edible use with supervision.

The current Federal inspection program for peanuts has been very successful in protecting consumers and the industry. Since peanuts are generally a food ingredient, we support expanding the USDA Federal inspection to include peanut manufacturing facilities. We also support maintaining payment limits as established in the 2002 farm bill.

The Committee is aware of the difficulty that the peanut industry has had with USDA setting the loan repayment rate. We encourage the Committee to adopt language using the International Trade Commission's formula for establishing the posted price of peanuts versus the current USDA methodology.

We recognize the significant budget constraints this Congress must face. We struggled a great deal in trying to determine what peanut producers should present to Congress for the next farm bill. What was evident from the beginning was a rapidly shrinking industry. We could not come here today and ask for a program that would ensure the demise of the U.S. peanut industry. The prices we have today do not work for a viable industry. Without changes, the U.S. peanut industry will continue to decline.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Morris can be found on page 149 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Morris, and especially for all the charts you provided us. They are very informative, especially the one on the input costs.

Mr. MORRIS. Thank you.

Chairman HARKIN. Now we turn to Mr. Lynn Rundle, the CEO of 21st Century Grain Processing Cooperative, a grower-owned cooperative with 410 farmer members in Manhattan, Kansas. Mr. Rundle will be testifying today on behalf of the North American Millers Association.

Mr. Rundle, welcome. Please proceed.

STATEMENT OF LYNN RUNDLE, NORTH AMERICAN MILLERS ASSOCIATION, MANHATTAN, KANSAS

Mr. RUNDLE. Thank you, Senator Harkin. I appreciate the opportunity to speak to you today.

I represent the North American Millers' Association, which represents about 95 percent of all the milling capacity in the United States. We mill wheat, corn, and oats in our operation at 21st Century Grain Processing.

I would be here today on behalf of the Iowa Association of Oat Growers or the Kansas Association of Oat Growers, but just like Jed Clampett, they loaded up the truck and moved to Saskatoon since the 1996 farm bill. And that is really the unique problem of what I want to talk about. We have got a true food security issue in the United States as related to oat production, particularly—and also to wheat production to some degree. We have seen acres decline dramatically over the last 20 years.

We planted 18 million acres of oats in 1987 in this country. Last year we planted 4 million and only harvested 1.6 million acres. That puts at risk our ability to provide this basic food commodity.

The U.S. harvested fewer wheat acres in 2006 than it did in 1898. We have the smallest oat production since President Lincoln started the USDA in 1866, and oat acreage continues to decline.

We have a real issue, and we take kind of a unique approach to maybe some of the other commodity groups because while I am not an oat producer, I am here on behalf of them as well as on behalf of the processing industry, both of have moved north of the border to Canada. And that is what puts us at risk.

To put this in perspective, Mr. Harkin, if you took the two major corn-producing counties, Sioux County and Kossuth County, together they produce about 90 million bushels of corn. And that is the same number of bushels we are projected to produce in the entire United States this year in oats.

If you put the corn production in the hands of two counties in Kansas, you can imagine what kind of an ethanol issue we would have in the future in guaranteeing a ready supply of ethanol as well feed to the livestock industry. The bottom line is, we have to reduce our reliance on foreign oats.

In South Sioux City, Nebraska, where we own a mill, we import 85 percent of the oats we process there from Canada today. My written testimony shows the schematic of what oat production has looked like since 1986 and how it has moved across the border into Canada. Next year we will produce 94 million bushels, as I said before, and we are putting the oat production and that security risk in the hands of three dryland Canadian provinces, just as much as Iowa is a dryland State on the corn side. It is not an irrigated crop. It is a dryland crop, and so it is really in danger.

We believe that this has caused a movement of the oat milling assets across the border as well. One exception would be the plant in St. Ansgar, Iowa, where you are familiar with, a new $20 million expansion this year. But we think that has been caused primarily by the Federal farm programs. Through the yield guarantee and the loan guarantee, we are guaranteeing $7.30 returns, net returns on oats, and $90 on corn. So it just makes sense. It is basic Farm Economics 101 why farmers are not growing oats.

So we feel like we must change to compete, and it really starts with farm programs because those programs do change planted acres and production dramatically. A couple cases in point. I think the Federal fuel mandate for 2015 is going to bring 8.5 million new acres of corn into production to meet that demand. That is one. With the stroke of a pen, we totally changed the corn production in the United States.

Another example would be back in 2002, with the stroke of a pen we created a new lentil and pea program that has brought in a million new acres in the last 5 years. Those million acres, if they were devoted to oats, would be 60 million bushels, almost the production we had this year on the oats side.

So what is the solution? And we think it has to do with farm programs, and that is, again, we want to reduce reliance on foreign oats in this country. We feel we need that to stabilize the industry. And so we would suggest, with the creative thoughts of your staff and others on the Senate Ag Committee, that we create a mixed-use conservation approach where you could take some conservation acres today that are in the CRP—something like 10 million acres are supposed to come out in the next 5 years—that are in Class I to IV land, and with those States that have those acres coming out are primarily in the northern tier States where oats are a viable commodity, have been in the past. So we would suggest that we create some kind of a combination program that really incented producers to plant some oats in those CRP acres maybe coming out and leave those oats—leave 25 percent of them for habitat, for recreation and environmental use.

So those are some solutions, and I appreciate the opportunity to visit with you today. Thank you.

[The prepared statement of Mr. Rundle can be found on page 178 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Rundle.

Now we turn to Mr. John Swanson, National Sunflower Association. Mr. Swanson has grown sunflowers on his farm near Mentor, Minnesota, since 1972. He currently serves on the Board of Directors of the National Sunflower Association as the representative of the sunflower seed industry and has also served on the U.S. Canola Association Board of Directors. He is representing both organizations today.

Mr. Swanson, welcome to the Committee. Please proceed.

STATEMENT OF JOHN SWANSON, NATIONAL SUNFLOWER ASSOCIATION, MENTOR, MINNESOTA

Mr. SWANSON. Thank you for this opportunity to share our concerns and views with you.

The sunflower and canola industries have a bright future if equity can be put back into our farm policy. Both oils are low in saturated fats—one of the "bad" fats—and high in unsaturated fats—the "good" fats. Both have high oleic varieties that are stable enough to not require hydrogenation to increase shelf life, so they do not contain trans fats—the other "bad" fat.

In early 1990's, the sunflower industry decided to develop superior oil characteristics—a challenging and very expensive process. The industry transformed entirely to NuSun varieties this year, which have a balanced fatty acid profile. They are ideal for use in applications that require healthier oils with higher stability and longer shelf life, and the NuSun varieties do not require partial hydrogenation, so they will contain no trans fats.

The FDA trans fat labeling requirement on food products has spurred efforts to eliminate trans fats in our diet, and demand for NuSun has exploded. A number of major food companies have switched their product formulas to include NuSun to avoid trans fat. You can walk down the aisle in your grocery store today and see the attractive blooming sunflower faces on many of the potato chips in the aisle, and they have really supported sunflower by the labeling that they have done on this bag.

The canola industry as well has decided to highlight the healthy qualities of canola oil when it successfully petitioned the FDA for a Qualified Health Claim, which they got approved last fall. The claim is based on the ability of canola oil to reduce the risk of coronary heart disease due to its unsaturated fat content, and the demand has increased as a result. The canola industry is also increasing the number of high oleic varieties available in response to the food service industry's desire for zero trans fats as city and State governments move to ban the use of trans fat in restaurants.

Canola oil is also an excellent candidate for biodiesel production because it has the highest cetane rating and also the lowest gel point of any of the biodiesel feedstock. Finally, canola and sunflowers are the highest-yielding oil crops on a per-acre basis. We could actually show a net energy gain of over 100 gallons per acre of net energy on these crops. Pretty significant.

Consumer demand for higher healthy oil promises to increase further in the coming years, and an adequate, stable supply of sunflower and canola must be provided. However, the increasing demand for sunflower and canola oil has not been met with increased production of these acres. A major reason is that support levels for minor oilseeds under the current farm program are discouraging producers from responding to market demand. The minor oilseed marketing loan rate of $9.30 per hundredweight is only 82 percent of the 2000–2004 Olympic price average. Loan rates for competing crops are much higher: the soybean loan rate is 95 percent; the corn rate is 92 percent; wheat is 86 percent; and the dry edible pea loan rate is 120 percent. These inequities have contributed to the 47 and 43 percent respective fall in sunflower and canola acres in recent years.

Sunflower and canola also have anemic target prices. The minor oilseed target price of $10.10 per hundredweight is only 80 cents higher than the $9.30 loan rate. But the direct payment is also 80 cents, making the effective target price $9.30—identical to the loan rate. This makes it impossible for countercyclical payments to be triggered for minor oilseeds.

Minor oilseeds also have trouble receiving equitable crop insurance coverage. Producers are telling us that they are unwilling to plant sunflowers or canola, even as prices soar, because insurance coverage for competing crops provides a more lucrative safety net.

Together with the Soybean Association, we strongly support adjusting loan rates to a minimum of 95 percent of the 2000–2004 Olympic average of prices or $10.71 per hundred weight for minor oilseeds, and a target price to a minimum of 130 percent of the same price average, or $14.66 per hundredweight for minor oilseeds. It is absolutely critical that these adjustments be made to the 2007 farm bill if our industries are going to survive and be able to supply the healthy oils the food industry and consumers demand.

Thank you for your consideration of our views.

[The prepared statement of Mr. Swanson can be found on page 243 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Swanson.

Now we will turn to our final witness, who has really had a lot of patience today. Mr. Jim Evans, a farmer of dry peas, lentils, chickpeas, wheat, and barley near Genessee, Idaho. He is Chairman of the USA Dry Pea and Lentil Council.

Welcome to the Committee, Mr. Evans. Please proceed.

STATEMENT OF JIM EVANS, USA DRY PEA AND LENTIL COUNCIL, GENESSEE, IDAHO

Mr. EVANS. Thank you, Mr. Chairman and members of the Committee. I am a fourth-generation farmer of dry peas, lentils, chickpeas, and wheat and barley near Genessee, Idaho. Today I am testifying on behalf of the USA Dry Pea and Lentil Council, a national organization representing producers, processors, and exporters of dry peas, lentils, and chickpeas across the northern tier of the United States.

Today agriculture is enjoying some of the highest commodity prices we have seen in years. The market opportunities to whatever commodity I grow make me feel like a farmer in heaven. Then I open my fuel, fertilizer, and machinery repair bills, and I realize the gap between heaven and hell is getting real close.

Right now I am in the middle of trying to plant my chickpeas. I left my tractor today because I believe the biggest challenge facing U.S. commodity producers is securing an adequate safety net to protect farmers during periods of low prices and natural disaster. Right now commodity prices are up, but someday prices will drop, and when they do, our farm policy must protect our producers from continued subsidized competition, high tariffs, phytosanitary barriers, and exchange rate manipulation.

As Congress writes the new farm bill, we ask that it include an adequate safety net in the following programs:

Pulse crops entered the farm program family in 2002. Our organization would like to thank the Senate Ag Committee for creating the Pulse Marketing and LDP Programs. The program has provided a needed safety net for the producers of dry peas, lentils, and chickpeas across the northern tier. In the 2007 farm bill, we would like to be included and treated equally with other farm commodities.

The Marketing Loan/LDP program provides the best safety net for U.S. pulse farmers facing dips in the market prices. The table below shows the pulse rates set by the law in the 2002 farm bill. We request to continue the program at the same levels in the 2007 farm bill.

The 2002 farm bill created a marketing loan for small chickpeas, but not for large chickpeas. Our organization supports the creation of marketing loan assistance for large chickpeas in the 2007 farm bill.

To reduce our dependence on foreign oil, we support a strong energy component in the 2007 farm bill. The most effective way to reduce our dependence on foreign oil is to encourage U.S. farmers to implement a sound energy conservation strategy. To encourage energy conservation, we propose the creation of a Pulse Energy Conservation Incentive Payment—PECIP. Dry peas, lentils, and chickpeas are legumes that do not require the use of nitrogen fertilizer in their production cycle. In fact, university research shows that the production of dry peas and lentils and chickpeas provides a 40–pound-per-acre nitrogen credit for the next crop.

In addition to conserving energy, pulse crops also fix nitrogen in the soil which provides a significant offset to greenhouse gas emissions. The program would be delivered as a direct payment to producers who plant energy-conserving crops like dry peas, lentils, and chickpeas. The payment would be based on multiplying the nitrogen credit saved by planting a pulse crop, 40 pounds an acre, times the current cost of nitrogen—and this was in February—of 38 cents a pound. The payment would roughly be $15 for pulse crops with current nitrogen prices.

As Congress works on providing new incentives for the creation of biofuels, we ask that equal weight be given to providing incentives to producers of produced pulse crops that conserve our energy resources.

Pulse crops are grown in a rotation with wheat and barley and minor oilseeds across the northern tier of the United States. Each crop in the rotation has a direct payment except for our pulse crops. We support the creation of direct payments for dry peas, lentils, and chickpeas equal to the direct payment of wheat. That current direct payment of wheat is 52 cents per bushel.

Our organization supports the creation of a USDA FSA base for dry peas and lentils in the 2007 farm bill and in order to receive our direct payment. Producers should be allowed to sign up at their current vegetable base for their pulse direct payments.

We are also in favor of being included in the countercyclical payment. We support the creation of a pulse countercyclical program for dry peas and lentils and chickpeas equal to 130 percent of loan rates established in the 2002 farm bill. Producers need flexibility to respond to market signals. Over 90 percent of the chickpeas in the United States are grown in Washington, Idaho, Montana, North Dakota, and South Dakota. Currently chickpeas are classified as a vegetable crop and are not eligible to be planted on program acres. The growers producing chickpeas in the northern tier primarily produce program crops that are eligible to be planted on farm program base crops. The council supports the inclusion of chickpeas, large and small, as an eligible crop to be planted on farm program base acres in the 2007 farm bill.

Thank you for your time and allowing me to testify. I will be happy to answer any questions—well, maybe not happy.

[Laughter.]

[The prepared statement of Mr. Evans can be found on page 115 in the appendix.]

Chairman HARKIN. Mr. Evans, thank you very much. I thank all of you for your testimony.

Mr. Rundle, I was interested in the figures you had on what has happened to oat production in this country. I have kind of a two-part question. Obviously, oats is not only a food grain. It can be a feedgrain also for livestock. But also oat straw is high in cellulose, so if we are looking at cellulose conversion for ethanol, it could be a feedstock for ethanol also. I wonder if you have thought about that and if you have looked at that as an aspect of production of oats.

The second part of my question is, as I looked at your charts—when I was a kid, we grew a lot of oats in Iowa. We do not have any oats now. Of course, a lot of that is just because of price and corn, that kind of thing; soybeans have come in the last 20 years or so. But I wonder how much of that is due to climate change. A lot of this is moving north into Canada, and I am just wondering if you have any thoughts on that, both on the ethanol and then on is it moving north more or less because of climate change and they are able to grow more in Canada.

Mr. RUNDLE. The first thing is on the ethanol. We have not looked at the cellulosic properties of oat straw compared to, let's say, wheat straw or switchgrass to figure out which one of those would be the better. My guess is switchgrass is probably the most ideal, but, you know, you have to marry some things sometimes to get things done. And there are two products. We also produce oat hulls in the oat milling industry, and that is another product that maybe could be used somehow in the production of bioenergy.

The other thing I would say is when you look at the movement across the border, we believe that has primarily been driven by the farm program payments, the loan rate. It just does not make sense in the United States to grow oats or wheat if you can grow corn. And that is why production is moving to the Canadian border. The climate in the northern tier States is ideal also for growing oats.

Chairman HARKIN. Well, if your association has any information on using oat straw for ethanol, cellulose, that type of thing, I would be interested in seeing it, because, again, you get a lot of other things out of oats other than just the oat straw, obviously, as food and fee.

Mr. RUNDLE. Sure.

Chairman HARKIN. Mr. Swanson, I was interested in your chart. It looked like the sunflower acreage is down, but canola acreage is up.

Mr. SWANSON. Slightly, yes.

Chairman HARKIN. What is that all——

Mr. SWANSON. That is based on the projections this year, or are you looking at last year?

Chairman HARKIN. Well, I just looked at your chart.

Mr. SWANSON. The chart from last year, the acres were down last year on——

Chairman HARKIN. Well, if you go from, let's say, the high point of 1999 or 2001, it looks like sunflower acreage has steadily almost declined, and canola declined but has bounced back up again.

Mr. SWANSON. Yes, it has come back, and part of that has been driven by the better oil quality and biofuels interest. There is a huge new plant in North Dakota looking at biofuels, biodiesel from canola, and that is really spurring some interest in canola.

Chairman HARKIN. And you say canola and sunflower are our highest-yielding oil crops on a per acre basis, even more than soybeans.

Mr. SWANSON. Yes, because of the oil percentage. You will produce about the same amount of grain per acre with either of those three crops. Sunflower will have between 45 and 50 percent oil; canola will have 38 to 42 percent oil; soybean will have from 18 to 22 percent oil. So it is just a matter of a percentage based on the total production.

Chairman HARKIN. One final question that I have—and that I have asked other panels this—has to deal with the dispute within the World Trade Organization saying that our current restriction on planting of fruits, vegetables, et cetera, on base acres affects whether or not we can categorize direct payments as green box. So, again, I am just wondering, does your organization have a position on the planting flexibility issue at all, on whether you should be able to plant vegetables or other specialty crops, whatever you want on program acres?

Mr. HAYES. Senator, we do not have a policy at this point. However, I would say, you know, that we would be supportive but not at the cost of funding for the current farm programs. In other words, what I am saying is that we feel it is necessary to generate new monies.

Chairman HARKIN. OK. Mr. Murden?

Mr. MURDEN. NSP does not have a policy per se in regards to that, but I believe we believe in fair and equitable for all. We would not presume to tell them what to do any more than they would presume to tell us what to do.

Chairman HARKIN. I did not hear that. Say that again, Mr. Murden?

Mr. MURDEN. We would not presume to tell them what to do any more than they would tell us what to do. We believe in a fair and equitable playing field. We do not have a policy per se. And as you referred to a while ago, I kind of wear both hats, anyway.

Chairman HARKIN. Right. Mr. Morris? r. Morris. The Georgia Peanut Commission or the Federation does not have a position on the fruits and vegetables there, but we do have a lot of fruits and vegetables grown in Georgia, Florida, and Alabama, and Mississippi. So definitely we would want to work with them as far as being flexible on working with those commodities.

Chairman HARKIN. Mr. Rundle, do you have any position on that?

Mr. RUNDLE. No. We do not have a position on that. Thanks.

Chairman HARKIN. Mr. Swanson?

Mr. SWANSON. Neither does the sunflower nor canola.

Chairman HARKIN. Mr. Evans? You probably do.

Mr. EVANS. Mr. Chairman, we have opposed the vegetable clause since the 1996 farm bill when we got peas and lentils excluded from the Fruit and Vegetable Act, and we also tried to get chickpeas out in the 2002 farm bill.

Now, I do realize that, as you go through the farm bill process, I understand there is a difference between growing fresh vegetables and fresh fruit. But as far as large chickpeas are concerned and small chickpeas, we would like to have those included in the 2007 farm bill as non-program crops.

Chairman HARKIN. I understand that.

Senator Chambliss?

Senator CHAMBLISS. Thank you, Mr. Chairman.

Let me start with you, Mr. Hayes, and go right down the row. We have had some conversation today, some proposals made relative to revenue proposals replacing particularly countercyclical payments. If you would just tell me what the position of your respective commodity is, I would appreciate it.

Mr. HAYES. Mr. Chairman, Mr. Chambliss, we support the current countercyclical program that we have under the existing farm bill.

Senator CHAMBLISS. Dale?

Mr. MURDEN. In regards to revenue assurance, the devil is in the details, and our region has been severely affected by drought. You know, regardless of what percentage and level you pick, 70 percent of zero is still zero. And so we would just look at it very cautiously.

Mr. MORRIS. Senator, the revenue payment is you would look at—you know, if we had some kind of guaranteed assurance, but the countercyclical has worked very well. I think with peanuts, if we could get the loan rate to fall to the market, and for peanuts, countercyclical is working very well to make up that gap there between the target price and whatever the price would be there, as peanuts sales out of loans. I would—for peanuts, we would like to stick with the countercyclical.

Senator CHAMBLISS. Mr. Rundle?

Mr. RUNDLE. We do not have a position specifically on that just because, again, it is a producer issue. What we do say is that anything that distorts planting decisions is something congress really needs to address.

Senator CHAMBLISS. Mr. Swanson?

Mr. SWANSON. Well, we have thought the loan rate distorts some of the planting decision, and it has been driven by bankers for sunflower and canola, and so that has been a negative impact to our crops.

Senator CHAMBLISS. Mr. Evans?

Mr. EVANS. The pulse industry only gets a marketing loan. We would like to have the other two legs of the stool because our industries kind of get tired of standing on one foot.

As far as the crop revenue programs, our industry, mandated from the 2002 farm bill, is supposed to have a pilot program for crop revenue insurance for pulse crops. And to this time, they have a pilot program ready to go for five counties in the Pacific Northwest, but because we are not traded on a futures market, they are having a problem coming up with numbers on how to give us some revenue.

So I would worry about a revenue-based thing if small commodities like ours are going to be in a pickle because we are not trade on a futures market or something like that.

Senator CHAMBLISS. Mr. Morris, the peanut program, of course, was dramatically reformed in the 2002 farm bill. The quota system was eliminated and replaced with a more market-oriented program, as you addressed. How has the peanut industry adjusted to this change? And in hindsight, was it a positive move?

Mr. MORRIS. Senator, I think it has all been positive. There are just some things that needed to be, I would reckon you would say, tweaked or particularly loan repayment in the new farm bill, it needs to be dictated to the USDA as to how that might work as far as resetting the repayment loan, because we could—we have lost our exports, we have lost over 200,000 tons of export market because the loan repayment rate has not been set on peanuts like it should have been or like the Congress implemented, so to speak, but I think they misinterpreted it.

So we need to kind of follow the world market on peanuts, but the program itself has worked very well, and we appreciate what Congress did in implementing a new farm bill in the 2002 farm bill.

Senator CHAMBLISS. The latest USDA planting projection indicates that peanut acres are going to be down a few percentage points nationwide. It looks like we are going to have a significant decrease in Georgia.

In your opinion, what will be the effect of the acreage decrease in peanuts? And will a significant price increase that would most likely result from the decrease in supply allow the peanut industry to prosper without adjusting the market loan rate target price and direct payment?

Mr. MORRIS. Well, I think what is predicted for this year, if we make a good crop, then we might have enough to supply the needs. But we could very easily have a shortage of peanuts because of the fact that peanuts have been—the loan rate has been set too high and has not allowed the peanuts to flow into the market and allowed the farmers to be able to produce the peanuts as needed for the demand.

So we are concerned, the high cost of production and the low price of peanuts is what has driven so that the numbers of acres being planted down.

Senator CHAMBLISS. Mr. Swanson, I cannot let you be here without making a comment. I love barbecue and I love sunflower seeds, but barbecued sunflower seeds are awful.

[Laughter.]

Senator CHAMBLISS. Gentlemen, thank you all very much. we look forward to staying in touch and working with you as we go through this farm bill.

Chairman HARKIN. Thank you. I just have one other thing I would like to cover before you leave, and that was the testimony of Mr. Evans. It might apply also to some others. You talked about a Pulse Energy Conservation Incentive Payment. It is in your testimony. I took it out because I want to follow up on that.

You just talked about how dry peas, lentils, chickpeas, or legumes do not require use of nitrogen fertilizer. They fix nitrogen. And you talked about a payment based on the fact that it offsets greenhouse gases. This is something that has intrigued me for a long time, and this applies not just to you but it applies to soybeans, peanuts, alfalfa, that fix nitrogen in the soil.

Mr. EVANS. Yes. Dry beans, too.

Chairman HARKIN. Soybeans

Mr. EVANS. Soybeans and dry beans.

Chairman HARKIN. Dry beans?

Mr. EVANS. Yes.

Chairman HARKIN. So they all fix nitrogen. So it seems to me that this ought to be part of our effort, again, environmentally to fix nitrogen in the soil, cut down on greenhouse gas emissions, that this ought to be, again, something that society would benefit from. So our consumers and the others who look at what we are doing in the farm bill and wonder where their tax dollars are going might be supportive of that and, again, provide some kind of an income source to peanut farmers and chickpea farmers and a lot of other people that plant things that fix nitrogen. It seems to me that it would be a benefit. I do not know if you have any thoughts on that, any of you.

Mr. MORRIS. Peanuts put nitrogen back into the soil also.

Chairman HARKIN. I know.

Mr. MORRIS. We put about 50 pounds of nitrogen per acre back into the soil each year, and then we rotate that with cotton or corn, or whatever we can get the benefits from that nitrogen the next year.

Mr. EVANS. Chairman Harkin, I would just like to comment just a little bit more. We are talking maybe—I now the farm bill is going to be expensive, and we are having to go to different avenues. One of the things that we have is rather than actually getting a cash payment would be get a tax incentive, is what I was thinking. So, I mean, we are trying to think a little bit outside the box on how we can—I mean, if I do not have to pay taxes, that is money back in my pocket, and it is the same as getting a check.

Chairman HARKIN. I like that idea. I like that a lot. We have a number of members of the Finance Chairman on our Committee, and——

Mr. EVANS. Can I make one more point?

Chairman HARKIN. Sure.

Mr. EVANS. One other thing is that we are with the peanut guys, the dry bean guys, alfalfa, in a genomics pulse—or I should say legume genomics initiative with the National Research Foundation. And we have a $5 million grant to study the genomics of pulse crops. And what I would want to do is—it would be imperative that we keep this project going because maybe someday there is a possibility that we can take this gene that allows legumes to fix nitrogen, to maybe put it into corn or put it into wheat or put it into other commodities. Think of the drastic savings that we could have if that would happen.

Chairman HARKIN. OK. And you say we are funding that through ag research?

Mr. EVANS. National Research. It is the National Research funding.

Chairman HARKIN. I am told by my staff that is the National Research Initiative.

Mr. EVANS. OK. Excuse me.

Chairman HARKIN. There you go. We will get the proper words there. All right. That is worth looking at, worth funding.

Any other things before we dismiss you all?

Mr. MORRIS. Mr. Chairman, I would like to make one comment on payment limitations. It bothers us, the peanut farmers from the State of Georgia, because of the fact if I lease my equipment, I lease my land, all these type things come out prior to my adjusted income. But if I buy—if I am trying to buy my farm, buy my equipment, and not under the leasing program, so to speak, then my payments have to come out of my adjusted gross income. And if you have a wife, say, that works as a nurse or with a good income level or in some type administration with education or whatever, then we feel that we would not have enough monies to sustain our farming operations falling under the $200,000 level.

So we propose to you all that if you would consider leaving it like it is, or we need to have some changes in that.

Chairman HARKIN. I appreciate that.

Mr. Rundle?

Mr. RUNDLE. I wish Mr. Roberts would have been here. I know he had something to get to this afternoon. But I just wanted to make a point to Mr. Roberts for the record we know that as he is getting a little bit older, he is eating a lot more oatmeal in his diet to keep him healthy. We want to make sure that oat producers do not end up on the endangered species list, like the piping plover and the black-tailed prairie dog in Kansas. And I know he would appreciate that if he was here.

[Laughter.]

Chairman HARKIN. All right. Enough said.

Thank you very much, all of you. Thanks for your patience. Thanks for your testimony. The Committee will be adjourned until 2 p.m. on May 1st. Thank you all very much. Safe travels home.

[Whereupon, at 1:48 p.m., the Committee was adjourned.]

APPENDIX

APRIL 25, 2007

Senate Committee on Agriculture, Nutrition, and Forestry

Senator Thad Cochran

April 25, 2007

Mr. Chairman, I want to thank you for holding this important hearing. I welcome the panelists to the Committee and thank them for providing the Committee with testimony for consideration in the new farm bill.

The commodity organizations testifying today represent over $1.2 billion in agriculture sales and nearly 3.6 million acres of agriculture production in Mississippi. Agricultural production is vital to the economic prosperity of rural communities across Mississippi and throughout the nation.

Overall, producers in Mississippi have been pleased with the current structure of commodity programs in the 2002 Farm Bill. The combination of direct payments, counter-cyclical payments, and the marketing assistance loan program have been good tools for Mississippi producers. The counter-cyclical and marketing assistance loan programs have provided a particularly good safety net during times of low prices and enabled U.S. producers to compete against higher subsidized producers in other countries. It is vital that Congress maintain these programs when drafting the new farm bill.

As a result of higher corn prices, we have seen a significant shift from cotton to corn production in Mississippi. I am pleased that Mississippi farmers are going to be able to take advantage of the higher prices. Farmers have learned from history that prices can fall as fast as they rise. It is important that Congress retain the planting flexibility for farmers.

Mr. Chairman, the testimony of the panelists today reflects the continued need of America's family farms. I look forward to working with you and members of the Committee to ensure that we provide family farmers an adequate safety net.

I thank the panelists for their leadership in advancing U.S. agriculture and for the testimony they will present today.

Statement by

Senator Chuck Grassley

Thank you Mr. Chairman for holding this hearing today on the commodity title of the farm bill.

As a Senator, and an Iowa farmer, who participates in the farm program, I understand how the farm programs resonate in farm country. There are not many farmers worrying about the farm bill at this time.

They are doing what they know how to do and that is plant the safest most reliable food supply in the world. Although, I know it has been a cold and wet spring this year in the Midwest.

I will bring up a controversial topic related to placing a hard cap on farm payments. I know most of the commodity organizations are against this at the national level.

As the ranking member of the Finance Committee and someone who members will look at to find money to pay for the 2007 farm bill proposals. This is a start.

As members of this committee we cannot keep authorizing 10% of the farmers to receive 72% of the benefits out of the farm program.

Senator Dorgan and I are drafting a proposal to place a hard cap on farm payment of around 250,000 and closing the loopholes such as the use of generic certificates and eliminating the three entity rule. This bill should be introduced in a couple of weeks.

I look forward to drafting a commodity title that will provide a safety net for farmers and allow our farmers to farm the land and not the farm program.

I would like to thank the witnesses for appearing before us today and will now move onto some questions.

Thank you Mr. Chairman.

Testimony to the
Senate Committee on Agriculture, Nutrition and Forestry

Hearing on Economic Challenges and Opportunities Facing American Agricultural Producers Today

April 25, 2007

Submitted by

Rev. David Beckmann

President, Bread for the World

Mr. Chairman and Members of the Committee, thank you for this opportunity. I am David Beckmann, president of Bread for the World.

Bread for the World is a nationwide Christian movement against hunger. Our faithful members and churches across the country urge Congress to do its part to reduce hunger and poverty in our country and around the world. This year, Bread for the World members are asking Congress to modify the farm bill in ways that would provide more help and opportunity to poor and hungry people. A large and growing share of the religious community is working with us.[1]

Many people in this room have worked and lived U.S. farm policy for many years. I'm a preacher – and I am grateful for your attention to the perspective I bring to your work. I only hope that the churches where I preach don't pick up on this system of green and red lights.

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[1] Bread for the World is part of the Religious Working Group on the Farm Bill, which includes roughly 15 denominational offices and faith-based organizations. Bread for the World is also part of a broader alliance of groups that are concerned about negative effects of the current commodity to title on poor people, the environment, and the U.S. deficit.

Bread for the World has worked for many years on the nutrition and food aid titles of the farm bill. They are obviously important to hungry people. For this farm bill, too, Bread for the World urges an expanded nutrition title and an expanded and reformed food aid title. But after the 2002 farm bill went into effect, we started hearing from church leaders in Africa that it was causing problems for many poor and hungry families in their countries. We spent the next four years studying the farm bill, and we came to the conclusion that the current farm bill is not working very well for farm and rural families of modest means in our country either.

We think it is possible for you to modify the farm bill in ways that would be better for rural America, better for hungry people throughout our country, and better for hungry and poor people in the developing world.

Rural Poverty in our Country

As you know so well from your own states, a lot of rural people are really struggling. Hunger and poverty are more widespread in rural America than in urban America, and the current system is not doing what it could to help the rural Americans who really need a boost.

Nearly 400 counties across the nation have suffered poverty rates of more than 20 percent throughout the past 30 years. Nine-tenths of these persistently poor counties are rural. They are mainly in the Southeast (Alabama, Arkansas, Georgia, Louisiana, Mississippi, South Carolina); Texas; Appalachia (Kentucky); and on Indian Reservations in Alaska, Montana, North Dakota, New Mexico and South Dakota. Significant commodity payments are coming into some of these counties, but the payments typically go to some of the most affluent families. They could be much better targeted at alleviating poverty.

I'm struck that only six percent of rural Americans either farm themselves or work on others' farms.[2] And of this 6 percent of farmers, only a small fraction receives farm payments. In 2005, 66 percent of farm payments went to 10 percent of the farmers.[3] Even though this statistic includes rural residence and hobby farmers, it does show that money in the farm bill is going to a small group of people.

The great majority of poor people in rural areas are not farmers. Some are retired and no longer able to work. Some are in service jobs. Some have little businesses. But people who don't farm clearly don't get much help from the current farm bill.

And families with small farms get less help than families with large farms. I grew up in Nebraska, and I recently visited some friends there who have a small feeding operation. They are making a living, but just barely. The wife supplements their income with by monogramming towels and linens for other people in the community. This couple is past retirement age, but they don't have enough saved for retirement.

On the other hand, my cousin and her husband own 2,000 acres. They farm corn and soybeans, and they have received significant payments from the commodity title – more help than they really need. I understand the argument for rewarding production, and I don't criticize my cousin for using the programs that exist. But it doesn't seem fair

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[2] USDA, ERS, U.S. Farm and Farm-Related Employment data set; http://www.ers.usda.gov/Data/FarmandRelatedEmployment/ViewData.asp?GeoAreaPick=STAUS_United+States&YearPick=2002&B1=Submit

[3] Environmental Working Group, from USDA data; http://www.ewg.org/farm/progdetail.php?fips=00000&progcode=total&page=conc&yr=2005

to me that our farm bill is biased in favor of big farms. I don't think it would have seemed fair to biblical prophets like Isaiah or Hosea either.

In 2003, half the money in the commodity programs of the farm bill went to households with incomes above $76,000. One quarter went to households with incomes above $160,000. Ten percent of commodity payments went to households with incomes above $343,000. Over the last 15 years, commodity payments have been shifted toward relatively high-income households. This trend is expected to continue.[4]

Rural Poverty in Developing Countries

The way that we and the other industrialized countries manage our agriculture has great repercussions for farm and rural people in poor parts of the world.

Seventy percent of the hungry people in Africa and other parts of the developing world are farmers or farm workers. Agriculture is the key to development. Industrialized country domestic support programs have contributed to global price depression for subsidized commodities, stymieing economic development. In low-income countries where governments cannot afford to insulate their farmers from low market prices, poor farmers have seen their incomes stagnate or fall. In some cases, developing country farmers compete directly with subsidized produce, even in their own markets. For example, Kenyan farmers compete in Nairobi with subsidized powdered milk from Europe.

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[4] USDA, ERS, *Growing Farm Size and the Distribution of Farm Payments*, Economic Brief No. 6, March 2006, p. 4.

Some poor people in developing countries benefit from cheap food imports. But on balance, the current system has done more harm than good to poor people around the world.

The high demand for corn due to ethanol, and consequent price increases for corn and other grains, has recently helped ease some of the price effects we have seen in the past, but the problem is still real in some commodities. In addition, prices in other commodities could fall again triggering the types of payments that so negatively impact poor farmers around the world. But the fact that some commodity prices are high right now makes this an opportune time to devise a system that allows our farmers to manage their risk and respond to low prices without making life more difficult for farmers in the developing world.

Our farmers are proud that their extraordinary productivity can help feed the world, and indeed it can – in a way that is also good for U.S. agriculture. As people in poor countries manage to escape hunger and then improve their diets, they spend a large share of their increasing incomes on food. The world is already making progress against hunger and poverty, and this has provided growing markets for U.S. agriculture. A study conducted for Bread for the World Institute by the International Food Policy Research Institute found that rapid growth in Sub-Saharan Africa and low-income Asia between 2006 and 2020 would result in an additional $26 billion in U.S. agriculture exports.[5]

It is clearly not easy to shift from the current system of commodity payments to a more market-oriented, forward-looking system. And a thoughtful transition will be necessary. Alternative approaches to helping farmers – through conservation, rural development, improved crop insurance or other risk management mechanisms, for

[5] Bread for the World Institute, *Hunger 2007: Healthy Food, Farms and Families*, p. 6.

example – could be viable options. Conclusion of the Doha negotiations would open markets in the Europe Union and countries like Brazil and India.

I'm asking you to consider ways to reduce the negative effect of the current system on many poor people around the world, especially since you could eliminate this negative effect and, at the same time, do more good for most of the people in rural America.

National Farmers Union

Testimony of Tom Buis

Before the

U.S. Senate Committee on Agriculture, Nutrition and Forestry

Economic Challenges and Opportunities Facing American Agriculture Producers Today

Wednesday, April 25, 2007
Washington, D.C.

Contents

Chairman Harkin, Senator Chambliss and members of the committee, thank you for the opportunity to testify on challenges and opportunities for producers. My name is Tom Buis and I am the President of the National Farmers Union. I commend you for holding this important hearing and look forward to working with you to craft an efficient and effective 2007 Farm Bill.

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

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

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

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

Two Key Economic Opportunities

Fuels from the Farm

There are two very exciting economic opportunities for producers in rural America. The first is renewable energy or fuels from the farm. This is being led by ethanol, but also includes wind, cellulosic and biodiesel efforts. This effort is not new. Farmers have wanted to be part of our energy solution for more than 30 years. Through decades of toil, they have finally become full partners in this important effort. They are helping to alleviate our reliance on some of the most troubled regions of the world and produce fuels from the farm that will continue to assist us in the future.

But, as I said, this did not happen overnight. It took all these years to combine public policy with farmers' initiative and risk taking. In the early days, ethanol for example was not even energy efficient or economically viable. But today, it is different, due, in great part though the work and investments of farmers. In fact, in my opinion we have the greatest economic opportunity for farmers and rural communities in my lifetime. Not only is it driving higher prices for corn – it is bringing along soybeans, wheat, milo, oats, and rye.

As we move forward into issues that question if we should be growing fuels or feed, I am hopeful that we will remember that cheap corn gets you cheap hogs, cattle, dairy and poultry. But that a transition to a new energy economy using fuels from the farm will ultimately be better for all farmers and ranchers. Eventually, this transition to a rising tide in grain prices will lift all boats.

I understand that some in the livestock sector -- hog, chicken, pork and beef producers and meatpackers have complained about the higher cost of corn and therefore the higher cost feed. I have been pointing out however, that corn and feed costs have been very low for years. In fact, it might interest the Committee to learn about a study released by Tufts University this past February ("Industrial Livestock Companies' Gains from Low Feed Prices" by Timothy A. Wise and Elanor Starmer). The study undertook an econometric analysis, which documented that the broiler chicken and pork production industries have benefited significantly from low prices. From 1997 to 2005, soybeans were priced 15 percent below the average cost of production while corn was priced 23 percent below. This equates to feed prices at 21 percent below cost for poultry and 26 percent below cost of production for the hog industry. To put it in more concrete terms, the Tufts study estimates that due to the low cost of production, the broiler chicken industry saved $11.25 billion and the industrial hog industry saved approximately $8.5 billion over the nine year period.

We shouldn't let anything get in the way of using fuels from the farm and becoming more and more energy independent. But as we do so, one thing I respectfully urge you to do is to ensure that ownership remains in the hands of local farmers and rural residents. When the money stays in communities, it makes a difference. All too often we see where large conglomerates invest in a rural area, but all of the profits leave without being re-invested in the local economy. The renewable fuels sector is different, and we need to keep it that way. I urge the Committee to ensure that USDA rural development and other departmental programs that are used for renewable fuels give a competitive advantage to farmer-owner and locally-owned efforts. This is one significant, but important, provision that can be added to the 2007 Farm Bill. Incidentally, I also believe that any tax polices should offer a similar incentive for farmer-owned and locally-owned enterprises.

Buy Fresh -- Buy Local

The second exciting economic opportunity for producers is the consumer demand for fresh, source verified, direct from the farm food. It is the fastest growing segment of the food business.

A producers' price is based upon quality and freshness; in turn, consumers and their families receive high quality, fresh products they want and can trust. That is why there has been an explosion in urban farmers markets and direct selling by farmers to consumers, retailers and restaurants. It is why restaurants like Agraria in Georgetown -- owned by Farmers Union members, is doing so well.

Consumers want to know where the food they feed their families comes from. And, they are willing to pay for it. Producers no longer have to go on bended knee asking what they can receive for a product. They are now beginning to be price-makers not price-takers. In fact, a poll conducted shows that 83 percent of consumers want to at least know what country their food comes from. And, 81 percent say they are willing to pay more for it. That is one of the reasons that we urge Congress to ensure that mandatory country of origin labeling (COOL) is implemented as soon as possible. As you know, it is working well for seafood. There is no reason it should not be working for the other covered commodities. I have taken the liberty of including with my testimony a very large coalition letter in support of immediate implementation of COOL at the conclusion of my testimony. This is, in fact, the largest group coalition letter from agriculture and rural-related organizations that I have ever seen.

Mr. Chairman, fuels from the farm, and the buy fresh -- buy local movement represent enormously positive developments for producers and our nation. This Congress should do all it can to encourage those efforts in a thoughtful fashion to ensure both are continued into decades to come.

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

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

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

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

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

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

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

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

Dairy

With regard to dairy, NFU believes that Congress should:

- Establish a one percent loan program for dairy producers who lose their milk checks due to a financial default by a milk marketer. The fund should extend low-interest loans to producers for the amount of money lost in the default for a term of up to three years.
- Mandate commodity promotion programs board of directors be elected by producers that are assessed to fund the program. USDA's Office of Inspector General should investigate whether the National Dairy Promotion and Research Board has violated rules by approving grants/loans to wholly-owned subsidiaries of the cooperatives to which they belong.
- Immediately cease all imports of Grade A dairy products that do not meet the same high standards as met in the U.S.
- Prohibit imports of dairy and meat products from any nation with an active outbreak of Foot and Mouth Disease (FMD); and maintain a one-year prohibition of imports from any country following an announcement of eradication of FMD.
- Amend the Capper-Volstead Act and Internal Revenue Services rules to limit antitrust exemptions for agricultural cooperatives only to the original procurement, pricing and marketing of raw agricultural products and commodities.
- Make adequate reforms to the Federal Milk Marketing Order (FMMO):
    - Enforce rules of the FMMO to ensure adequate competition exist in all Orders;
    - Include California and all areas of the U.S. into the FMMO system.
    - Require USDA to act upon the mandate found in U.S. C. 7 Chapter 26, Subchapter III, Section 608c. 18 to adjust milk prices within the FMMO system based upon regional grain prices;
    - Reject efforts to increase the manufacturer's make-allowance, which would reduce producer income at a time when producer income is declining.

- Require all foods and commodities utilized in federally-subsidized nutrition programs, including the School Lunch Program contain only domestically-produced dairy products and ingredients that have been certified as safe under FDA's Generally Recognized as Safe program (GRAS).
- Require dairy products provided to members of the Armed Services be supplied by U.S. producers and processors, as an effort to create additional marketing opportunities for U.S. producers while reducing the potential for bioterrorism and further promote domestic dairy products.
- Full reinstatement of dairy products of the Women's Infants and Children (WIC) program.
- Extend the MILC program to expire in tandem with the remainder of the 2002 Farm Bill programs and fully restore funding levels and to be considered in the 2007 Farm Bill.
- Immediately pass legislation to address the rapidly increasing imports of MPC and other protein concentrates that distort the U.S. milk market.
- Prohibit the Food and Drug Administration from changing the definition of milk for cheese, ice cream and any other dairy product, which would reduce the nutritional value of those products and have a devastating economic impact on American dairy producers.
- Immediately investigate and review reporting procedures for the values of nonfat dry milk from July 2006 to present and establish an indemnity fund to compensate producers that have lost revenues from proven and documented incidents of under-reporting nonfat dry milk values. Both USDA and the California Department of Food and Agriculture should review pricing programs to assure dairy commodity values are accurately and fairly reported.

<u>NFU Dairy Summit</u>

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

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

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

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

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

- Restore competition to a non-competitive dairy market. *A lack of competition at the retail and processor levels breeds a need for policies to support producers.*
  Options to achieve principle:
  - Support funding for academic antitrust research;
  - Require the NASS survey to be audited periodically;
  - Intensify review process for proposed mergers;
  - Promote smaller coops and increase oversight of coop management to ensure interests of producers are met;
  - Maintain standards of identity on dairy products and move to increase standards to be "closer to the cow" by raising the fat content in fluid milk.

Forward Contracting

My testimony has been focused on creating opportunities for farmers and ranchers to gain a profit from the marketplace and supporting public policies that encourage such opportunities. One policy that will do the opposite is to allow the forward contracting of milk within the Federal Milk Marketing Order (FMMO) system. Dairy farmers across the country, big and small, oppose forward contracting of milk, which was made clear during our Dairy Summit.

Passage of federal dairy forward contracting legislation would give processors the ability to lock in a fixed price and shift all the risk of price fluctuations to the producer. The goal of proponents of forward contracting is simply to pay the producer less than the minimum price established in the FMMO system. Forward contracting milk sales will give milk processors a captive supply of milk. As highlighted in my previous testimony, other sectors of agriculture have felt the devastating impact of consolidated markets and producers have shouldered the financial burden alternative marketing arrangements. As we have witnessed in the beef, pork and poultry industries, as processors amass captive supplies of a particular commodity, purchases on the cash market decrease – resulting in the disappearance of competition and reduced producer prices.

Today, dairy processors and producers have the ability to utilize futures contracts and options on the Chicago Mercantile Exchange (CME). As of Friday, April 20, 2007, seven billion pounds of milk were recorded under futures contracts at the CME. Proponents of forward contracting regulated milk are not concerned with what will happen if they are permitted to forward contract regulated milk, which is increased consolidation of the dairy industry, lower prices paid to producers and significant numbers of producers going out of business.

Non-Fat Dry Milk Misreporting

Recently, I sent a letter to USDA Inspector General Fong, requesting an investigation regarding the potential misreporting of weekly non fat dry milk (NFDM) sales and review all milk pricing programs. It is believed that USDA's National Agricultural Statistics Service (NASS) has been reporting NFDM prices below the market price for nearly eight months. This is extraordinarily troubling because USDA uses NASS data to calculate prices for dairy commodities sold within the FMMO system. Producers, therefore, receive less than the fair market value for their milk. On April 13, USDA's Agriculture Marketing Service revised the NASS weekly NFDM survey prices for the three final weeks of March 2007, which is an estimated market loss of $3.2 million!

NFU believes since the misreporting began, dairy farmers have lost hundreds of millions of dollars and are being held economically liable for USDA's improper administration of its programs. The 2002 farm bill directed USDA to implement an audit system for mandatory price reporting of dairy products; to date, no such audit verification system has been put into place. This is unacceptable. If America's dairy producers are to receive a fair and equitable return on their milk, OIG needs to immediately conduct a full investigation, including plans to refund lost revenues to producers and the department needs to implement and enforce an audit verification system to ensure this does not occur in the future.

The Challenges and Opportunities for the Livestock Sector -- Ensuring Fair Competition

NFU has commissioned an ongoing study on concentration levels throughout different agricultural sectors. We started tracking this data in 1999 because there was no such information about concentration available. NFU continues to commission the research, which after all these years is also giving us some historical information. The results of our updated study on concentration were released last week. The study was conducted by Drs. Mary Hendrickson and William Heffernan from the University of Missouri - Department of Rural Sociology. This updated information reveals that the top four firms in most agricultural sectors have continued to increase their stronghold since our last study in 2005.

I am submitting a chart here that shows the top four beef packers dominate 83.5 percent of the market, four pork packers control 66 percent of that market, and the top four poultry companies' process 58.5 percent of the broilers in the United States.

Interestingly, ethanol production -- as I discussed earlier -- is an area of agricultural sector in which concentration has steadily *decreased*. A decade ago, the top four companies owned 73 percent of the ethanol market. Today, the top four companies control 31.5 percent of the ethanol produced. The increase in ethanol production competition is in direct relationship to the high number of farmer-owned ethanol cooperatives built across the country. Farmer-owned ethanol plants account for 39 percent of total capacity. This is a clear example of the impact and potential for public policies that encourage diversification and discourage monopolization in our food system.

As I mentioned, NFU has helped provide financial support to track agricultural concentration data since 1999, yet Dr. Heffernan has been tracking concentration data since 1987. I have included the updated tables in my testimony but wanted to bring to the Committee's attention the difficulty our researchers had in obtaining the data. Congress should direct the Departments of Agriculture and Justice to collect and publish concentration information; corporations currently consider the data proprietary, and the public has limited, if any, access to the data.

The information contained in this new research is further reason for Congress to take up the challenge and immediately pass legislation to address a true challenge to producers and restore true competition in the marketplace for U.S. farmers and ranchers. Independent producers cannot be successful in the absence of protection from unfair and anti-competitive practices.

I have talked about how produces want to get a price from the marketplace. This is especially true in the livestock sector. The new Farm Bill should focus on creating the structure to help farmers and ranchers receive a profit from the marketplace. It is the key component that is often missing. Farm bill legislation has often focused on symptoms, not causes. NFU recommends the 2007 Farm Bill include a new title to help restore competition to our markets and end the fast-pace of consolidation in agricultural markets.

A non-competitive marketplace is just another way of saying farmers and ranchers are not being paid a fair price. Many cite the free market as a basis for not taking action, yet I ask: how can you have a free market when there is no competition? How can one rely upon a free market without recognizing when it needs fixing?

NFU believes a comprehensive Competition Title should include the following:

- As discussed earlier, immediate implementation of mandatory country-of-origin labeling (COOL) for meat, produce and peanuts;
- Require USDA and all federal agencies enforce the Packers and Stockyards Act and other antitrust laws;
- Ban packer ownership of livestock to ensure independent producers have a place in the future of livestock production;
- Restore competition by requiring contracts be traded in open, transparent and public markets where all buyers and sellers have access to the same information;
- Increase oversight and enforcement of the Livestock Mandatory Price Reporting Act;
- End the ban on interstate shipment of meat to increase competition and economic, marketing and trade opportunities for rural America;
- Reform mandatory checkoff programs to ensure only U.S. products are promoted and further reform to restore accountability of these programs;
- Enhance contract producer protections by allowing adequate time to review contracts, prohibit mandatory arbitration, protect producers membership in an organization or cooperative and prohibit confidentiality clauses; and
- Prohibit forward contracting of dairy products within the Federal Milk Marketing Order system.

Challenges and Opportunities Related to the Environment

Mr. Chairman, another challenge and opportunity lies in the area of conservation. NFU believes the 2007 Farm Bill should build upon existing programs, while encouraging further investment in new efforts. By coupling the environmental needs of our fragile farm lands, with the socioeconomic goals of our farming communities, the new Farm Bill can do even more to create the opportunity to reward stewardship, discourage speculative development of fragile land resources, and strengthen family farming and rural communities.

Your Conservation Security Program (CSP) has been a great success, despite the limited resources. CSP is one of the most innovative attempts to reward producers for conservation practices on working lands and NFU supports full funding of the program.

NFU also supports full funding of the Environmental Quality Incentives Program (EQIP). EQIP has proven to be a valued program and we urge the committee to consider changing the EQIP langue to ensure that even better use of limited funds is made by allowing states to set priorities based upon local environmental challenges.

In addition, NFU supports the development of a one-stop conservation planning system for agriculture through the Natural Resources Conservation Service (NRCS). We recommend a single conservation plan, one that is developed by the farm operator, in conjunction with NRCS, in order to assure compliance with the myriad of land and water regulations established by various governmental agencies.

NFU also supports the Conservation Reserve Program and urges you to do all you can to ensure that CRP is not reduced below the current 39.2 million acres.

I want to bring to your attention *two* new initiatives for the committee's consideration.

The first is our desire to seek a nationwide buffer strip initiative. Buffer strips play a key role in maintaining healthy, productive farms, as well as protecting fragile and vital waterways throughout the country. When designated appropriately, buffer strips help producers maintain their best land in crop production and make good use of marginal land. We urge you to consider a new nationwide buffer strip initiative that builds upon the proven success of past buffer strip initiatives.

Some would say this would be an expensive endeavor, but we already spend billions of dollars through the U.S. Army Corps of Engineers budget and other budgets on addressing problems that could be alleviated as a result of such a buffer strip initiative.

NFU urges the committee to work with the appropriate committees in Congress to see if there are ways to institute such a program. Perhaps the reserve fund contained in the budget resolution could be used to fund such an initiative using other committees' resources. The challenge here is finding the resources to implement such a program. The benefits for producers and our nation as a whole are incredible opportunities that I urge the committee to consider.

I also want to mention NFU's innovative carbon credit trading program. As we all know, there is growing public concern about global climate change. NFU has been addressing this challenge by proving producers with an opportunity to play a key role. Our newly established Carbon Credit Program is a voluntary, private-sector approach to conservation that allows producers to earn income in the carbon credit market for storing carbon in their soil through no-till crop production. I am pleased to report that our program, which began only half way through last year, has already enrolled over a million acres. NFU aggregates the credits for our members and the credits are then traded on the Chicago Climate Exchange.

We believe that the carbon credit program and buffer strip initiative could be established to work within the existing tier system of CSP or adopted as new tiers of participation. Interactions with our nation's natural resources do not need to set agricultural producers in opposition to the environment. As NFU members have demonstrated for many generations, farmers, ranchers and fishermen are our best environmental stewards and their astute understanding of the natural world deserves to be recognized and rewarded.

Other Challenges

Mr. Chairman, it is a shame that anyone lacks for food in our world. Farmers are shocked that roughly 800 million people go to bed hungry every night, while at the same time we have the capacity to overproduce almost every commodity. This situation should stop both here and abroad; NFU supports strong and fully funded nutrition and feeding programs at home and abroad.

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

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

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

We support efforts to put our nation on a smart track toward thoughtful trade polices, a track that ensures environmental, labor and health and safety standards in agriculture are considered during international trade negotiations. That said we oppose reauthorizing Fast Track, otherwise known as Trade Promotion Authority (TPA).

NFU supports a strong 2007 Farm Bill that includes key provisions to ensure farmers, ranchers and rural Americans can make a profit from the market. We are especially interested in the two areas I mentioned at the beginning of my testimony: fuels from the farm, and buy fresh buy local efforts. NFU urges Congress to develop and fund critical research, rural development programs to ensure that these important efforts move forward.

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

Testimony of

Paul T. Combs

Producer

Kennett, Missouri

On behalf of

USA Rice Federation

and

US Rice Producers Association

Before the

Agriculture, Nutrition and Forestry Committee

U.S. Senate

Washington, DC

April 25, 2007

Introduction

Good morning, Chairman Harkin, Ranking Member Chambliss, and Members of the Committee.

I am Paul T. Combs, a rice, cotton, soybean, and wheat farmer from Kennett, Missouri. I currently serve as a vice-chairman of the USA Rice Federation, and as the Chairman of the Federation's USA Rice Producers' Group.

I am pleased to appear today on behalf of both the USA Rice Federation and the US Rice Producers Association.

Mr. Chairman, we thank you for holding this hearing and for the opportunity to express our views on the farm bill.

The U.S. rice industry supports maintaining an effective farm safety net that includes the marketing assistance loan program, direct payments, countercyclical payments, and planting flexibility.

As you probably know, on August 18, 2006 USDA announced the presence of trace amounts of genetically engineered (GE) rice mixed with a commercial long grain rice sample in the Southern rice producing states. This was the first occurrence of GE rice in commercial rice supplies and was a surprise to the industry given that there had been no commercial production of GE rice in the U.S. Both USDA and the Food and Drug Administration (FDA) clearly stated that their analysis of the Liberty Link protein found in long grain rice poses no human health, food or feed safety or environmental concerns and is safe for consumption.

Since last August, there have been two additional Liberty Link traits discovered in long grain rice commercial supplies. All three of these incidences have caused significant market disruption, economic loss, planting uncertainty, and overall financial strain on the U.S. rice industry.

In addition to the GE rice situation, our industry has also been negatively impacted on the trade front by the willingness of U.S. trade negotiators to agree to a U.S.-Korean Free Trade Agreement (FTA) without any additional access for U.S. rice. We were completely excluded from the FTA.

It is these types of unexpected market events and unfulfilled promises of market access that are just more examples of the need for a strong safety net for rice producers.

Farm Bill Budget

We would like to thank the members of this Committee for the bipartisan effort you have made to obtain additional budget resources to help in developing the best farm policy

possible. We are well aware of the difficult budget situation we are facing, but also fully agree with the position taken by the Committee in its budget letter sent to the Senate Budget Committee.
The fact is that U.S. farm policy will have saved about $25 billion since passage of the 2002 Farm Bill. As a result, the commodity program budget baseline according to the Congressional Budget Office has *fallen* by about 43 percent since 2002. At the same time, input and production costs for rice producers has *risen* by more than 42 percent since 2002. As such, the Agriculture Committees should be given some credit for this savings and provided an additional budget allocation for maintaining a farm program safety net in the farm bill.

We recognize the many competing interests that must be considered when assembling a farm bill. New needs have been identified since passage of the 2002 Farm Bill. However, the safety net we have today is still vitally important to farmers and rural America—as important as when the 2002 farm bill was written.

Commodity Programs

Overall, the rice industry strongly supports the continuation of the current farm programs within the commodity title of the farm bill. We believe the structure of the 3-prong safety net of a non-recourse marketing loan program, direct payment program and counter-cyclical program are working as designed to ensure a safety net for producers. When prices increase, program expenditures decline because less support is needed. This has resulted in the approximately $25 billion in actual and projected savings from the commodity programs over the course of the 2002 farm bill.

Payment Limitation Policies

The U.S. rice industry opposes any further reduction in the payment limit levels provided under the current farm bill. We also oppose any government policies that attempt to "target" payments or apply a means test for agricultural production payments. Payment limits have the negative effect of penalizing viable family farms the most when crop prices are the lowest and support is the most critical. To be a viable family farm, we must use economies of scale to justify the large capital investment costs associated with farming today. It is essential that rice producers maintain eligibility for all production to the non-recourse loan program. Arbitrarily limiting payments results in farm sizes too small to be economically viable, particularly for rice, cotton, and peanut farms across the Sunbelt. When the issue of payment limits is brought up, oftentimes opponents of production agriculture attempt to use misleading statistics taken out of context for the purpose of making their argument. Here are some key points that I know we are all probably aware of, but it's important to be reminded of so that we see the real picture of production agriculture.

Statistics skewed by "Rural Residence Farms": "Rural residence farms" as defined by USDA represent about two-thirds of the 2.1 million "farms" in this country. Excluding these farms where farming is not the primary occupation of the family results in a very different picture about the percentage of "farms" receiving farm program payments. The universe of farms actually producing this nation's food and fiber is much smaller than 2.1 million. In fact, 38% of farms produce 92% of our food and fiber and receive 87% of farm program payments.

While we support the overall structure of the current commodity programs, there are some rice specific legislative adjustments within the structure of the programs that are needed to address some issues that have arisen relative to rice.

Rice Program Support Levels

Within the current marketing loan program, the statutory loan rate for rice is set at a national average rate of $6.50 per hundredweight of rice (about 2.22 bushels). The loan rate for rice has remained unchanged since 1989. However, over that time period production costs and operating expenses have increased exponentially and continue to escalate. As a result, since the enactment of the 2002 Farm Bill the support provided by the rice loan compared to the variable cost of rice production has fallen by a whopping 33 percent! In 2002 the rice loan rate represented about 150 percent of the variable cost of producing rice. Today that same loan rate represents only about 100 percent of the variable cost of producing rice. This represents a greater effective *reduction* in the support level for rice than for any other program crop since 2002, and is now *lower than for any other program crop.* As such, we are seeking a very modest increase in our rice loan rate from the current level of $6.50/cwt to $7.00/cwt.

In the 2002 farm bill, when the target price and counter-cyclical payment system was established, the target price for rice was set at $10.50/cwt and remains at that level today. Again, due to the continued increase in production costs, we are seeking a $.50/cwt increase in the target price to $11.00/cwt.

Loan Rates by Class

The current statutory loan rate for rice is set at $6.50/cwt, but there are currently 3 distinct loan rates for rice by class that are set by USDA for each crop year: long grain, medium grain, and short grain. The average of these three loan rates must equal the $6.50/cwt national average set by current statute in the farm bill for rice. Over the course of the marketing loan program operation, there has been a differential between the loan rates for the several classes of rice, while the statutory loan rate has been set at one level for all rice. USDA has recently undertaken efforts to "rebalance" these loan rates by class. We have concerns with the approach being used by USDA in this process. After studying and analyzing the issue we believe that the most appropriate course is to set the loan rate at the same level for all classes of rice—long, medium, and short grain.

Analysis of the impact of the changes proposed by USDA suggests that the modifications would have a significant impact on the rice industry. At first glance, changes in class loan rates would appear to cancel each other out, assuming that the method to report adjusted world prices remains unchanged. If so, the result would basically be a transfer of loan support from long grain rice producers to producers of medium and short grain.

However, these changes in payments could be large enough to generate a round of false market adjustments as producers shift acreage in response to the change in the program and markets react to the resulting larger medium and short grain supplies and smaller long grain supplies. In other words, this new "equilibrium" envisioned by USDA will not have been achieved without causing significant economic pain.

Arriving at a new "equilibrium" between long and medium/short grain loan rates will likely entail significant adjustments along regional lines. Within the long grain sector, the higher cost producers that are already operating at low rates of return would suffer the greatest burden. Losses in revenues would be concentrated in the areas where producers have the lowest ability to take advantage of changes in loan rates by shifting between varieties, such as Missouri, Mississippi, and Texas. Any gains in revenue would be concentrated in California where producers would receive a higher return on their existing production, and the potential to expand more profitable operations.

The current method of setting loan rates by class has allowed for the orderly production and marketing of rice that has provided ample supplies to the market without generating excessive stocks in either the public or private sectors. Although domestic prices for medium grain varieties have over time appreciated at a rate much faster than long-grain varieties, much of this increase reflects market forces unique to particular markets and even to particular medium grain varieties.

Therefore, we urge this Committee as you draft the farm bill to include statutory language directing USDA to set the national loan rate for each class of rice at the same level as established by the farm bill, with the only adjustment continuing to be reflective of milling yields. There should be no further loan rate differentials by class or location.

Making such a change to an "all rice" loan rate would, based on the current rice loan rate of \$6.50/cwt, result in a slight reduction in the long grain loan rate of \$0.09/cwt compared to the 2007 crop loan rate and an increase in the medium grain loan rate of \$0.30/cwt and an increase of \$0.22/cwt for short grain. Of note, long grain rice accounts for approximately 80% of total rice production, and medium and short grain rice accounts for approximately 20% of total production on average.

Adjusted World Price Calculation for Rice

Many in the industry are also concerned with the current methodology and formula used by USDA in calculating the "adjusted world price" (AWP) for rice. The AWP is set and announced each week by USDA as part of the marketing loan program. The AWP largely determines the level of loan program benefits (if any) provided to producers, based on the world prices for rice adjusted back to U.S. location and quality.

The current process employed by USDA is essentially a "black box" approach that provides little, if any, transparency in the process. This method worked well overall for a number of years after the marketing loan program was first established. However, over the course of the last few years, the AWP as announced by USDA has varied significantly at times from what was believed to be the true price relationships in the world market place. This has reduced U.S. competitiveness in the world market and diminished the producer safety net.

To help address this issue, the industry is analyzing the development of a more transparent formula that would be representative of the prices in the major world rice markets. Such an approach would work in principle similar to the method used for calculating the AWP for cotton, which utilizes a rather specific formula calculation for certain markets.

We believe by putting in place a transparent, verifiable formula and method for calculating the AWP for rice, producers and others in the industry could have greater confidence in the process. It should also help USDA to better calculate the AWP on a weekly basis.

As the several industry producer, processor, and other organizations further define and reach consensus on a proposal for a transparent method of calculating an AWP for rice, we look forward to working with the Committee to include legislative language in the farm bill to bring this much needed transparency to the process.

USDA Proposal

We have reviewed the Farm Bill Proposal developed by USDA and released in January. While it is clear a great deal of effort went into developing the proposal, it is unfortunate that many of the proposed changes, particularly in the commodity title, would have the damaging effect of weakening and in some cases practically eliminating the safety net the farm bill is intended to provide. However, the USDA proposal does call for an additional $5.0 billion in funding for the farm bill over the next 10 years, which is a positive and necessary part of the farm bill development.

Commodity Title

It is important to note overall that USDA's commodity program proposal recommends maintaining the key components of the safety net—non-recourse marketing loan program, direct payment program, and counter-cyclical program—although some of the changes within the programs are problematic, as described below.

The proposal to set loan rates based on previous 5-year Olympic average prices and to include a loan rate cap but not a floor would be especially damaging. This would essentially remove any real safety net that the marketing loan program is intended to provide. If market prices for a certain commodity begin to decline and continue that downward trend for several years, the result could be a loan rate significantly below the current loan rate levels. Loan rates should be set in statute at the appropriate level to provide a basic safety net level and not be altered during the life of a farm bill. This level of certainty and predictability is necessary for producers to obtain production financing and make long-term planning decisions.

Also, the proposal by USDA to modify the counter-cyclical program from a price-based trigger to a revenue-based trigger at the national level is also problematic for rice producers and the rice industry. Given the unique nature of rice production, we experience very little variation in yield or production, but can experience significant changes in market prices. Therefore, using market prices as the basis for counter-cyclical payments is important for our industry and something we continue to support. We would note that the justification for this change – helping producers when they have production losses – is not even accomplished by the proposal because producers in an entire region could lose their crop and so long as other producers made their crop and prices were strong, no payment would be made.

The current law adjusted gross income (AGI) provision prohibits commodity and conservation program payments from being made to individuals with greater than a $2.5 million AGI, excluding those individuals who earn at least 75% of their income from farming, ranching, or forestry. A major concern with the USDA proposal involves the reduction of the AGI test to only $200,000, and the repeal of the farmer safe harbor for those whose income principally comes from farming, ranching, or forestry.

We believe the idea of means testing for commodity programs in general is bad policy. A farm safety net – no matter how good it may be – is not worth anything to thousands of farm and ranch families if they cannot access it. The AGI proposal unfairly penalizes full time farmers who have diversified and expanded for purposes of achieving economies of scale in order to compete with foreign competitors that enjoy huge subsidies, tariffs, and questionable non-tariff barriers. This rule would injure U.S. farmers and ranchers as they fight to compete on a very lopsided global playing field.

The proposed AGI rule would make U.S. farm policy unpredictable, inequitable, and punitive for American farm and ranch families, especially tenant and beginning farmers and ranchers, as well as lenders, landowners, Main Street businesses, and rural communities.

This provision would also have serious consequences as it relates to rental agreements between landowners and producers. It would force landowners to cash rent their land rather than share production risks with their producer tenants. This will only hurt the "real producers" farming or ranching on the land. Large or wealthy landowners who are the apparent targets of this proposal will not suffer, but will simply cash rent their land to other producers who are likely eligible for program benefits.

The proposed AGI rule also makes it difficult or impossible for lenders to measure with any certainty the future cash flow of farm and ranch families in order to make both short and long term lending decisions. Uncertain whether the producer will be eligible for farm policy benefits, lenders – whether banks, farm credit system institutions, equipment dealers, or others offering business credit – will be unable to estimate producer cash flows with any level of certainty.

It is understandable why this type of rule has not been proposed for conservation programs under the Farm Bill. Or under the JOBS Bill that helps U.S. manufacturers compete globally. Or for doctors under Medicare. They didn't include this kind of a rule because it would have hurt the cause, not helped it. Similarly, farm and ranch families should not be means-tested out of farm policy based on their AGI because this, too, would undermine a fundamental purpose of farm policy: the provision of the safest, most abundant, most affordable food and fiber supply in the world to the American consumer.

We urge you to oppose the above provisions of the USDA farm bill proposal due to the severe consequences that would result from any one or combination of them. America's farm and ranch families are already facing enough uncertainty and difficulty without unnecessarily weakening the safety net as proposed by USDA.

Conservation Title

Conservation programs play an important role in production agriculture by providing financial cost-share and technical assistance to producers in their continual efforts to conserve water, soil, air, and wildlife habitat. The rice industry supports maintaining a strong conservation title in the farm bill, in particular one that emphasizes working lands programs, but not at the expense of the current commodity programs.

Voluntary, incentive-based, and science-based conservation programs are needed, as is the technical assistance program. The Conservation Security Program (CSP), and the Environmental Quality Incentives Program (EQIP) are important working lands programs that assist rice producers with protection of the environment and conservation of natural resources and should be reauthorized. In addition, the Wetlands Reserve Program (WRP), and the Conservation Reserve Program (CRP) each offers valuable conservation resources to producers should be maintained.

Rice producers were some of the early participants in the CSP and we see real benefits from continuing this and the other conservation programs. Specifically on the CSP, we would like to see the program implemented on a nationwide basis in an equitable fashion. We look forward to working with the Committee to address any refinements to the program going forward.

While all these conservation programs play an integral and important role in agriculture, any additional funding that may be provided for these programs should not come at the expense of the current commodity programs. The commodity programs provide an important farm safety net and are the first line of defense in ensuring producers remain on the land and can continue to be good stewards of our natural resources.

USDA's proposed farm bill calls for changes to current conservation programs, as well as additional funding for them. Of concern is that the proposed additional funding for its farm bill conservation programs could come at the expense of the commodity programs, something we strongly oppose. We believe that some of the USDA proposals, such as the consolidation and streamlining of certain conservation programs, deserve attention, but more detail would be needed to assess how effective and beneficial they might be for rice producers.

Wetlands, Waterfowl, and Wildlife

Rice farming is one of the few commercial enterprises that actually promotes wildlife habitat and improves biological diversity.

Since the very nature of rice production requires that fields be flooded for many months of the year, evidence shows unequivocally that it plays a vital role in supporting common environmental goals, such as protecting freshwater supplies and providing critical habitat for hundreds of migratory bird species.

Without rice farming, wetland habitats in the United States would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl and a host of other wetland-dependent species.

The clear and positive benefits that commercial rice production has for migratory birds and other wildlife species contribute not only to a more interesting and diverse landscape, but also provide economic benefits that support local economies and create jobs.

By providing an environment favorable to wildlife advancement, rice production clearly generates positive benefits to the economy and society.

As commercial development and urban sprawl continue to pressure existing agricultural and wetland resources, rice farming provides an environmental counterweight in the form of "surrogate" wetlands that directly support waterfowl and a wide range of species that would otherwise be even more threatened by habitat destruction. These widely noted environmental benefits accrue not only to current and future generations of wildlife enthusiasts, but also produce economic benefits that support recreational industries and, ultimately, local economies.

Trade Policy Impacts on the U.S. Rice Industry

The U.S. market for imported rice is virtually an open-border market, with U.S. tariffs on rice imports almost non-existent. The U.S. rice industry supports the elimination of all rice duties in other importing countries, and equitable tariff treatment for all types of rice.

Despite the general continuing trend towards market liberalization, rice outside the United States has remained among the most protected agricultural commodities. The level of government intervention in the international rice market through trade barriers, producer supports, and state control of trade, is substantially higher than for any other grains or oilseeds. High tariff and non-tariff barriers, such as discriminating import tariffs on U.S. paddy and milled rice exports, also are used.

These are major factors contributing to price volatility in the international rice market and a fundamental reason why the U.S. industry needs the stabilizing influence of current rice farm bill programs.

Because the U.S. rice industry exports between 40 and 50 percent of annual rice production, access to foreign markets is fundamental to the health of our industry.

The United States' share of world rice exports has averaged between about 10% and 13% over the last 10 years, down from a peak of about 30% as recently as 1975.

This decline in world export share reflects increased supplies from traditional exporters like Thailand and Vietnam, among other factors. U.S. sales are also constrained by market access barriers in high-income Asian countries like Japan, Korea, and Taiwan, and the European Union and Latin American countries.

Our industry was extremely disappointed by the total exclusion of rice from the recent U.S.-Korea FTA. The lack of a comprehensive agreement with Korea sets a bad precedent and calls into question our government's negotiating strategy. The lack of improved access to high-income consumers in Korea rightly raises questions about the benefits of trade agreements for our producers and marketers. The refusal or failure of our government to open markets like Cuba and South Korea underscores very clearly the importance of a strong domestic farm program safety net for rice producers.

The recent discovery of trace amounts of GE rice has also raised trade concerns. Even with the strong and continued assurances of our government regarding the complete safety of our rice, concerns have been raised by key importing countries. In fact, over 60% of our exports on a value basis have been impacted to some degree by the GE rice events of the recent months. The most severe impact is in the European Union (EU), which has put in place a strict requirement for testing of imports of U.S. long grain rice to certify it is free of Liberty Link 601 genetically engineered rice. The EU represents a 300,000 metric ton market annually worth over $100 million. USDA and USTR continue to work on our behalf to help ensure we regain and maintain access to this and other key markets. There are no safety concerns with this GE rice. The Liberty Link protein has been approved in several other crops (corn, soybeans, canola, cotton) in a dozen or more countries. This speaks to its safety and level of regulatory acceptance. We appreciate your Committee's continued support and assistance in working with USDA, USTR and our trading partners to ensure rice exports do not suffer further and that important export markets can be regained.

Market Promotion Programs

To assist the industry in continuing to promote our product in overseas markets, we utilize both the Market Access Program (MAP) and the Foreign Market Development Program

(FMD) to conduct promotional activities. Both of these programs play a critical role in our promotion activities and we support reauthorization and funding of both programs at no less than the current authorized levels. The industry uses MAP and FMD extensively and successfully in one of the federal government's finest public-private export development and promotion partnerships.

Food Aid Programs

The U.S. rice industry is proud to contribute to the humanitarian feeding and food assistance programs that the federal government provides to those in need in foreign countries, in particular through the P.L. 480 Title I program. Title I has provided U.S. food aid successfully for over fifty years. Requests from eligible countries and other applicants continue to be received for its services. For these reasons, the industry believes the program still serves as an important food aid program and should be reauthorized and funded.

P.L. 480 Title I, which includes both its concessional sales and its Food for Progress components, P.L. 480 Title II, the McGovern-Dole International Food for Education Program, Food for Progress, and the Bill Emerson Humanitarian Trust are federal aid programs that feed the hungry and malnourished overseas. We encourage the continuation and funding of all U.S. food aid programs

The U.S. rice industry strongly opposes any attempt to convert P.L. 480 Title II food aid donations to a cash food aid program. The industry also strongly opposes any effort to authorize the use of U.S. taxpayers' funds to purchase food grown in foreign countries to be used as U.S. food aid, thereby displacing the use of U.S. farm products for food aid in the process.

The industry wants to work closely with the Congress in achieving reauthorization of P.L. 480 Title I concessional sales and Food for Progress programs. Title I concessional sales can be offered to eligible countries that qualify for its terms. In addition to receiving CCC funding, Food for Progress is authorized to receive resources from P.L. 480 Title I. The industry also wants to work closely to make sure that the Title II Program of P.L. 480 uses taxpayers' funds to procure and provide food donations of U.S.-produced agricultural commodities.

U.S. Trade Sanctions Unfairly Impact the Rice Industry

In addition to the distorted international markets faced by the U.S. rice industry, U.S. policies intended to punish foreign nations or encourage regime change disproportionately harm U.S. rice producers.

Unilaterally imposed U.S. trade sanctions have played a key role in destabilizing the U.S. rice industry and in constraining its long-term market potential. U.S. sanctions have and continue to place downward pressure on market prices to U.S. producers.

At various times within the past four decades, our number one export markets were closed because of unilaterally imposed U.S. trade sanctions policy:

Cuba: Prior to 1962 Cuba was the largest market for U.S. value-added rice, but since then this important market has been largely closed to U.S. exporters. As a result, China, Vietnam and Thailand have emerged to become major suppliers of the roughly 500,000 metric tons of rice that Cuba imports annually. Recent efforts to ease restrictions on U.S. sales of food and medicine to Cuba under the Trade Sanctions Reform and Export Enhancement Act of 2000 have allowed the United States to regain a share of this market, with U.S. rice exports to Cuba reaching nearly 177,000 metric tons in 2004, valued at more than $64 million. However, even these important gains are threatened by restrictive regulations imposed by the U.S. Treasury Department that have resulted in the volume of rice exports to Cuba declining by 12% in both 2005 and 2006 from the 2004 level. The United States has a considerable freight cost advantage over other exporters, which suggests that the further easing of the restrictions that remain in place could provide substantial opportunities for much larger rice exports to Cuba.

Iran: Similarly, in the 1970's the U.S. rice industry exported on average 300,000 metric tons of value-added rice to Iran. This was the largest U.S. rice export market for value-added rice, and it also was eliminated through the unilateral imposition of U.S. trade sanctions on Iran. But Iran's demand for imported rice continues to grow. In 2004 Iran imported 973,000 metric tons of rice valued at nearly $300 million, mainly supplied by Thailand and Vietnam.

Iraq: In the 1980's, U.S. rice exports to Iraq averaged about 400,000 tons. United Nations sanctions eliminated the market for U.S. producers even while this market grew to nearly 1 million metric tons ($200 million) supplied primarily by Thailand, Vietnam and China through the U.N. Oil for Food program. In 2005, U.S. rice sales to Iraq were resumed with exports of approximately 310,000 metric tons and climbed to 412,000 metric tons in 2006. We appreciate the efforts of our government to reopen this vital market.

The total of these three markets represents more than 2.5 million metric tons of market potential per year that the United States had lost for decades, and that in many cases remains restricted today far below its full potential. This is equivalent to approximately 25% of current U.S. production.

In light of significant market access barriers in many key rice-consuming countries, U.S. rice farmers are denied the opportunity to compete openly and fairly. These further restrictions imposed by our own government interfere with the industry's opportunity to discover a market price structure that could reduce the need for government support.

Renewable Energy & Agricultural Research

As you know, there has been considerable discussion and speculation already about the role renewable energy will play in agriculture policy in the future and in this farm bill. While the ethanol and biodiesel industries are currently expanding at a rapid pace, we believe cellulosic ethanol and the use of cellulose products for energy production is an area primed for growth and expansion. Certainly, resources are now being devoted to research and development of technologies to convert cellulose material into ethanol and other renewable energy products.

As technologies improve, the economics of renewable energy production from cellulose, including rice straw, may be aligning for other regions of the country to contribute towards our increased energy independence. We believe the use of rice straw for ethanol holds promise for both enhancing the financial health of the rice industry and the benefit of the nation's energy needs. And, it stands to reason that the demand for ethanol will track large population centers across the nation and a number of those are located near the rice growing regions of the country and will offer numerous marketing opportunities.

We urge Congress to include a comprehensive renewable energy title in the farm bill, including new funding for the research, development, and commercialization of the use of rice, rice straw, and other rice byproducts in ethanol and cellulosic ethanol production.

In addition, new funding may be necessary to restore our rice research and foundation seed infrastructure as a result of the encroachment of genetically engineered rice into our rice seed supplies and rice crop.

However, in developing and expanding the renewable energy and research titles, any additional funding for these initiatives should not come at the expense of the current commodity programs, which provide the foundation of the safety net for agriculture in general and for rice producers specifically.

Conclusion

Overall, the rice industry supports a continuation of the basic commodity programs structure, with the changes referenced above as it relates to rice: 1) Modestly increase the program support levels for rice to a loan rate of $7.00/cwt and a target price of $11.00/cwt.; 2) Set loan rates for all classes of rice at the same level, with no differential by class or location; and 3) Develop and implement a more transparent formula for the calculation of the AWP for rice.

U.S. farm policy must provide a stabilizing balance to markets and a reliable planning horizon for producers. We urge you to recognize how well the current farm bill is working for U.S. agriculture, and to consider ways to maintain its structure as we develop the 2007 farm bill.

We continue to believe that our current farm programs are a fiscally responsible approach to farm policy and provide a safety net when needed. They have resulted in $25 billion in savings from the estimated costs of the farm commodity programs of the 2002 Farm Bill.

Furthermore, any unilateral reduction of the current programs and funding levels of the farm bill will result in the effective "unilateral disarmament" by the U.S. when it comes to

World Trade Organization (WTO) negotiations that the Administration is continuing to pursue. Such action would effectively weaken our negotiating position with other countries. We certainly do not agree that the pending WTO negotiations should dictate or steer our domestic farm policy. In fact, we fully support the views expressed recently by 58 members of the Senate in a letter to President Bush regarding the Doha Round negotiations, which stated "an unbalanced proposal that asks U.S. agriculture and rural communities to give more while getting less in market access is unacceptable". Farm policy should be directed by what's best for America's farm and ranch families.

Thank you again for the opportunity to testify and share our views with you as it relates to current farm policy and the development of the farm bill. We look forward to working with this Committee in crafting the strongest farm policy possible to continue to provide an effective safety net for American agriculture.

I would be pleased to respond to any questions at the appropriate time.

USA Dry Pea & Lentil Council

STATEMENT BY
USA DRY PEA & LENTIL COUNCIL
TO THE
U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
HEARING CHAIRMAN TOM HARKIN

"ECONOMIC CHALLENGES AND OPPORTUNITIES FACING AMERICAN AGRICULTURE PRODUCERS TODAY"
APRIL 25, 2007

Introduction.

Mr. Chairman and members of the committee, my name is Jim Evans. I am a farmer of dry peas, lentils, chickpeas, wheat and barley near Genesee, Idaho. Today, I am testifying on behalf of the USA Dry Pea and Lentil Council, a national organization representing producers, processors and exporters of dry peas, lentils and chickpeas across the northern tier of the United States. Our membership includes farmers, processors and exporters in Washington, Idaho, Oregon, Montana, North and South Dakota, Minnesota, Nebraska, Wyoming, Colorado and Kansas. I am the current chairman of the organization and in the audience today is the Vice Chairman of our Council, Greg Johnson. Greg owns and operates a large dry pea, lentil and chickpea processing facility in Minot, North Dakota.

The USA Dry Pea & Lentil Council would like to thank you for holding this hearing to discuss the challenges and opportunities facing U.S. agriculture. Today agriculture is enjoying some of the highest commodity prices we have seen in years. The market opportunities for every commodity I grow makes me feel like I am in farmer heaven. Then I open my fuel and fertilizer bill and realize that the gap between heaven and hell is closing quickly.

The biggest challenge facing U.S. commodity producers is securing an adequate safety net to protect farmers during periods of low prices and natural disaster. Right now commodity prices are up. But some day prices will drop and when they do our farm policy must protect our producers from continued subsidized competition, high tariffs, phyto-sanitary barriers and exchange rate manipulation.

2780 W Pullman Rd • Moscow ID 83843-4024 USA
P: 208-882-3023 • F: 208-882-6406
Email: pulse@pea-lentil.com • Web: www.pea-lentil.com

The crafting of a new farm bill provides an opportunity to maintain an adequate safety net for U.S. producers. It also provides an opportunity to reward producers for being good environmental stewards of our natural resources. As Congress writes a new farm bill we ask that it include the following programs:

2002 Farm Bill- Pulse crops entered the farm program family in 2002. Our organization would like to thank the Senate Ag Committee for creating the Pulse Marketing Loan/LDP program. The program has provided a needed safety net for producers of dry peas, lentils and chickpeas across the northern tier. In the 2007 Farm Bill we seek to be included and treated equally with other farm program commodities.

USA Dry Pea & Lentil Council

2002 Farm Bill Pulse Loan Program

Loan Rates, Direct Payments and Target Prices for Covered Commodities						
		Loan Rate		Direct Payment	Target Price	
Crop	**Unit**	**2002-2003**	**2004-2007**	**2002-2007**	**2002-2003**	**2004-2007**
Corn	Bu.	$1.98	$1.95	$0.28	$2.60	$2.63
Sorghum	Bu.	$1.98	$1.95	$0.35	$2.54	$2.57
Barley	Bu.	$1.88	$1.85	$0.24	$2.21	$2.24
Oats	Bu.	$1.35	$1.33	$0.024	$1.40	$1.44
Wheat	**Bu.**	**$2.80**	**$2.75**	**$0.52**	**$3.86**	**$3.92**
Soybeans	Bu.	$5.00	$5.00	$0.44	$5.80	$5.80
Minor Oilseeds	lb.	$0.0960	$0.0930	$0.0080	$0.0980	$0.1010
Cotton	lb.	$0.5200	$0.5200	$0.0667	$0.7240	$0.7240
Rice	cwt.	$6.50	$6.50	$2.35	$10.50	$10.50
Dry Peas	**cwt.**	**$6.33**	**$6.22**			
Lentils	**cwt.**	**$11.94**	**$11.72**			
S. Chickpeas	**cwt.**	**$7.56**	**$7.43**			

Title I – Commodity Programs

Marketing Loan Program/LDP- The marketing loan/LDP program provides the best safety net for U.S. pulse farmers facing dips in market prices. The table below shows the pulse loan rates set by law in the 2002 farm program and our request to continue this program at the same levels in the 2007 farm bill:

Pulse Marketing Loan History and 2007 Farm Bill Request

Pulse Crop	Loan Rate Basis (by law)	2002-2003	2004-2007	2007 Farm Bill Request
Dry Peas	Feed Peas/$cwt.	$6.33	$6.22	$6.22
Lentils	No. 3 grade/$cwt.	$11.94	$11.72	$11.72
Small Chickpeas	No. 3. Grade /$cwt. (below 20/64ths round hole screen)	$7.56	$7.43	$7.43
Large Chickpeas (New Program)	No. 3 Grade/$cwt. (above 20/64ths round hole screen)			$18.00

Large Chickpeas- The 2002 farm bill created a marketing loan program for **small chickpeas**. Our organization supports the creation of a marketing assistance loan program for large chickpeas in the 2007 farm bill. We ask that the loan rate be set at **$18.00/cwt.** for **large chickpeas**. The loan rate should be based on a No. 3 grade large chickpea that stays above a 20/64ths round hole sieve.

2. Pulse Energy Conservation Incentive Payment (PECIP).
To reduce our dependence on foreign oil, we support a strong energy component in the 2007 Farm Bill. The most effective way to reduce our dependence on foreign oil is to encourage U.S. farmers to implement a sound energy conservation strategy. To encourage energy conservation, we propose the creation of a Pulse Energy Conservation Incentive Payment (PECIP).

Dry peas, lentils and chickpeas are legumes that do not require the use of nitrogen fertilizer in the production cycle. In fact, university research shows that the production of dry peas, lentils and chickpeas provides a 40 pound per acre nitrogen credit for the next crop in the rotation. In addition to conserving energy, pulse crops also fix nitrogen in the soil which provides a significant offset to "Green House Gas" emissions. The program would be delivered as a direct payment to those producers who plant energy conserving crops like dry peas, lentils and chickpeas. The payment would be based on multiplying the nitrogen credit saved by planting a pulse crop (40 lbs/ac.) times the current cost of nitrogen fertilizer ($0.38/lb.). The payment would be roughly $15.00 per acre for pulse crops with current nitrogen fertilizer prices.

Pulse Energy Conservation Incentive Payment (PECIP)

	Pulse Crop Nitrogen Credit Lbs./Acre	Cost of Nitrogen ($ per lb.)	PECIP $/Acre
Dry Peas, Lentils, Chickpeas	40 lbs	$0.38/lb	$15.00/Acre

As Congress works on providing new incentives for the creation of biofuels, we ask that equal weight be given to providing incentives to produce pulse crops that conserve our energy resources.

3. Pulse Direct Payment Program

Pulse crops are grown in rotation with wheat, barley and minor oilseeds across the northern tier of the United States. Each crop in the rotation has a direct payment except for pulse crops. We support the creation of a direct payment for dry peas, lentils and chickpeas equal to the direct payment received for wheat. The current direct payment for wheat is $0.52 cents per bushel. The table below establishes a pulse direct payment based on the current wheat direct payment program.

Pulse Direct Payment Program

Crop	Pulse Direct Payment	Avg. Yield Per Acre (10 yr) (bu./lbs)	Direct Payment Per Acre
Wheat ($/bu.)	$0.52/bu. ($0.86/cwt.)	40 bu. (2400/lbs)	$20.00
Dry Peas ($/cwt.)	$1.05/cwt.	1900/lbs	$20.00
Lentils ($/cwt.)	$1.67/cwt.	1200/lbs	$20.00
Chickpeas (Small and Large) ($/cwt.)	$2.00/cwt.	1000/lbs	$20.00

Pulse Base Acres- Our organization supports the creation of a USDA/FSA base for dry peas, lentils and chickpeas in the 2007 Farm Bill in order to receive a direct payment. Producers should be allowed to sign up their current vegetable base for the pulse direct payment program.

4. Pulse Counter-Cyclical Program

The counter-cyclical program provides an additional safety net to producers facing a downturn in the market. We support the creation of a pulse counter cyclical program for dry peas, lentils and chickpeas equal to 130% of the pulse loan rates established in the 2002 farm bill. The following table shows the Pulse Counter Cyclical Target Price based on 130% of the pulse marketing assistance loan rates.

Pulse Counter Cyclical Program
2007 Farm Bill Request

Pulse Crop	Counter Cyclical Based On	Loan Rate 2004-2007	Pulse Counter Cyclical Target Price (130% Loan Rates)
Dry Peas	Feed Peas/$cwt.	$6.22	$8.09/cwt.
Lentils	No. 3 grade/$cwt.	$11.72	$15.24/cwt.
Small Chickpeas	No. 3. Grade /$cwt. (below 20/64ths round hole screen)	$7.43	$9.66/cwt.
Large Chickpeas	No. 3 Grade/$cwt. (above 20/64ths round hole screen)	$18.00*	$23.40/cwt.

* Large Chickpeas were not included in the 2002 Farm Bill. The $18.00/cwt. on large chickpeas is a suggested loan rate level for Large Chickpeas for the 2007 Farm Bill.

5. Remove Chickpeas from Fruit & Vegetable List.

Producers need planting flexibility to respond to market signals. Over 90% of the chickpeas produced in the United States are grown in WA, ID, MT, ND, and SD. Currently chickpeas are classified as a vegetable crop and are not eligible to be planted on farm program base acres. The growers producing chickpeas in the northern tier primarily produce program crops that are eligible to be planted on farm program base acres. The USADPLC supports the inclusion of chickpeas (Small and Large) as an eligible crop to be planted on farm program base acres in the 2007 Farm Bill.

6. Conservation Security Program.
Our organization is a strong supporter of the Conservation Security Program. We believe the next farm bill should continue to reward producers who manage their soils based on long term environmental sustainability on working lands. We have several suggestions on ways to improve the CSP program but none greater than providing adequate funding. The current program administration of CSP is a mess and pits watershed against watershed, neighbor against neighbor. Every farmer in the U.S. should have an equal shot to qualify for this program.

In summary, the U.S. dry pea, lentil and chickpea farmers believe the 2007 farm bill should continue the current pulse marketing loan program with the addition of large chickpeas. We believe the safety net for pulses should be expanded to include a pulse direct payment and counter cyclical program. We ask Congress to implement our Pulse Energy Conservation Incentive Payment program to encourage producers to conserve energy. We also ask Congress to continue the CSP program with adequate funding.

We also have several suggestions on how to improve conservation, market development, food aid, and crop insurance for the pulse industry. These suggestions are provided in my complete testimony.

I would like to thank the committee for the opportunity to speak to you today, and I would be happy to answer any questions.

Title II - Conservation Programs

The USADPLC supports farm policy that rewards producers for managing their soils based on long term environmental sustainability on working lands. We offer the following suggestions on how to improve existing conservation programs in the 2007 farm bill:

Conservation Security Program (CSP). The USA Dry Pea & Lentil Council (USADPLC) supports equal access and full funding of the CSP program to provide incentives to farmers to achieve improvements in soil, air and water quality. USADPLC supports continuing the CSP with the following improvements:

a. **Fully fund the Program.** CSP should provide equal opportunity to all producers without artificial restrictions to access based on funding limitations. Restricting the program to a limited number of watersheds every eight to ten years gives significant economic advantage to those producers in the watersheds selected.

b. **Realistic Nitrogen Credit.** The current credits for planting an N fixing crop like legumes are not realistic in an annual cropping system. The base requirement exceeds the value of any crop planted for Nitrogen replenishment. There should be a credit to the producer for any reduction of N use due to the rotation.

c. **Develop a wildlife credit for annual cropping.** Annual cropping provides year around cover for many animals. Producers should be encouraged to utilize measures that provide increased wildlife habitat.

d. **Increase technical staffing for CSP.** USDA is implementing this new program while cutting staff. The data collection requirements and the self evaluation process required by the program are daunting for most producers. In addition, NRCS is tasked to provide technical support and distribute funds. USADPLC supports the use of FSA to distribute funds and administer finances and to at least maintain current staff levels at both NRCS and FSA offices to facilitate full implementation of the CSP program.

Title III - Trade

Market Development

MAP & FMD- The Market Access Program (MAP) and Foreign Market Development (FMD) Program have allowed our industry to penetrate new markets around the world. We support an increase in MAP program funding to $325 million and an increase in the FMD program to $50 million in the 2007 Farm Bill.

Food Aid

Our organization fully supports the continuation of the U.S. P.L. 480 Title I, P.L. 480 Title II, McGovern-Dole Food for Education, and Food for Progress food aid programs. These programs serve as a bridge between the United States and developing countries and help feed starving people with nutritious food from American farmers and food processors.

We believe that U.S. food aid funds, provided by the American taxpayer, should purchase <u>only</u> U.S.-produced commodities for the nation's food aid programs. Therefore, we do not support the use of P.L. 480 Title II funds for local commodity purchases overseas.

In light of the importance of these humanitarian U.S. food aid programs to their recipients overseas and to the U.S. agricultural community, we request Congress to:

1. **Reauthorize P.L. 480 Title I.** This government-to-government program provides U.S. agricultural commodities to developing countries on credit or grant terms. Concessional credit sales are available to those eligible countries that choose to participate in them for food aid purposes. In addition, Title I funds are a major funding source for Food for Progress, which is discussed more below.
1. **Reauthorize P.L. 480 Title II.** This program provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs in other countries, including support for food security goals. We support a program that is predictable and sufficient to address growing global needs for both emergencies and non-emergencies.
2. **Reauthorize Food for Progress' (FFP) Commodity Credit Corporation (CCC) Funding.** The FFP program provides for the donation or credit sale of U.S. commodities to developing countries and emerging democracies to support democracy and to assist with the expansion of private enterprise. In addition to its CCC funding, FFP also has received as much as 40% of its funds from P.L. 480 Title I. In the President's FY2008 budget proposal total FFP funds have been decreased by the amount received from Title I, leaving only CCC as the program's funding source.
3. **Reauthorize and Give Permanent Authority for Administration of the McGovern-Dole Food for Education (FFE) Program to the U.S. Department of Agriculture.** The FFE program helps support education, child development, and food security for some of the world's poorest children. It provides for donations of U.S. agricultural products, as well as financial and technical assistance, for school feeding and maternal and child nutrition projects in low-income, food-deficit countries that are committed to universal education. In the 2002 Farm Bill, the President has the authority to designate the administering federal agency. We believe this authority should be given to the U.S. Department of Agriculture permanently.

Title VII – Research

To compete successfully in the global economy we need to increase our investment in agricultural research. The USDA Agriculture Research Service and our Land Grant Universities have faced flat or decreasing budgets for years. We support increasing agricultural research budgets in the next farm bill.

Title X – Crop Insurance

Our organization supports establishing Federal Crop Insurance programs for all dry peas, lentils, and chickpeas that manage risk at an affordable price. We recommend the following issues be addressed to improve crop insurance for pulse producers:

1. **Pulse Long Term Revenue (LTR) Coverage-**

The 2002 Farm Bill required RMA to develop new "revenue" policies for non-program crops. Revenue coverage is not presently an option for producers of dry peas, lentils or chickpeas. Our organization has been working with RMA to create a "revenue" program for pulses since 2001. Our commodity was chosen to participate in an RMA initiative to develop a new revenue based insurance program for pulses. Unfortunately, we still do not have a revenue insurance program for dry peas or lentils. The 2007 Farm Bill needs to put additional pressure on RMA to create new programs for minor crops with firm deadlines.

2. APH Crop History- Pulse producers are required by RMA to have 4 years of production data to establish an Actual Production History (APH). Pulse crops are grown in a 3, 4 and sometimes 5 year crop rotation. It could take 12 to 20 years to establish an APH for a new grower. Last year RMA created a pilot program in North Dakota that would allow producers to generate an APH history in a shorter amount of time. Under the "Personal T Yield" pilot program a producer can generate production history each year for all units across his farm even if the unit did not produce pulses. This pilot program needs to be expanded to all growing regions raising pulses in the 2007 Farm Bill.

3. Optional Unit Structure Written Agreements-

Background- In 2005/2006 the RMA rewrote the Optional Unit Structure Written Agreements to make them consistent throughout the country. There are many farms across the northern tier of the U.S., especially in the PNW, that do not fit the existing U.S. Rectangular Survey System that splits unit divisions based on sections or section equivalents. The rectangular survey system may work in flat regions of the country, but it fails miserably in the hills and valleys across the northern tier where producers farm outside section lines due to the varied topography. The RMA has decided to raise a "unit" under these agreements from 160 acres to 320 acres. The 320 acre unit sized is not fair to producers who face highly variable topography. Optional Unit Structure Written Agreement size should be lowered from 320 acres to a 100 acre minimum for those areas of the country with varied topography.

I would like to thank the committee for the opportunity to provide this testimony to you today.

American Farmland Trust
SAVING THE LAND THAT SUSTAINS US

STATEMENT BY BILL FLORY
Before the
United States Senate
Committee on Agriculture, Nutrition and Forestry

"Economic Challenges and Opportunities Facing American Agricultural Producers Today"

April 25, 2007

Good morning, Mr. Chairman and Members of the committee I am pleased to be able to speak before you today. My name is Bill Flory. I am a fourth generation farmer from north Idaho. I grow three classes of wheat, barley, blue grass, timothy hay, garbanzo beans, and timber on rainfall of 26 to forty inches annually. Our average field slopes range from a few percent to over 25. I have been fully direct seeding for the past six years. In 1994 I was president of the Idaho Grain Producers, and in 1998, I was president of the National Wheat Growers here in town. Currently I am on the Idaho Soil Conservation Commission.

It is an exciting time in agriculture; new opportunities are presenting themselves just as the substance for this Farm Bill is being debated. During the last several years American Farmland Trust conducted an extensive research and outreach campaign with hundreds of farmers, ranchers, policy experts, academics, environmentalists, nutritionists and rural activists. American Farmland Trust asked the questions what are the challenges and opportunities for your industry; how will globalization impact your business; what are the needs to you are not getting addressed; and how is the current Farm Bill getting things right? What they have learned and I have observed during that process is a dynamic picture of agriculture. Mr. Chairman, agriculture has evolved dramatically and the future holds out even greater change—the 2007 Farm Bill should therefore serve as a bridge for our nation as we evolve and develop our thinking on how we support producers, help the environment and ensure an adequate food, fiber and now fuel supply for our nation. That is what farm bills are really about—not the next planting season rather they are about the next five years, the next ten, and the next generation. Let me share some thoughts on how this Farm Bill can propel us forward toward the future.

Protecting Against Disaster

Members of the Committee as I have mentioned upfront I make my living as a grain producer—s o I know that farming is a risky business. When I grow wheat and barley my production is inherently prone to swings in prices and yields that I have no control over, which produce significant variations in my revenue. From that perspective, farm policy has had an appropriate role in helping provide a safety net of steady, reliable income assistance when disaster hits and tools to manage risk. Unfortunately, existing commodity programs are narrowly focused on supporting prices, not revenues, and as such large numbers of producers have fallen through the safety net.

For example, in situations when yields are low but prices are high, the current programs do not make payments even though they are needed. Thus, in years of drought or flood, a farmer might have a significant drop in the yields and a drop in revenue. However, if prices remain high, thedrop in revenue might not be covered by the current program. This has happened time and again to wheat, barley, sorghum and other producers during the last 5 years. This is a major hole in the safety net and has left out tens of thousands of American producers in their time of need. I don't think that we need any more proof of this hole in the safety net other than to look at the recurring need and requests for ad hoc disaster assistance—if the safety net were working well, wouldn't these problems be taken care of?

The 2007 Farm Bill is an opportunity to repair this hole in the safety net. In order to do so, the safety net should target revenue (price multiplied by yield) rather than targeting price, as existing programs do.. Creating such a system will build upon experiences we have learned and provide greater protection to producers. The government would provide a per acre payment based on projected national revenue, which would be forecast each year before planting. After harvest, government payments are made to farmers based on the difference between the actual national average revenue and the earlier projected revenue. Under such a system, the government covers nationwide drops in revenue due to natural disasters and/or price fluctuations during the course of the growing season based on actual market conditions. Such a system therefore would provide protection to producers for disasters, drought, etc. weeks or months after harvest is completed rather than having producers wait years, if they receive anything at all, as we do under the current ad hoc system. Just as importantly, such a system would be based on market prices rather than on government set targets and as such would eliminate the inequities created by a system that sets target prices higher for some than for others. Finally, by removing these market-wide risks, we also can gain tremendous efficiencies in the crop insurance sector—the result of which will be lower taxpayer costs and reduced producer premiums on individual insurance coverage. Producers can protect themselves against individual/local risk through insurance and the government will protect against global or national risk via a government payment.

Example of Average National Revenue Deficiency (Government) Payment: Corn 2004	
USDA Expected U.S. Yield:	145.0 bushels/acre
Plant Insurance Price:	$2.83/bushel
Expected or Target U.S. Revenue:	$410/acre
Realized U.S. Yield (October):	158.4 bushels/acre
Harvest Insurance Price:	$2.05/bushel
Realized U.S. Revenue:	$325/acre
REVENUE DEFICIENCY PAYMENT =	*$85/acre ($410-$325)*

Examples to Illustrate Integration of National Revenue Deficiency Payment with Individual Farm Revenue Insurance: Corn 2004		
Farmer's Expected Yield:		145.0 bu./acre
Plant Insurance Price:		$2.83/bushel
Farmer Expected Revenue:		$410/acre
Farmer Selected Insurance Coverage Level		75%
Farmer's National Revenue Deficiency Payment:		$85/acre
	Situation 1	Situation 2
Farmer's Realized Yield:	120 bushels	100 bushels
Harvest Insurance Price:	$2.05/bushel	$2.05/bushel
Farmer's Realized Revenue:	$246/acre	$205/acre
FARMER INSURANCE PAYMENT:	*$0/acre*	*$17.50/acre*
Calculation - Situation 1: ($410*0.75) - $246 - $85 = -$23.50 (no payment)		
Calculation - Situation 2: ($410*0.75) - $205 - $85 = $17.50		

This concept was developed by Dr. Carl Zulauf of Ohio State and has been identified by American Farmland Trust as a replacement for the LDP and CCP programs. As you know, a variation of this idea also is being championed by the National Corn Growers Association, and the Administration's Farm Bill proposal also has put forward a revenue-based safety net. We look forward to exploring the concept of revenue protection as the Farm Bill debate moves ahead.

Rewarding Stewardship

Farms and ranches account for nearly half of all the land in America. These acres are used to produce food, fiber and now energy and as every Member of this Committee knows are vital to the security and welfare of this country. These acres also have a tremendous impact on our nation's natural and human environment. Most farmers are good stewards—no one that I know wants to leave their land worse off for their children and grandchildren than when they got it from their parents and grandparents. In fact, the producers I know are likely to want to do more to conserve and protect their land and the resources on that land than to do less.

When the 2002 Farm Bill was signed into law, many in the farming community believed that the Conservation Security Program (CSP) had great potential to be a broad based stewardship reward program - a way to support those farmers who are good stewards of the land, and to inspire others to reach higher levels of environmental performance. Unfortunately, for a variety of reasons, CSP has not fulfilled that promise. Mr. Chairman I am a tier III CSP producer, and so I strongly believe in the concept of a rewards program. I believe that this concept is alive and well out in the countryside but it is in need of significant help and nurturing. I urge this Committee to re-commit itself to finding a workable "green payments" program as an additional stream of income to reward producers across the landscape for their stewardship of our nation's resources.

Mr. Chairman, I thank you again for this opportunity to appear before this committee and discuss a vision of how the 2007 Farm Bill can push our nation forward.

National Barley Growers Association

Statement by Evan Hayes, President
Committee on Agriculture, Nutrition and Forestry
United States Senate

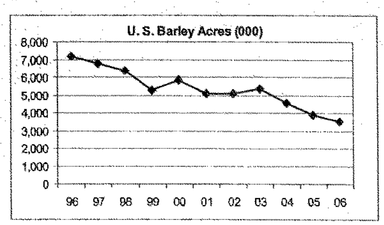
April 25, 2007

Mr. Chairman and Members of Committee, thank you for this opportunity to testify before you today regarding policies we believe Congress should consider when writing the next farm bill. I am President of the National Barley Growers Association (NBGA). I raise barley and wheat at about 6,000 elevation near Soda Springs, Idaho.

Mr. Chairman, as always, U.S. agriculture's biggest challenge is the increasing cost of production, fueled by rising energy prices. While many farmers have had record breaking gross incomes this year, I can assure you that we also had a record breaking year on the expense side. And while commodity prices are currently high, we must not loose sight of the fact that production agriculture has always had the ability to overproduce and cause prices to collapse. That is why U.S. farmers continue to need a farm bill with an adequate safety net, even during these times of high commodity prices.

NBGA supports the structure of the current farm bill, but has serious concerns regarding the equity of program crop support levels, and in particular, the level of barley support relative to other program crops. NBGA believes that the U.S. barley industry has lost significant competitiveness in its traditional Northern Tier growing region due, in part, to distortions in federal farm program supports. Acreage trends certainly underscore our concerns. The National Agricultural Statistics Service's June 30, 2006 Acreage Report repeatedly used the terms "lowest level," "new low," and "record lows" when reporting barley seeded acreage last year:

> *"Growers (barley) seeded 3.5 million acres for 2006, down 10 percent from the 3.88 million acres seeded a year ago, and the lowest since barley planted acreage estimates began in 1926. Acres for harvest, at 2.99 million... the lowest since records began in 1926. North Dakota growers planted 1.05 million acres, a new low since records began in 1926... In Montana, planted area is down 100,000 acres from last year to the lowest level since 1953, while Idaho's 560,000 planted acres is the lowest since 1967. California, Colorado, Minnesota, and South Dakota... set new record lows for planted acreage, with records going back to the 1920s."*



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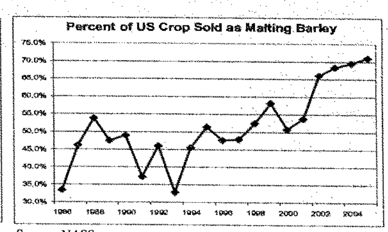


Source: NASS

I want to thank the Senate Agriculture Committee, and Senators Crapo and Conrad in particular, who sought on NBGA's behalf last year a FAPRI analysis on the affect the U.S. Farm Bill is having on barley acres and to identify changes that could be made in future policy that would treat barley more equitable relative to other program crops. According to FAPRI's findings, marketing loan benefits under the 2002 Farm Bill have clearly favored corn and soybeans over barley and wheat. In the Northern Plains, the average annual marketing loan benefit between 2000 and 2005 was $4 per acre for wheat, $8 for barley,

$12 for soybeans and $21 for corn. At the national level, the combination of marketing loan benefits and market returns can help explain the increase in national soybean and corn acreage since the early 1990s and the decline in small grain production. The report can be found at http://www.fapri.missouri.edu/outreach/publications/2006/FAPRI_UMC_Report_15_06.pdf.

To mitigate the inequities of the current farm bill, NBGA supports a 2007 Farm Bill proposal that would set barley and other crop loan rates and target prices at a percentage of a crop's 2000-2004 Olympic Average of Prices. It is significant to note in the table below that barley's loan level at 75 percent is the lowest of any crop; and its target price at 91percent is also among the lowest. Likewise, barley's current direct payment level at 10 percent is also in the lower range of all the program crops.

	2000-2004 Olympic	Loan Rate			Target Price			Direct Payment	
		Current	as a % of	Proposed	Current	as a % of	Proposed	Current	Proposed
Commodity	Avg. Price	2004-07	Oly. Avg.	2008	2004-07	Oly. Avg.	2008	2004-07	2008
Barley (bu.)	**$2.47***	**$1.85**	**75%**	**$2.35***	**$2.24**	**91%**	**$3.21***	**$0.24**	**$0.42**
Wheat (bu.)	$3.19	$2.75	86%	$3.03	$3.92	123%	$4.15	$0.52	$0.52
Corn (bu.)	$2.12	$1.95	92%	$2.01	$2.63	124%	$2.75	$0.28	$0.28
Soybeans (bu.)	$5.27	$5.00	95%	$5.01	$5.80	110%	$6.85	$0.44	$0.44
Cotton (lb.)	$0.468	$0.520	111%	$0.520	$0.724	155%	$0.724	$0.067	$0.067
Rice (cwt.)	$5.81	$6.50	112%	$6.50	$10.50	181%	$10.50	$2.35	$2.35
Grain Sorghum (bu.)	$2.05	$1.95	95%	$1.95	$2.57	125%	$2.66	$0.35	$0.35

* Barley's 2000-2004 Olympic Average of Prices is determined using "all barley" prices. The Posted County Price will continue to be determined using only "feed barley" prices; Counter-Cyclical payment calculations will be revised to using "all barley" prices.

NBGA believes the following changes to current law would provide much greater equity between program crops in the 2007 Farm Bill. Specifically, the proposal we support would adjust all loan rates to 95 percent of each crop's 2000-2004 Olympic Average of Prices, which would equal $2.35/bu for barley. Likewise, all target prices would be adjusted to130 percent of each crop's 2000-2004 Olympic Average of Prices, which would equal $3.21/bu per bushel. However, crops currently at or above the 95 and 130 percent support levels in this proposal would be left at current levels.

NBGA also supports increasing the barley direct payment to no less than $.42; which would be equal to 17 percent of the 2000-2004 Olympic Average of Prices.

NBGA also supports the current level of payment limits and structure, including the continuation of the three entity rule.

NBGA supports the creation of a permanent disaster program, but does not support funding such a program from within the commodity title.

NBGA understands the budgetary constraints facing the Committee as it begins to draft the 2007 Farm Bill, but urges the Committee to seriously consider these proposals designed to insert equity into program crop support levels. I want to again thank the Committee for this opportunity to testify about NBGA priorities for the 2007 Farm Bill. If you have any questions, I will be happy to address them.

Evan Hayes, President

Washington Office • 600 Pennsylvania Avenue, SE • Suite 320 • Washington, DC 20003
Tel: 202- 548-0734 • Fax: 202- 969-7036

STATEMENT BY JOHN HOFFMAN
FIRST VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

before the

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

April 25, 2007

Good morning, Mr. Chairman and Members of the Committee. I am John Hoffman, a soybean farmer from Waterloo, Iowa, and First Vice President of the American Soybean Association. ASA appreciates the opportunity to present our views on economic opportunities and challenges facing U.S. soybean producers, and how they can be addressed in the 2007 Farm Bill.

Mr. Chairman, one of the biggest challenges facing U.S. agriculture is uncertainty about commodity prices and production caused by increased volatility in energy markets. While farm prices today are high by historical standards, they could drop suddenly if world petroleum production were to rise and prices fall. Additionally, we should not underestimate the ability of producers worldwide to increase production in response to higher prices, thereby causing prices to fall. In this environment, it is critical for our producers to have an adequate safety net to protect farm income.

U.S. soybean farmers support the basic structure of the 2002 Farm Bill, with some minor adjustments. We believe the "three-legged stool" that includes the marketing loan, the counter-cyclical program, and direct payments, combined with crop insurance and disaster assistance, can provide an adequate safety net for farmers in years of low prices and reduced production.

I say "can" because the 2002 Farm Bill established target prices and marketing loan rates at levels that do not provide an adequate safety net for producers of oilseed crops, and are out of balance with the support provided to other program commodities. The soybean target price of $5.80 per bushel triggers counter-cyclical payments only when season average soybean prices fall below $5.36. The difference reflects the soybean direct payment of $0.44. We believe that $5.36 per bushel is inadequate in protecting soybean producer income. Prices have not fallen below $5.36 during the past four years under the current farm bill. Even if they had, counter-cyclical payments are made on only 85 percent of a production formula that uses outdated payment yields from the early 1980's. This safety net is too low to be meaningful to soybean producers.

Our proposal for the Commodities Title of the 2007 Farm Bill would adjust target prices for all program crops to a minimum of 130 percent of the Olympic average of season average prices in 2000-2004. This period was selected because it includes years of both lower prices and higher prices for most commodities. The 130 percent level was selected because it would increase income support for all crops, except cotton and rice. Since target prices for these crops under the 2002 Farm Bill are higher than 130 percent, they would not be affected under our proposal.

At 130 percent, the soybean target price would be increased from \$5.80 to \$6.85 per bushel. Subtracting the \$0.44 direct payment, the effective target price would be \$6.41. Considering the target prices for other program crops, we consider this to be an adequate and reasonable level of income support for soybean producers.

Our proposal would also adjust marketing loan rates to a minimum of 95 percent of the same five-year Olympic price average. These adjustments would only marginally affect soybeans – the increase would only be one cent, from \$5.00 to \$5.01 per bushel. However, marketing loan rates must reflect the current market value of commodities. If they are out of sync with each other, planting decisions can be distorted in years when prices at harvest are expected to be near or below loan levels. Some current loan rates do not reflect recent market price relationships between crops, and they need to be adjusted.

Mr. Chairman, attached to my written statement is a table showing current and our proposed marketing loan rates and target prices for all program crops. Also attached are tables showing the cost of these adjustments for individual commodities, and a table showing the overall cost for all target price and loan rate adjustments of about \$900 million per year.

We understand the Subcommittee has limited resources to accommodate these or any other proposed changes in the current Commodities Title. However, we strongly believe our proposal is the best way to correct major deficiencies in the 2002 Act. We also strongly support funding these adjustments in farm support levels through the reserve account for the 2007 Farm Bill, expected to be included in the FY-2008 Budget Resolution. However, to the extent new funding is not available, we encourage you to consider making these adjustments using resources from within the Commodities Title.

A second economic opportunity facing U.S. soybean farmers is development of a domestic biodiesel industry. Biodiesel is a key new market for U.S. soybean oil, which has historically been in surplus, resulting in lower soybean prices. Efforts to establish biodiesel as a viable renewable fuel received a major boost when Congress enacted the biodiesel tax incentive in the JOBS bill, and extended the incentive in the Energy Act of 2005. ASA strongly supports a further extension of the biodiesel tax incentive by the 110th Congress.

While domestic biodiesel production has expanded in response to the tax incentive, so too has the likelihood of significant biodiesel imports. Unlike ethanol, biodiesel imports do not face an offsetting tariff equal to its tax incentive. Moreover, foreign biodiesel is often produced and exported through the benefit of government subsidies. These imports can enter the U.S. at less than the production cost of domestically-produced biodiesel, endangering the growth of our industry.

Our biodiesel industry is also extremely vulnerable to sudden shifts in petroleum and diesel prices. Farmers and other investors who have responded to enactment of the biodiesel tax incentive by building biodiesel plants in areas of the country that produce soybeans and other oilseeds need protection against the current volatility in global energy markets in addition to further extension of the tax incentive.

In order to respond to the import situation and to ensure against volatile energy markets, ASA supports authorization of a Biodiesel Incentive Program under which U.S. biodiesel producers would receive a commodity reimbursement from the Commodity Credit Corporation equal to subsidies paid to foreign biodiesel exporters. This program would ensure the competitiveness of domestically-produced biodiesel, protect this new industry against adverse economic conditions, and support its continued development and growth.

A third challenge facing U.S. soybean producers is the shift by food companies away from partially hydrogenated vegetable oils, which contain trans fats. The Food and Drug Administration began requiring food product labels to include trans fat content at the beginning of 2006, and cities and states are considering banning trans fats in food service operations.

In response to this trend, ASA and other oilseed organizations are encouraging increased production of high-stability soybeans and other oilseeds that contain oil that do not require hydrogenation. Because these varieties have higher initial production costs that must be offset through grower premiums, we support authorization of a Healthy Oils Incentive under which CCC would cover up to one-third of the premium paid by oilseed marketers for up to five years of commercialization. It is estimated that a CCC premium of $0.25 per bushel could increase production of high-stability soybeans by 12 million acres, raising soybean prices and reducing potential farm program costs by $150 million per year. These savings would offset the cost of the Healthy Oils Incentive program.

Mr. Chairman, in addition to these soybean and oilseed-specific challenges and opportunities, ASA supports increased funding of a national Conservation Security Program, but not at the expense of the farm income safety net provided through the commodity title of the Farm Bill. ASA supports conservation programs directed toward working lands rather than land retirement, and believe that non-environmentally sensitive land currently enrolled in the Conservation Reserve Program should be allowed to return to production to meet rising demand for biofuels, food, and feed.

ASA supports authorization and funding of Permanent Disaster Assistance in the 2007 Farm Bill. We also strongly support increased funding of the Market Access Program, the Foreign Market Development Program, and both Title I of P.L. 480 and the McGovern-Dole Food for Education Program.

Thank you again for the opportunity to testify today.

Table 1. Crop Support Levels Under the 2002 Farm Bill

Commodity	2000-04 Olympic Average Price	04-07 Loan Rate	Loan Rate as a % of Ave Price	Direct Payment	Direct Payment as a % of Ave Price	04-07 Target Price	Target Price as a % of Ave Price
Wheat (bu.)	$3.19	$2.75	86%	$0.52	16%	$3.92	123%
Corn (bu.)	$2.12	$1.95	92%	$0.28	13%	$2.63	124%
Soybeans (bu.)	$5.27	$5.00	95%	$0.44	8%	$5.80	110%
Cotton (lb.)	$0.4680	$0.5200	111%	$0.0667	14%	$0.7240	155%
Rice (cwt.)	$5.81	$6.50	112%	$2.35	40%	$10.50	181%
Barley (bu.)	$2.47	$1.85	75%	$0.24	10%	$2.24	91%
Grain Sorghum (bu.)	$2.02	$1.95	97%	$0.35	17%	$2.57	127%
Oats (bu.)	$1.52	$1.33	88%	$0.024	2%	$1.44	95%
Minor Oilseeds (SF price/cwt.)	$11.27	$9.30	82%	$0.80	7%	$10.10	90%
Dry Peas (cwt.)	$6.19	$6.22	100%	NA		NA	
Lentils (cwt.)	$12.90	$11.72	91%	NA		NA	
Feed Peas (cwt.)	$5.19	$6.22	120%	NA		NA	

Table 2. Adjusting Loan Rates to 95% & Target Prices to 130% of 2000-04 Olympic Average of Prices

Commodity	2000-04 Olympic Average Price	Direct Payment Rate	*04-07 Loan Rate*	Proposed 2008 Loan Rate	% of Olympic Average Price	*04-07 Target Price*	Proposed 2008 Target Price	% of Olympic Average Price
Wheat (bu.)	$3.19	$0.52	*$2.75*	$3.03	95%	*$3.92*	$4.15	130%
Corn (bu.)	$2.12	$0.28	*$1.95*	$2.01	95%	*$2.63*	$2.75	130%
Soybeans (bu.)	$5.27	$0.44	*$5.00*	$5.01	95%	*$5.80*	$6.85	130%
Cotton (lb.)	$0.4680	$0.0667	*$0.5200*	$0.5200	111%	*$0.7240*	$0.7240	155%
Rice (cwt.)	$5.81	$2.35	*$6.50*	$6.50	112%	*$10.50*	$10.50	181%
Barley (bu.)	$2.47	$0.24	*$1.85*	$2.35	95%	*$2.24*	$3.21	130%
Grain Sorghum (bu.)	$2.05	$0.35	*$1.95*	$1.95	95%	*$2.57*	$2.66	130%
Oats (bu.)	$1.52	$0.024	*$1.33*	$1.44	95%	*$1.44*	$1.97	130%
Minor Oilseeds (sunflower price/cwt.)	$11.27	$0.80	*$9.30*	$10.71	95%	*$10.10*	$14.66	130%
Peanuts (lb.)	$0.205	$0.0180	*$0.18*	$0.195	95%	$0.2475	$0.267	130%

Table 3. Change in Cost to Adjust Marketing Loans

	2008	2009	2010	2011	2012	2013
			($ million)			
All Crops	174	156	156	153	154	153
Soybean	5	5	5	6	6	6
Corn	34	29	29	28	31	32
Wheat	66	55	50	44	40	37
Cotton	0	0	0	0	0	0
Rice	0	0	0	0	0	0
Barley	36	35	36	36	37	36
Oats	2	2	1	1	1	1
Peanuts	24	23	26	28	27	27
Sorghum	0	0	0	0	0	0
Sunflower	8	8	9	10	11	12

Table 4. Change in Cost of Counter-Cyclical Program to Adjust Target Prices

	2008	2009	2010	2011	2012	2013
			($ million)			
All Crops	713	685	703	744	769	803
Soybean	395	400	421	468	486	520
Corn	108	92	90	88	93	95
Wheat	82	71	66	60	56	53
Cotton	0	0	0	0	0	0
Rice	0	0	0	0	0	0
Barley	45	44	46	47	50	50
Oats	20	18	17	17	17	17
Peanuts	40	40	40	41	41	41
Sorghum	6	5	5	5	5	4
Sunflower	17	16	17	19	21	23

Table 5. Overall Annual Average Change in Farm Program Costs

	Baseline
Marketing Loan Program	
$ Million	158
Percent	11%
Countercyclical Program	
$ Million	736
Percent	51%
Total	
$ Million	894
Percent	32%

NCGA 1957 - 2007

Testimony

of

Ken McCauley
President
National Corn Growers Association

Before the

U.S. Senate Committee on Agriculture, Nutrition & Forestry

Dirksen Senate Office Building
Room 106
Washington, DC

April 25, 2007

Mr. Chairman, Ranking Member Chambliss and members of the Committee, on behalf of the National Corn Growers Association (NCGA), I appreciate this opportunity to present our members' views and policy recommendations as you consider the challenges and opportunities that are shaping U.S. agriculture and the future of America's farmers.

My name is Ken McCauley, President of NCGA. I am from White Cloud, Kansas and farm with my wife and son producing corn and soybeans.

The National Corn Growers Association represents more than 32,000 corn farmers from 48 states. NCGA also represents more than 300,000 farmers who contribute to corn check off programs and 26 affiliated state corn organizations across the nation for the purpose of creating new opportunities and markets for corn growers. As we celebrate our 50th anniversary, our members are mindful of their predecessors' forward looking planning, their accomplishments and the value they placed on NCGA being a grassroots organization. That heritage as a grassroots organization remains very much alive and is reflected in the farm bill proposal that we bring forward today. It is precisely because of the incredible opportunities as well as challenges, old and new, that NCGA is supporting reforms to our agricultural policy.

First and foremost, NCGA's proposal to reform the Commodity Title in the 2007 Farm Bill reflects our view that the time has arrived to adopt fundamental policy changes that would strengthen our competitiveness and enhance the long term viability of U.S. farmers. The United States Congress has a rare opportunity to consider major reforms at a time when prices are strong for most crops and exports are expected to reach a record

$77 billion in 2007. Equally impressive is that U.S. agriculture can celebrate the lowest debt-to-asset ratio in recorded history, approximately 11 percent for 2006. And thanks to continued support from the Congress, renewable energy from home grown crops are now playing a much larger role in enhancing the country's energy security.

It is important to note that NCGA supported the 2002 Farm Bill for the improvements it made to our nation's agricultural policy. The introduction of a new counter cyclical payment program with an option for producers to update their base yields marked a positive step toward delivering more targeted and timely assistance to producers during periods of low prices. By replacing ad-hoc market loss assistance with more predictable support, most producers have been in a better position for long term planning, including investments in ethanol production and producer owned value added businesses and start-up ventures. In short, the 2002 Farm Bill implemented the right policy for that time.

Looking forward, though, today's farm safety net is simply not designed to meet our producers' long term risk management needs given the dynamic changes underway in agriculture, and particularly in the corn industry. One of the more recent indicators of the magnitude of these changes is USDA's Prospective Plantings Report on March 30th. For 2007, the department estimates that U.S. farmers intend to plant 90.5 million acres of corn for all purposes, an increase of 15 percent from 2006 and 11 percent higher than 2005. According to the National Agricultural Statistic Service (NASS), this "would be the highest acreage since 1944." Much of the expansion in planted corn acres is the result of producers shifting a significant percentage of their acres away from soybeans and cotton. Prospective plantings for wheat, however, are now estimated at 60.3 million acres, a rise of 5 percent from 2006. Producers are responding to the markets to meet the increased demand for corn.

It is no secret that the changes in our corn industry, driven largely by a growing ethanol industry, have created many new opportunities for producers, our rural communities and the many businesses that are critical to our success. Projected increases in market prices for corn and other major commodities from both the Congressional Budget Office (CBO) and the Food and Agricultural Policy Research Institute forecast that the current marketing loan assistance program and counter cyclical program will provide minimal, if any, meaningful support over the next five years. The CBO, in fact, has scored the level of spending for loan deficiency payments ranging from $7 million in 2008 to just $30 million in 2012. A very similar level of outlays is forecast for counter cyclical payments. These projections, along with an expansion of planted acres for corn, have reinforced the need for NCGA and its affiliated state associations to investigate an alternative safety net that enables producers to better manage their risks.

Following two years of study, cost analysis and considerable input from our state associations, NCGA's Public Policy Action Team developed a proposal to reform our commodity support programs; changes that would help ensure better protection against volatile commodity prices and significant crop losses, individual as well as for area wide disasters. In early March, our delegates voted in strong support of a "...county based revenue counter cyclical program integrated with federal crop insurance for corn, and potentially other commodities…" NCGA's proposal is designed to enhance the targeting of farm support so that payments arrive when farmers most need assistance and to increase the market orientation of the Commodity Title. Moreover, these policy reforms will increase the efficiency with which taxpayer dollars are spent supporting agriculture.

Although projections of higher commodity prices, alone, present a strong case for a revenue based farm program, it is producers' experience with drought and other adverse weather conditions in isolated areas that have drawn our attention to what some economists have referred to as a hole in the current safety net. Under these "short crop" circumstances, growers have been unable to fully benefit from higher market prices and cannot depend on counter cyclical payments at a fixed target price to reduce the adverse impact of lost income. For farmers who have experienced large crop losses or repetitive years of less severe or shallow losses during the recent years of record harvests and low prices, the combined support of loan deficiency payments and counter cyclical payments have provided insufficient income protection which has led to the recurring need for disaster assistance. Revenue protection from federal crop insurance protection can certainly soften the financial blow, but the premiums for these policies rise significantly with higher levels of coverage.

Extending the current farm bill, though, would do nothing to address the flaws NCGA has noted since the summer of 2002 or the potential solutions we have recommended. Again, too many corn growers have learned the hard way that today's farm supports may be very effective when the market price is low, but when yields are low, today's farm safety net has proven to be less than adequate. A well designed revenue based program can deliver more than adequate protection against low prices or low yields.

To provide a better farm safety net, NCGA proposes replacing the existing counter cyclical program, loan deficiency payments and the non-recourse marketing loan program with programs that would offer more comprehensive and cost effective risk management tools. Direct payments would continue to provide a foundation of support. Rather than target low prices, the new Revenue Counter Cyclical Program (RCCP) would compensate growers when a county's realized crop revenue is less than a crop's trigger revenue. When the actual per-acre revenue falls below the per-acre trigger revenue, producers would be compensated for the difference.

Unlike today's price triggered program, a farm's total payment would equal the per-acre payment multiplied by planted acres rather than base acres. This county based program is very similar to Group Risk Income Protection (GRIP), a product currently offered through the federal crop insurance program. Similar to GRIP, the proposed RCCP trigger revenue for a county would equal the product of RCCP coverage level, the expected county yield and the projected price level. The harvest price and a crop's actual county yield reported by NASS (National Agricultural Statistic Service) would determine the actual county revenue. However, RCCP would not include a Harvest Revenue Option which can increase payments if the harvest price is greater than the projected price.

In most years, RCCP payments would be triggered by the same events that lead to the great majority of crop insurance indemnity payments: droughts, excessive or inadequate heat, excessive rain, or widespread disease related losses. Hail, wind damage or local flooding may also cause losses at the farm level, but not enough toward county losses to trigger RCCP payments. NCGA recognizes the potential for overlapping coverage for market related losses with RCCP and federal crop insurance. Consequently, NCGA proposes to integrate RCCP payments with the crop insurance program to create a more effective and cost efficient farm safety net.

The integration of these core programs would provide a first line of revenue protection, reducing price risk and widespread production risk now borne by private insurance companies. By making sure the companies only pay for losses not covered by the RCCP, indemnities paid to farmers would be significantly lower enabling private insurers to reduce their costs of providing individual insurance at higher levels of coverage. Analysis provided to NCGA indicates that farmer paid premiums of buy-up revenue insurance policies would drop significantly through the re-rating of insurance products by the Risk Management Agency.

Integration of RCCP and crop insurance would establish a floor under farm revenue. In some years, though, farmers could receive RCCP payments when farm level crop losses are not severe enough to trigger insurance payments. In this situation, farm revenue would remain above the insured level. There could also be years when farmers sustain farm level losses, yet would not receive any RCCP payments. Individual insurance would cover their losses and farm revenue would be brought up to the insured level. Participation in the crop insurance program would remain voluntary leaving the choice to producers to purchase federal crop insurance for farm level losses or accept the risk that the RCCP may not cover individual crop losses.

The NCGA proposal through RCCP adopts an alternative policy approach that offers the advantage of providing savings for farmers wanting to purchase crop insurance while reducing the financial risks to the private insurance industry. We believe this change offers the potential of further strengthening the private-public partnership by making sure that most private insurance companies survive even through the heavy loss years. Another advantage to this direct approach is that it would provide a standing disaster program for farmers who grow program crops. Unlike the uncertainty and protracted delays that are now the norm for agriculture disaster assistance, RCCP would automatically provide payments to all farmers in counties that suffer low revenue. This change, alone, would help to ensure a more equitable and sensible delivery of aid than the antiquated crop disaster assistance formula which does little to fill the gaps in the existing farm safety net.

The final component of NCGA's proposal is to change the nonrecourse loan program to a recourse loan program, a reform that would significantly increase the market orientation of U.S. farm policy. A recourse loan would continue to give producers harvest time liquidity which increases their ability to market their crop at a more profitable time. Although the farmer's last resort option to sell a crop to USDA would no longer be available, a recourse loan program would create incentives for producers to actively market their crop into the private sector.

Recognizing the challenges before this committee to write a commodity title under the current fiscal constraints, I now want to turn to the subject of funding. As I stated earlier, NCGA believes the time is right for introducing these proposed reforms and we urge the Congress to provide the necessary resources to take advantage of this opportunity. Specific to the projected outlays, this integration of RCCP with federal crop insurance extracts cost efficiencies from lowering the costs of delivering individual revenue protection policies as well as spending offsets from replacing the current non-recourse marketing loan program and the price triggered counter cyclical program. In addition, a county based RCCP modeled after the Group Risk Income Protection insurance policy, provides producers permanent disaster assistance far less costly than the ad hoc crop disaster aid programs that have averaged near $1.8 billion on an annual basis. Assuming a level of 75 percent buy up individual revenue insurance, a county revenue guarantee at a coverage level of 95 percent and a two year transition period to implement a five year farm bill, the annual cost of the NFSA is projected at approximately $500 million above baseline.

For the purpose of reducing the risks of excessive spending outlays, NCGA recommends implementation of a cap on projected prices used to determine trigger revenues. One option would be to base the cap on a multiplier of loan rates adjusted for basis and historical season average prices. To moderate the effects of market volatility on the program and to provide greater predictability to producers, NCGA proposes to establish projected crop prices as the average of the current year's revenue insurance price and the previous two year's prices. Given the improvements in the farm safety net that I have outlined and our confidence in the potential for long term savings, NCGA believes its proposal offers a viable policy alternative for your consideration.

Mr. Chairman, NCGA stands ready to work with you and your colleagues in the weeks and months ahead as you begin crafting a new farm bill. Our growers appreciate the difficult task before you and your continued support of our industry. I thank you again for this opportunity to appear before the committee and discuss our goals and priorities.

American Corn Growers Association

P.O. Box 18157 • Washington, DC 20036 • 202-835-0330 • Fax: 202-463-0862

TESTIMONY PRESENTED
BY
THE AMERICAN CORN GROWERS ASSOCIATION

BEFORE THE

SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE

THE HONORABLE TOM HARKIN, CHAIRMAN

APRIL 25, 2007

BY

LARRY MITCHELL
CHIEF EXECUTIVE
AMERICAN CORN GROWERS ASSOCIATION

Introduction
Chairman Harkin, Ranking Member Chambliss, and members of the Senate Agriculture, Nutrition and Forestry Committee, I am Larry Mitchell, Chief Executive Officer of the American Corn Growers Association (ACGA). We are pleased and honored to have been extended the invitation and opportunity to appear before this committee today.

The ACGA has long recognized the daunting task Congress faces in writing our new farm bill, a task made particularly difficult because of the deepening economic depression endured by family agriculture and rural communities in the United States. A primary goal of our organization is to provide leadership on this new farm bill, through positive and specific suggestions for change. Therefore, on behalf of the 14,000 members of the ACGA, I would like to present our views and suggestions on the crop provisions of the Farm Security and Reinvestment Act of 2002 to this committee today.

We wish it noted that our farm bill proposal for the crop title of the next farm bill is much more than a corn proposal. We have always attempted to represent the interests of not only corn farmers, but also all those in agriculture. We believe that all family farmers must work together to find a farm policy that restores prosperity to family farmers and ranchers of all types.

We also understand that corn is the most widely grown crop in the U.S. and has by far the largest production volume of any commodity. It has the largest livestock feed usage, and the largest industrial usage. Therefore, we recognize that feed grain policy has a huge impact on all commodity prices, and also directly impacts the structure of the dairy and livestock industries. The commodity title also impacts our rural communities, our environment, our food system and our federal budget more than any other sector of the overall farm bill.

This is why we have been working with scores of other farm, rural, religious, international, environmental, and wildlife groups over the past year to advance the Food from Family Farm Act (FFFA) with the National Family Farm Coalition and some sixty other organizations. We will present the basic concepts of the FFFA today and ask for your consideration and support for the plan as you advance your endeavor in drafting this year's farm bill. But first, we are obliged to request your consideration of a broader review of which direction we should choose in the next farm bill.

In addition to our support for the FFFA, we take this opportunity to state that ACGA also supports the following farm bill provisions:

- Retention and expansion of the Conservation Reserve Program (CRP),
- Full funding and deployment of the Conservation Security Program (CSP),
- Expansion of the Energy Title of the farm bill,
- Establishment of a standing disaster program,
- Development of a Cellulosic Reserve Program,
- Extension of the Milk Income Loss Contract (MILC),
- Inclusion of a competition title similar to Senator Tom Harkin's Agricultural Fair Practices Act,

- Implementation of the current Country of Origin Labeling (COOL) provision of the 2002 farm bill, and
- Improved delivery and full funding of programs targeted toward limited resource and socially disadvantaged farmers and ranchers.

Ten Questions That Must Be Answered Before We Draft the 2007 Farm Bill
Over the past year, we have been asking the questions listed below of farmers and others in rural America and the answers to these questions have been almost unanimous.

Question -- Are farm bills getting better or worse?
Answer – Worse!

Question -- Are farm bills more or less complicated?
Answer – Much more complicated!

Question -- Are we keeping more or fewer families on the land?
Answer – Fewer families are on the land!

Question -- Are our rural communities improving?
Answer – No!

Question -- Are we exporting more?
Answer – No!

Question -- Are farm bills getting more or less expensive?
Answer – More expensive!

Question -- For those that actually support the current farm bill, what do they identify as the biggest problem?
Answer – It needs more funding!!

Question -- Will we have more or less funding for the next farm bill?
Answer – Less!

Question -- If we don't change course on U.S. farm policy, will the next farm bill be better or worse?
Answer – Worse!

Question -- Why don't we take a serious look at changing course?
Answer – We must change course to insure the livelihoods of all farmers in the U.S and around the world.

A New Course for U.S. Farm Policy – The Food from Family Farm Act (FFFA)
We must change the course of U.S. farm policy. As a part of the Building Sustainable Futures for Farmers Globally campaign on the new farm bill, sixty organizations (see list in appendix) have endorsed the FFFA and many others are planning to join in the near future.

The Building Sustainable Futures for Farmers Globally campaign calls for U.S. agricultural and trade policies that:

- Ensure food sovereignty,
- Curtail overproduction, raise low commodity prices and end dumping abroad,
- Advance sustainable bioenergy production,
- Promote healthier food through community-based food systems,
- Diminish inequalities both among and within countries and support small scale, family oriented agriculture,
- Transform U.S. food aid policies to promote more flexible and comprehensive aid to developing countries, and
- Respect the rights of immigrants and farmworkers.

FFFA is still a work in progress, but will encompass the following provisions for Title 1, the commodity title;

1. Reestablishment of the non-recourse loan program to provide a floor price at the full cost of production for the major, strategic commodities and relieve the burden of tens of billions of dollars in subsidies from the shoulders of America's taxpayers.

2. Reestablishment of a U.S. reserve of the basic storable commodities and a significant portion of that reserve should be a Farmer Owned Reserve (FOR) for

- Domestic Food Security,
- Domestic Energy Security, and
- International Famine Relief.

3. Reauthorize the Secretary to manage over-production and price-depressing surpluses by providing incentives to plant dedicated energy crops on acres which are now, or may be, produced in surplus.

Background on the Food from Family Farm Act
The Agriculture Policy Analysis Center (APAC), at the University of Tennessee, Knoxville, a land-grant university, and ACGA released the groundbreaking research report *Rethinking U.S. Agriculture Policy: Changing Course to Secure Farmer Livelihoods Worldwide* in the fall of 2003 (a copy has been provided with this testimony).

ACGA has worked closely with APAC on this analysis and will continue to advance its findings and seek solutions to the inadequacies in U.S. farm policy identified therein. We ask you to thoughtfully review this research, and to consult closely with its authors, Dr. Daryll Ray, Dr. Daniel De La Torre Ugarte and Dr. Kelly Tiller.

The report concludes that even if the difficult task of negotiating the elimination of global farm subsidies is completed, family-based agriculture will continue to spiral downward as a result of continued low commodity prices. This report goes comprehensively to the heart of the ever more contentious trade issues of farm subsidies in developed countries, low world commodity prices, and global poverty.

The Genesis of the APAC report came from a group of corn farmers at ACGA. For many years, we had been pondering how to quantify several key points that we, as farmers, have observed.

First – Farmers farm. They farm every available acre and produce every pound, bushel or hundredweight possible. That's what farmers do. They will produce as much as they can when prices are high to maximize profits. They will produce as much as they can when prices are low to service debt and survive.

Second – While low prices in many sectors of the economy may drive producers out of business, reduce production and put it back in line with demand, we find that, although farmers are put off the land with low prices, the land stays in production.

Third – Low prices have not expanded our exports and are detrimental to farmers, not only in the U.S., but also around the globe.

Government has been involved in agriculture policy since the beginning of recorded history by expanding production, improving technology, managing stocks, establishing weights and measures, supporting prices, etcetera. There were those seven fat years followed by seven lean years. The Chinese started a grain reserve program in 54 B.C., and operated it for 1400 years. When government-backed military force removed the indigenous people from the land on our continent, government was again expanding agricultural production. The same can be said of the trans-continental railroad, where the government gave away miles of land on both sides of the tracks for settlement and, later, crop production. Then we had the homestead programs, USDA's research and development, land-grant universities and even the federal interstate highway system, which means that today 4,000-head dairies in New Mexico drive down the price of milk in Wisconsin.

Let me repeat this point – government has been involved in agriculture since the beginning of recorded history -- and will continue to do so. We must change course to make government involvement in agriculture work for all of us, not just the processors, vertical livestock producers and merchants.

A good farm program includes not only a good commodity program, but also good programs for conservation, research, rural development, nutrition, credit, etcetera. Having said that, let me point out the three components of a good commodity program as we envision it:

1. Price support, not subsidies,
2. Tools to manage stocks, and
3. Tools to manage over-production.

Price Support
I know many of you may feel that the difference between price supports and price subsidies seem like a semantic splitting of hairs. But I can assure there is a great difference. The biggest difference is who pays. The user pays for the support and the government, i.e. taxpayers, pays for the subsidy. The best analogy I can give you to share with your urban friends is the difference between the minimum wage, a support program, and food stamps, a subsidy program. And you do not have to be an economist to realize that if we increase the support program, we can reduce or eliminate the subsidy program.

One of the timeliest discoveries in Dr. Ray's work, during these times when so many developing nations are demanding an end of U.S. farm subsidies as a way to improve the economic situation for their farmers, shows that the simple elimination of U.S. subsidies will not help. Such a policy change would devastate U.S. farmers and would even reduce the prices for some commodities worldwide. What would help is a policy to improve prices in the U.S., a world price setter for many commodities, and thereby help farmers worldwide.

Managing Stocks
Managing stocks is not a new government policy. From the Joseph Plan as Henry A. Wallace called the 7 fat years, 7 lean years program, to his Ever Normal Grainery, to the Chinese program I mentioned earlier up to the Farmer Owned Reserve (FOR) we lost in the 1996 farm bill, governments have previously provided the tools to manage stocks with positive results.

One last note on government stocks from the ACGA farmer view of agriculture economics. Did you realize that when our nation went to war four years ago this month, we only had 5 hours worth of corn in the CCC reserve? We only had 8 hours worth of soybeans and 11 days worth of wheat. We had 30 days supply of petroleum in the Strategic Petroleum Reserve, but only 5 hours worth of corn. We support the President's initiative announced during his 2007 state of the union address to expand the Strategic Petroleum reserve and we ask your support for a Strategic Grain Reserve.

Managing Over-Production
Tools to manage production are available and used by most every sector of the economy. The generals all use production management – General Dynamics, General Electric, General Foods, General Mills and General Motors. Even both the House and Senate agriculture committees believe in production management by government. During the last farm bill deliberation, they spent hours discussing the loan rate. Their concern was that the higher the loan rate, the more incentive producers have to produce more, an erroneous assumption as reported in the APAC study. But given the fact that they decided to keep the loan rate low in order to curb over-production, it is clear that they support government tools to manage production. Recently the Bush administration also recommended a similar proposal to manage production by lowering loan rates. It is evident that most everyone involved in the farm policy debate supports supply management, but lowering the loan rate is not the best solution to this issue.

ACGA does not advance the notion that the Acreage Reduction Programs (ARP) of the past are the best way of managing overproduction. Nor do we advance the adoption of any production controls until a viable reserve is established as defined above. We do promote giving farmers tools to voluntarily manage "free stocks" as a primary way to improve farm price within a market-based system.

We also see a need for a policy to advance the cultivation of more energy crops in order to provide alternatives to the over-planting of crops in surplus. Bio-energy crops should be a key in any future U.S farm policy and additional user incentives should be considered for their advancement. This is why we are endorsing Chairman Peterson's proposal for a Cellulosic Reserve Program to provide incentives for farmers to move crop acres which have traditionally been planted to crops in surplus into dedicated energy crops. To understand how this initiative would impact future production management, we suggest a review of the cultivation of soybeans over the past half century. Fifty years ago, few if any soybeans were planted in the U.S. In recent years, annual soybean plantings have exceeded 70 million acres. We need to ask just how bad would corn, wheat and cotton prices have been in past years had we not planted over 70 million acres of soybeans. What we need in the future is a portfolio of dedicated energy crops to provide the same type of planting alternatives provided by soybeans over the past half century for the next half century.

FFFA and the Federal Budget
With the current improvements in commodity prices, almost any farm program will work within the budget constraints faced by this committee. But we have no conclusive evidence as to whether the new farm gate prices are a bubble, a new plateau or even a new escarpment. Therefore, we must find a way to utilize our baseline smarter and raise the farm safety net above the pavement in the event current prices are a bubble.

Because the FFFA's reestablishment of the non-recourse loan program provides a floor price at the full cost of production for the major, strategic commodities, we would relieve the burden of tens of billions of dollars in subsidies from the shoulders of America's taxpayers. By setting a floor price on our commodities, we would alleviate the need for Loan Deficiency Payments (LDPs), Marketing Loan Gains (MLAs), Counter Cyclical Payments and Fixed Payments. There would be some spending required to manage the strategic grain reserve and the cellulosic reserve program, but these expenditures would be very nominal when compared to the savings realized in other areas. Short of providing a full scoring of the initiative which is not available at this time, we suggest that based on previous expenditures, the FFFA could save \$10 to \$20 billion annually. Such federal budget savings should be considered closely with any member of Congress claiming to be a Budget hawk – be they conservative Republicans or Blue Dog Democrats. The savings realized by this change in course for farm programs would also provide the resources for fully funding the Conservation Security Program (CSP), expansion and full funding of the farm bill's energy title, funding for the Chairman's standing disaster program, livestock assistance programs, etcetera.

FFFA and the World Trade Organization
Many in Congress, including several members of this committee, have said that the Congressional agricultural committees are going to write the 2007 farm bill, not the World Trade Organization. ACGA supports that position. We also suggest that the U.S. advance the FFFA to our negotiators currently engaged in the Doha Round of WTO negotiations, and suggest a review by the WTO of FFFA. We predict that if the U.S. were to advance a program of higher prices,

supply management and production management, it would be embraced by the developing countries as well as the developed countries as a superior alternative. Let's take a proposal to the table to raise world prices, eliminate subsidies and enhance the livelihoods of farmers globally and see how much interest it garners.

While our farm and trade policy makers have decided time and time again that low prices are the most prescribed cure for our lagging competitiveness in global markets, farmers and livestock producers find that cure to be their biggest disease. To defeat the disease of low prices we need policies that improve prices in the U.S and around the world, establish adequate food reserves and address production adjustments to enhance production of crops in short supply which currently favor crops in surplus. There are efforts already underway to bring about such international cooperation on supply management, but those efforts have been limited to the academic and NGO sectors. We need our policy makers to engage in these discussions as well and we suggest that this committee hold a separate hearing to review this critical issue.

Program Delivery
ACGA warns that until we know what programs will be contained in the new farm bill or how it will be administered, and until Farm Service Agency (FSA) computer problems have been mitigated, it is ill-advised to reduce the FSA farm program delivery platform. We urge Congress to postpone any county office closures or reductions in staff until after the farm bill has been passed, enacted and deployed and that a real solution to the antiquated computer system are likewise deployed.

Conclusion –
One Last Question That Must Be Answered Before We Draft the 2007 Farm Bill

Given the new course we have just recommended for the 2007 farm bill, and the current farm bill, which one is better for:

- Farmers?
- Consumers?
- Taxpayers?
- The Environment?
- Rural Communities?
- Farmers in developing countries?

Or, which one is better for:

- The integrated livestock industry?
- The international grain traders?
- The food processors?

We are not asking "which of these farm bills will the Congress pass?". We are asking "which of these farm bills will be better and for whom?" Once we ascertain how members of Congress feel about which farm bill is better for whom, we will then help answer the question "what will the Congress pass?". I am not asking for your answer today, but I am asking you to look closely at our proposal and formulate your answer prior to drafting our new farm bill.

Appendix
Organizations endorsing the Food from Family Farm Act (FFFA) as part of the Building Sustainable Futures for Farmers Globally campaign's farm bill initiative.

Action Aid USA, Washington, D.C.
Federation of Southern Cooperatives/Land Assistance Fund, Atlanta, Ga.
Friends of the Earth US, Washington, D.C.
Institute for Agriculture and Trade Policy, Minneapolis, Minn.
National Family Farm Coalition, Washington, D.C.
Rural Coalition/Coalición Rural, Washington, D.C.
Farm & Food Policy Diversity Initiative, Washington, D.C.
National Campaign for Sustainable Agriculture, Pine Bush, N.Y.
American Corn Growers Association, Washington, D.C.
Maryknoll Office of Global Concerns, Washington, D.C.
Alliance for Responsible Trade, Washington, D.C.
Church World Service, Elkhart, Ind.
Heifer International, Little Rock, Ark.
RAFI-USA, Pittsboro, N.C.
NETWORK/A National Catholic Social Justice Lobby, Washington, D.C.
Agricultural Missions, New York, N.Y.
Grassroots International, Boston, Mass.
Family Farm Defenders, Madison, Wisc.
World Hunger Year, New York, N.Y.
SHARE Foundation: Building a New El Salvador Today, Washington, D.C.
Quixote Center/Quest for Peace, Hyattsville, Md.
International Labor Rights Fund, Washington D.C.
Food First/Institute for Food and Development Policy, Oakland, Calif.
World Neighbors, Oklahoma City, Ola.
Food & Water Watch, Washington, D.C.
Ecumenical Program on Central America and the Caribbean (EPICA), Washington, D.C.
Organization for Competitive Markets, Lincoln, Neb.
Land Stewardship Project, White Bear Lake, Minn.
Land Loss Prevention Project, Durham, N.C.
Missouri Rural Crisis Center, Columbia, Mo.
Campaign for Family Farms and the Environment,
Iowa Citizens for Community Improvement, Des Moines, Iowa
Oakland Institute, Oakland, Calif.
The Second Chance Foundation, New York, N.Y.
Sustainable Agriculture of Louisville, Louisville, Ky.
Oklahoma Black Historical Research Project, Oklahoma City, Okla.
Center of Concern, Washington, D.C.
Sisters of the Holy Cross, Notre Dame, Ind.
United Church of Christ, Justice and Witness Ministries, Cleveland, Ohio
California Black Farmers and Agriculturalists, Sacramento, Calif.
Cumberland Countians for Peace & Justice, Pleasant Hill, Tenn.
Caney Fork Headwaters Association, Pleasant Hill, Tenn.

Network for Environmental & Economic Responsibility,
United Church of Christ, Pleasant Hill, Tenn.
Corporate Agribusiness Research Project, Everett, Wash.
Center for a Livable Future, Johns Hopkins Bloomberg School of Public Health, Baltimore, Md.
Columban Justice, Peace, and Integrity of Creation Office, Washington, D.C.
Ohio PIRG, Oberlin College Chapter, Oberlin, Ohio
Ladies of Charity of Chemung County, Elmira, N.Y.
Church Women United of New York State, N.Y.
Catholic Daughters of the Americas, Corning/Elmira, N.Y.
Missionary Oblates of Mary Immaculate Justice,
Peace and Integrity of Creation Office, Washington, D.C.

International Endorsements
National Farmers Forum, New Delhi, India
Mexican Action Network on Free Trade, Mexico City, Mexico
Instituto Runa de Desarrollo y Estudios sobre Género, Lima, Peru
Small Farmers of Jalapa Coopereative, Jalapa, Nicaragua
Lokoj Institute, Dhaka, Bangladesh
Fiji AgTrade, Suva, Fiji
Observatorio de la Deuda en la Globalización, Cataluña, Spain

Also endorsing the Food From Family Farms Act as a free standing bill:
American Agriculture Movement

STATEMENT

OF

MR. ARMOND MORRIS
CHAIRMAN
GEORGIA PEANUT COMMISSION

IRWIN COUNTY, GEORGIA

SOUTHERN PEANUT FARMERS FEDERATION

BEFORE THE
U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

April 25, 2007

Good Morning Chairman Harkin, Members of the Committee, my name is Armond Morris. I am a peanut producer from Irwin County, Georgia. I am Chairman of the Georgia Peanut Commission and am here today representing the Southern Peanut Farmers Federation. The Federation is comprised of the Alabama Peanut Producers Association, the Georgia Peanut Commission, the Florida Peanut Producers Association and the Mississippi Peanut Growers Association. Our grower organizations represent about eighty percent of the peanuts grown in the United States. In 2002, all segments of the peanut industry supported the peanut title. We are hopeful that will be the case in 2007.

I have been a peanut producer for 41 years. I farm over 2000 acres of peanuts, cotton, wheat, rye and watermelons. I have been active in local, state and national agricultural organizations and am a graduate of the Abraham Baldwin Agricultural College. I am proud to be a family farmer.

As you recall, our program changed significantly in the 2002 Farm Bill. Peanut growers went from a supply management program to a more market oriented program. The support price for peanuts, prior to the 2002 Farm Bill, was $610 per ton. The new marketing loan, established in the 2002 bill, was $355 per ton but the effective amount for growers was approximately $405 per ton. This was due to a storage and handling fee provision paid by the U.S. Department of Agriculture through the 2006 crop year. Southeastern growers supported this change and lead in its development.

Manufacturers and peanut shellers benefited from the new program's much lower prices. Consumers also saw a significant reduction in the price of peanut butter according to the U.S. Department of Commerce. Our industry saw incremental growth in the first few years of this farm bill but with the increase in energy costs came dramatic changes to the U.S. peanut industry. We saw a 20% national reduction in acres in 2006 and we anticipate another 14% drop in the 2007 crop year in my home state.

The University of Georgia's National Center for Peanut Competitiveness has determined that our variable costs have increased $91.15 per acre for dry land peanuts and $118.52 for irrigated peanuts since the writing of the 2002 Farm Bill. I have included two charts from the Center that are farm studies illustrating the impact of costs on peanut farmers by comparing the 2004 crop year to the 2006 crop year. I also did my own analysis on my farm and determined that costs had risen significantly for me. For example, fertilizer increased from $180 per ton in 2002 to $406 per ton in 2007. Diesel fuel rose from $.94 per gallon to $2.34 per gallon. Nitrogen more than doubled in costs during the same time period, likewise for ammonium nitrate. I have included these cost comparisons as part of my testimony.

What do America's peanut producers need in this farm bill to assure that we maintain a viable peanut industry in the United States? Our peanut states held meetings throughout each of our states asking a series of related questions. We asked producers to complete surveys and we compiled that data which we will be glad to share with your Committee Staff. What was evident in the surveys was that our price for peanuts was too low for growers to continue to plant. What we have seen in 2006 and 2007 is a trend that will continue without changes in the program. We know the marketing loan program can work for America's peanut producers but the price has to be a true safety net. Growers will not plant peanuts for $355 per ton.

The Southern Peanut Farmers Federation would like the Committee to consider the following for the Peanut Title of the Farm Bill. We strongly believe that peanut producers should realize the benefits of this program, not non-producers. We came to you in 2002 seeking to end the peanut quota program. This next farm bill should assure that the program works for farmers not landlords.

- Increase the marketing loan rate to $450 per ton.
- Increase the target price to $550 per ton.
- Increase the Direct Payment to $40 per ton
- Establish a loan deadline of June 30 with all peanuts forfeited at that point directed to non-edible/non-seed use or crushed under physical supervision.
- The current Federal-State Inspection program for peanuts has been very successful in protecting consumers and the industry. Since peanuts are generally a food ingredient, we support expanding the USDA Federal-State Inspection to include peanut manufacturing facilities similar to the meat industry. The recent peanut butter product issue impacts the entire peanut industry as well as consumers. Federal-State Inspection assures that our products go to manufacturing facilities with their seal of approval. Peanut product manufacturing should meet this same criteria to protect the consumer, the peanut industry's customer.
- We support maintaining the separate payment limit for peanuts as established in the 2002 Farm Bill. As discussed during the 2002 debate,

the transition to a more market oriented program would not have occurred without the separate limit.

- The Committee is aware of the difficulty the peanut industry has had with the USDA setting the loan repayment rate. We encourage the Committee to adopt language using the International Trade Commission's formula for establishing the posted price of peanuts versus the current USDA methodology.

Peanut producers would like the Committee to consider a conservation payment to encourage improved rotation and tillage practices in the peanut industry. The environment will benefit when peanuts are grown on a four year or longer rotation. This will also help the soil and water efficiency.

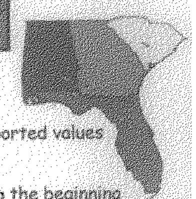
With regard to the bill's disaster program provisions, we support including language that increases a 75% crop insurance coverage option to 95% for counties designated as disaster counties and contiguous counties.

We recognize the significant budget constraints this Congress must face. We struggled a great deal trying to determine what peanut producers should present to the Congress for this next farm bill. What was evident from the beginning was a rapidly shrinking industry. We could not come here today and ask for a program that would ensure the demise of the U.S. peanut industry. The prices we have today do not work for a viable industry. Without changes, the U.S. peanut industry will continue to decline.

I appreciate you including our nation's peanut growers in the hearing today.

Economic Viability of SE Representative Peanut Farms over the Period 2005-2010 based on August 2004 Baseline (119)

Overall Economic Viability[1]	P(Negative Ending Cash)[2]	P(Real Net Worth Decline)[3]
Farm A	1-1	1-1
Farm B	3-99	1-86
Farm C	1-35	1-1
Farm D	1-1	1-1
Farm E	1-1	1-1
Farm F	1-43	1-48
Farm G	1-1	1-1
Farm H	99-66	1-11
Farm I	1-1	1-1
Farm J	1-3	1-1
Farm K	1-1	1-1



1 Viability is classified as good (green), moderate (yellow), and poor (red) based on the probabilities of having negative ending cash reserves and losing real net worth. <25 26-50 >50

2 P(Negative Ending Cash) is the probability that the farm will have a negative ending cash reserve. Reported values represent the probabilities for 2005 and 2010.

3 P(Real Net Worth Decline) is the probability that the farm will have a loss in real net worth relative to the beginning net worth. Reported values represent the probabilities for losing real net worth from 2002 to 2005 and 2002 to 2010.

Economic Viability of US Representative Peanut Farms over the Period 2006-2012 based on UPDATED August 2006 Baseline

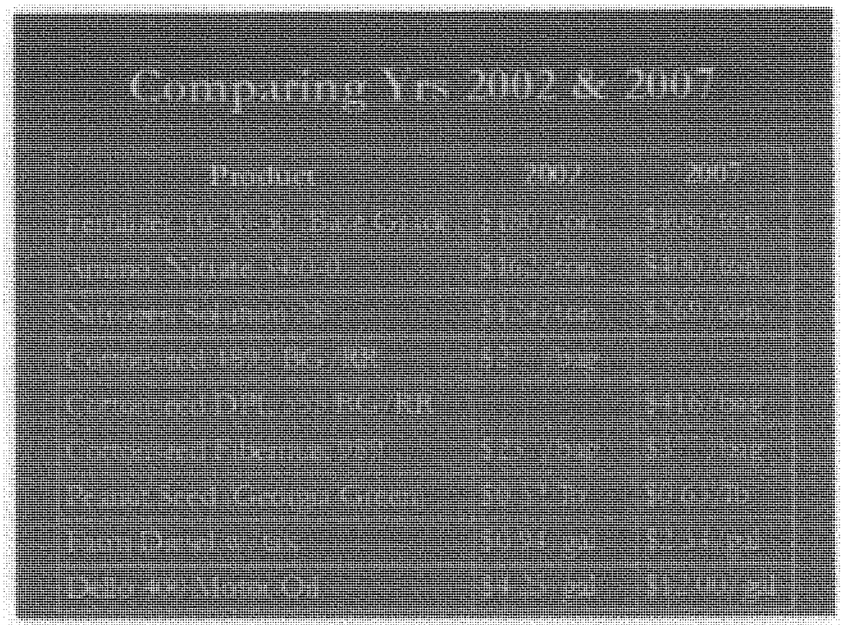
Overall Economic Viability[1]	P(Negative Ending Cash)[2]	P(Real Net Worth Decline)[3]
Farm A	27-37	[illegible]
Farm B	[illegible]	[illegible]
Farm C	[illegible]	[illegible]
Farm D	[illegible]	1-27
Farm E	[illegible]	[illegible]
Farm F	[illegible]	[illegible]
Farm G	39-28	[illegible]
Farm H	[illegible]	[illegible]
Farm I	[illegible]	[illegible]
Farm J	[illegible]	[illegible]
Farm K	[illegible]	[illegible]
Farm L	9-50	[illegible]
Farm M	[illegible]	[illegible]
Farm N	[illegible]	[illegible]
Farm O	[illegible]	[illegible]
Farm P	[illegible]	[illegible]
Farm Q	33-49	1-26
Farm R	[illegible]	1-44
Farm S	[illegible]	1-39

1) Viability is classified as good (green), moderate (yellow), and poor (red) based on the probabilities of having negative ending cash reserves and losing real net worth.

[illegible] 26-50 [illegible]

2) P(Negative Ending Cash) is the probability that the farm will have a negative ending cash reserve. Reported values represent the probabilities for 2006 and 2012.

3) P(Real Net Worth Decline) is the probability that the farm will have a loss in real net worth relative to the beginning net worth. Reported values represent the probabilities for losing real net worth from 2006 to 2006 and 2006 to 2012.


Comparing Yrs 2002 & 2007
Product
2002
2007

NATIONAL
SORGHUM
PRODUCERS

NATIONAL SORGHUM PRODUCERS
FARM BILL TESTIMONY

Presented to:

Senate Committee on Agriculture, Nutrition, and Forestry

April 25, 2007

SD-106 Senate Dirksen Office Building
Washington, D.C.

Presented by

Dale Murden
25601 Rio Farms Road
Monte Alto, Texas 78538

Introduction
On behalf of the National Sorghum Producers, I would like to thank the Senate Committee on Agriculture for the opportunity to discuss the farm bill and its impact on sorghum growers.

My name is Dale Murden and I manage an irrigated farm in Willacy and Hidalgo Counties in Deep South Texas. We raise grain sorghum, cotton, corn, citrus, sugar and vegetables.

Last year was a devastating year for producers in South Texas. Because of a lack of moisture, we were not able to grow grain or cotton. This year, we have received more moisture and producers are increasing their grain sorghum acreage. This is also true in the Southeast. According to the National Agricultural Statistics Service, in its March *Prospective Plantings* report, Mississippi was expected to have almost a 7-fold increase in sorghum acreage with Arkansas tripling and Louisiana doubles their normal acreage.

My written testimony will follow the Titles of the farm bill. While the commodity title remains the most significant title to most sorghum farmers, because of the protection it provides to my industry if it does not rain, and this Committee, the energy title and energy legislation are drawing an increasing amount of attention.

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.

Already, the largest sorghum-producing state of Kansas has 215 million gallons per year of production capacity that has historically utilized more sorghum than corn. According to the Kansas Grain Sorghum Producers Association, there are four ethanol plants under construction in the state with an additional combined production capacity of 235 MGY. The total production capacity in Kansas will soar to 450 million gallons soon. Plants in Nebraska, New Mexico and Colorado utilize grain sorghum as well. Soon, my home state of Texas will also be a major player in ethanol production. There are four plants under construction in Texas which will have with a combined capacity of 340 MGY. Through my local cooperative, I'm working with a group of growers to put together a plan to build an ethanol plant in my area using sorghum. . Finally, NSP endorses the Renewable Fuels Association's Energy Title recommendations.

NSP represents U.S. sorghum producers nationwide and our mission is 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 are supportive of the current farm bill. However, we believe that Congress can clarify several program details so that USDA interpretation does not impact producers' ability to use sorghum in a profitable cropping system

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, worldwide, and, primarily in the United States, as an animal feed and energy crop. 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 Great Plains states produce the largest volume of grain sorghum, but the crop is grown from Georgia to California and South Texas to South Dakota. According to the National Agricultural Statistics Service, last year sorghum was produced in many of the states that you represent. This includes Georgia, Mississippi, Kentucky, Arkansas, Kansas, South Carolina, Nebraska, Colorado, South Dakota and Pennsylvania.

Over the past ten years, grain sorghum acreage has ranged from a high of 13.1 million acres in 1996 to a low of 6.5 million acres planted in 2006. Annual production from the last 10 years has ranged from 795 million bushels to 360 million bushels, with an approximate value of 1.2 billion dollars annually.

The creation of the Conservation Reserve Program in the 1985 farm bill had a significant impact on the sorghum industry. Today's sorghum acreage is one-third of what it was prior to the 1985 farm bill. It is a goal of the industry to increase producers' profitability and to take acres back closer to the pre-1985 farm bill level. NSP expects that returning acreage to that level will help ensure the infrastructure to supply the needs of the ethanol industry, livestock industry and export markets. The sorghum industry has submitted to USDA a national checkoff which will allow producers the opportunity to direct research funds towards their priorities. And, it will ensure research and development funding to continue to improve our crop. In addition, forage sorghum utilized as silage, hay and direct grazing represents approximately an additional 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 exporter of grain sorghum, and the crop ranks fifth in size as a U.S. crop behind corn, soybeans, wheat, and cotton.

In the last two years, approximately 45% of the crop was exported. Further, last year the U.S. had almost 90% of world sorghum export market share. In 2005-2006, Mexico bought more than two-thirds of our exported grain. NAFTA has created a strong market for U.S. sorghum to Mexico and producers in my area benefit from historically high basis because of this market.

Of the 55% of the crop that is not exported, 26% goes into pork, poultry, and cattle feed; 24% goes into ethanol production; 4% 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 and expect it to grow even faster over the next 12 months as we have over one billion gallons of ethanol capacity coming on line in the sorghum growing areas in the next 12 months.

Outside of the U.S., approximately half of total production of grain sorghum is consumed directly as human food. In addition, the U.S. dominates world sorghum seed production 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

Sorghum producers like me have been strong supporters of the 2002 Farm Bill because it significantly improves the equitable treatment given sorghum producers relative to other feed grains. However, many of the county loan rates of our membership are still below the loan rates of other feed grains even though language in the bill set the national sorghum loan rate equal to corn.

For example, in the two largest sorghum-producing states of Kansas and Texas, which produces 75% of the U.S. grain sorghum crop, 326 of the 359 counties had loan rates below corn. In the 33 counties with a loan rate higher than corn, the average sorghum loan rate was 3 cents per bushel over corn. In the other 326 counties, the average sorghum loan rate was 15 cents per bushel under corn. In a loan rate situation , this difference costs a producer $10/acre (.15 cents x 70 bushels) and makes a difference in which crop he or she chooses to plant.

When a new farm bill replaces our current farm legislation, maintaining equitable direct payments and loan rates between all crops are high priorities. The direct payment is very important to growers like me as it is critical in the years we have a drought, which are not uncommon in the semi-arid sorghum belt.

We also understand the cyclical nature of the farm economy, and it is a matter of time until prices drop. Therefore, the sorghum industry is asking for a safety net that is on par with other crops as a counter cyclical type program. Most of the sorghum-growing region is in the Great Plains. Due to the extreme weather conditions of the area, our farms are vulnerable to significant yield variability. If funding is available, sorghum farmers support a well funded and policed disaster provision that would supplement the limited safety net that crop insurance provides.

Also, if another new policy option, revenue assurance, becomes part of the policy debate, then it will be important for Members of the Agriculture Committee to understand that details of how the program will impact regions of the country differently. For example, in the semi-arid sorghum belt, drought will impact the yields used in the baseline period. In the sorghum belt, we have larger variability in yields than other regions of the country, because of conditions farmers can not control. Most of the sorghum belt has suffered though four years of drought. Our yields and revenue for those years would be closer to zero. This policy proposal must be closely studied and well-funded to provide accurate data on the local level for our producers to endorse it.

Risk Management

If the Committee decides to address crop insurance, the price election mechanism for the sorghum industry is in desperate need of reform. The manner in which RMA sets price elections in sorghum is antiquated and it does not accurately reflect current market realities. But for commodities like sorghum, that are not traded on a futures market, USDA is forced to rely on past prices. Corn is used as a base comparison since both are feed grains, and in the CRC Commodity Exchange Endorsement, RMA uses a percentage of the corn price election to set the sorghum price election. For reference, the MPCI price election for corn in 2006 was 2.5% higher than sorghum. The CRC price election for corn was 11% higher than sorghum. In 2007, RMA set price elections for sorghum MPCI and CRC policies 20 cents a bushel less than corn. This was after repeated attempts by NSP to encourage RMA to set them equal or above corn. NASS' *Agricultural Prices* publication has shown sorghum equal or above corn for the year in their April report. . NASS valued sorghum 16% higher than corn in January 2007. WASDE also reported a $.20/bu higher price range for sorghum over corn in their last report. A crop insurance guarantee is a vital part of most farmers' cash flow plans and makes a difference in the crop that is planted on that farm. Sorghum producers deserve a level playing field to compete with other crops.

Title II - Conservation Policy

Sorghum producers would be extremely 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 membership is frustrated with the operation of the Conservation Security Program in many states. Only a few farmers have even been allowed to apply for conservation programs under the CSP program because of the limited geographical areas approved, and only a few of the applicants have been accepted. Often, advice from local NRCS officials on one simple question has been the difference between a farmer receiving a significant contract or nothing at all. That uncertainty is causing a lot of angst toward the program.

Our members feel strongly that serious problems exist with the program. First, sorghum farmers consider sorghum a conservation crop because it uses less water, fertilizer and chemicals and works very well on marginal lands around the country. We believe that a "water-sipping" crop like sorghum should be a natural fit for the program.

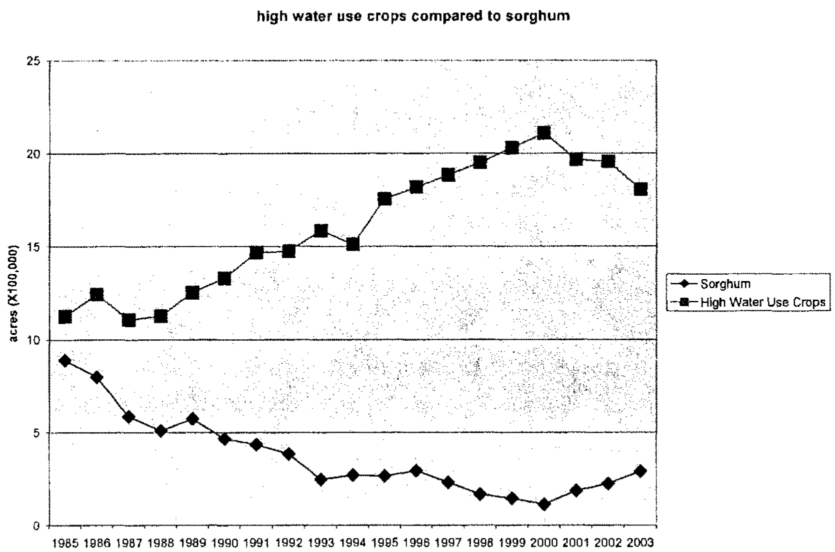
Our producers would ask that the new Conservation Security Program operate in a manner that allows them more flexibility in the tiers of the program in which they can participate. Conservation programs must be flexible enough to meet the diverse needs of different cropping systems and climatic conditions.

Water Use is Increasing

NSP applauds the 2002 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 Program. 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 in the plains states. A prime example of this is Western Kansas, which has had serious drought for the last seven years. Yet, irrigated acres for high water-use crops continue to increase. As a result, since 1985, Western Kansas has lost 600,000 planted acres of irrigated sorghum. Sorghum producers in Kansas and in other sorghum states believe that this trend needs to be reversed. The following chart shows the decrease in sorghum acres and the increase in higher water-use crops (USDA, NASS 2003 data).



Increasing water demand for agricultural and non-agricultural use is also a global concern. According to the National Water Research Institute, 25 percent of the world's population will be facing a severe water shortage by 2025. However, the NRWI says that 50 percent of the increase in demand for water by 2025 can be met by increasing the effectiveness of irrigation and by growing more water-use efficient crops like sorghum. This projection shows that appropriate crop selection and conservation efforts can save water.

Policy Changes

We have some particular concerns that we would like to share with the Committee in our efforts to strengthen federal government support for sorghum. Unfortunately, concentrating solely on improving irrigation technologies and increasing efficiencies does not necessarily translate into less water usage. NSP supports conservation programs that encourage planting of appropriate crops based on decisions that are environmentally sustainable and market driven. Overall, NSP believes that Congress and USDA need to emphasize water quantity, as part of water management, in both current and future conservation programs.

How Much Water Can Be Saved?

A Regional Water Plan prepared for the Texas Panhandle Water Planning Group in Amarillo, Texas, has found that the water savings over 50 years for 524,243 acres spread over 21 counties in the Texas Panhandle would amount to 7,360,000 acre-feet of water if irrigated corn acreage were converted to irrigated sorghum. On average, that's 147,200 acre-feet saved per year. An acre-foot of water equals 325,850 gallons, roughly enough to supply two, four-person homes with water for a year. Theoretically, this 50-year water savings would amount to 147,200 acre-feet per year, enough to supply water to 294,400 four-person homes in a year. For reference, the city of Austin, Texas, has 276,842 housing units and a population of 642,994, according to the U.S. Census Bureau.

On a broader geographic basis, the economic impact of converting higher water use 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, 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.

Because of these concerns, NSP encourages the Committee to promote conservation programs that save water. We have members that tell the organization that they find that they use more total water as they increase the efficiencies of their existing irrigation and add more new irrigation systems. NSP views this as contrary to the goals of a program like the Ground and Surface Water Conservation Program, and contrary to the best interests of producers. We believe that the best way to conserve water is to lower the amount of water used within an agricultural system, rather than improve irrigation delivery technologies that have the potential to increase over all water use.

Improving Current Programs

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 per 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 per 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 offices 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 to greatly increase biofuels production. The sorghum industry believes that the federal government should provide significant research resources 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.

We believe that the starch-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, 24% of the domestically consumed grain sorghum crop is used by the ethanol industry to make ethanol, and the number is growing each month. That production provides a source of ethanol outside of the traditional Corn Belt and also sorely needed rural development in the sorghum 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 and we are working to ensure that the ethanol industry uses a locally grown feedstock. 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 DOE 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 production 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 forage sorghum is well documented by the universities in the U.S.

Cellulose Source Comparison (source Texas A&M)

	Corn Stover	Poplar	Willow	Switchgrass	Forage Sorghum (Today)	TA&MES Proprietary High-yield Sorghum
Biomass that can be harvested per acre (in dry tons) and converted	1.25 - 1.50	5	5	6 - 8	13	**20**
Estimated cost (per dry ton) of biomass delivered to local 25 M gal/yr converter	$52 - $60	$69	$75	$65 - $70	$50 - $60	**$42 - $50**

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 with the only difference being that sorghum has slightly more protein and corn has slightly more fat.

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. NSP strongly supports research funding and loan guarantees to insure that sweet sorghum to ethanol can become another component of the U.S. ethanol industry.

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. But just as importantly, forage sorghums have a significantly better water use efficiency. It is important not to limit biomass feedstocks to perennial plants.

DOE has indicated the need and desire to include sorghum in its analysis of ethanol feedstocks. Basic compositional data analysis as well as research regarding cellulosic conversion of various feedstocks is needed. Limiting factors should be studied in regard to biomass-to-ethanol output. For example, Brown midrib (BMR) sorghums may increase ethanol output. We believe that utilizing sweet sorghums in the next logical step to moving ethanol efficiency forward. China and India have well-established technology and the U.S. should be able to ramp up production to make the U.S. more energy independent. Biomass-to-ethanol production would then be the next step.

NSP supports the Renewable Fuels Association's Farm Bill energy title recommendations. These include refocusing the CCC Bioenergy Program to incentivize cellulosic and biomass feedstocks for ethanol production and energy production of ethanol plants; developing pilot and demonstration programs to familiarize growers with new cellulosic crops, including harvesting, transportation and storage issues; studying the concept of a "transitional assistance" program to assist farmers in the adoption of cellulosic crops; establishing a loan guarantee program for cellulosic energy projects, particularly in rural areas; revising the BioPreferred Program to facilitate a timely implementation of this market development program, allow feedstocks (intermediaries) to be designated as biobased products, and implement the labeling program; developing a workforce education program for biofuels technology at land grant universities and biofuels research and testing centers; increasing research for better utilization of distillers grains for use by the livestock industry; and industry-focused cellulosic ethanol research and development on industry, and a commercialization-focused structure for funding.

Conclusion

The Committee has 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 efforts to cut the deficit while meeting needs for domestically-produced, renewable energy in the U.S. My industry looks forward to working with you during these efforts. Again, thank you for your interest in sorghum.

TESTIMONY

Presented by
John Pucheu, Chairman
on behalf of the
National Cotton Council
before the
United States Senate
Committee on Agriculture, Nutrition and Forestry

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, cottonseed handlers, merchants, cooperatives, warehousemen and textile manufacturers. While a majority of the industry is concentrated in 17 cotton-producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and home furnishings are located in virtually every state.

The industry and its suppliers, together with the cotton product manufacturers, account for more than 230,000 jobs in the U.S. [U.S. Census of Agriculture]. Annual cotton production is valued at more than $5.5 billion at the farm gate, the point at which the producer sells [Economic Services, NCC]. In addition to the cotton fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm-gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the annual economic activity generated by cotton and its products in the U.S. is estimated to be in excess of $120 billion [Retail Values of U.S. Agricultural Commodities, NCC].

Mr. Chairman, thank you for holding this hearing and for allowing me to present the views and concerns of the members of the National Cotton Council. My name is John Pucheu. I serve as Chairman of the National Cotton Council. My brother and I own and operate a diversified farming operation in Tranquillity, California – a part of the highly productive San Joaquin Valley.

Mr. Chairman the U.S. cotton industry faces numerous and substantial challenges, which I will discuss in more detail. We are committed to work within the industry and with Congress and the Administration to successfully meet our challenges and remain a viable industry. We strongly believe that predictable farm policy is critical to our success and that new farm legislation should be based on the structure of the 2002 farm bill. The most important provision is a marketing assistance loan available on all production with an accurate world price discovery mechanism. A modest direct payment provides certainty to farmers and lenders. And, a counter-cyclical provision is necessary to provide support in times of low prices. We also support maintenance of adequate planting flexibility to allow producers to respond to market signals. We are opposed to payment limitations and we urge Congress not to make changes that reduce existing limits or further restrict eligibility.

Pima cotton producers support continuation of the extra-long staple cotton program. ELS cotton is an important alternative crop for growers in the irrigated Far West, particularly in California's San Joaquin Valley. The ELS program is an effective, minimal cost program providing support to producers and ensuring that Pima cotton is competitive in world markets.

We understand the budget challenge the Committee faces in crafting new farm legislation. We believe much of the success of the current law is the balance between commodities, conservation and nutrition programs. We urge the Committee to work to preserve that balance by maintaining the baseline for commodity programs.

Mr. Chairman, it is also important that government programs provide equitable levels of support across commodities. While there are a number of measures that can be used to compare levels of support, we believe the most appropriate measure is to compare support rates to the costs of production for each crop. Adequate support rates allow producers to secure financing for their expected production costs. The following table compares loan rates and target prices to total costs of production, as reported by USDA's Economic Research Service. We believe the comparisons demonstrate that cotton's level of support is in line with other commodities.

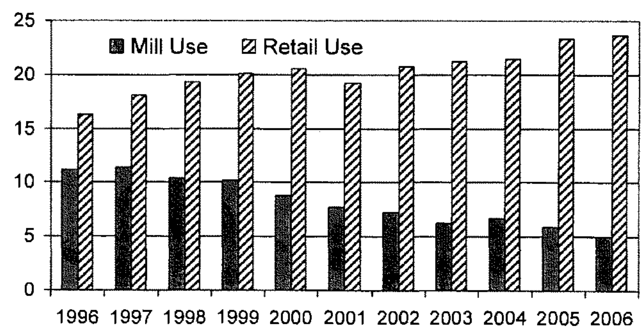
Table 1. Support Levels as Percent of Total Costs of Production

	Loan Rate		Target Price
Soybeans	89%	Peanuts	123%
Peanuts	88%	Cotton	113%
Corn	82%	Rice	113%
Cotton	81%	Corn	110%
Rice	70%	Soybeans	104%
Wheat	53%	Wheat	76%

The basic structure of current farm programs provides an effective safety-net, but cotton markets are changing so adjustments to the administration of the cotton marketing assistance loan will be necessary. In the interim, the industry is pro-actively working to address the challenges of a changing market. Last August, we worked with USDA as they developed an extensive regulation that modifies a number of components of the cotton marketing assistance loan. It allows relocation of bales under loan to better position them to move to market. The regulation also capped the monthly storage charges paid by CCC and requires warehouses to report shipping performance on a weekly basis. Recently, we asked USDA to assist a special Working Group that I appointed to thoroughly review the methodology used to establish loan premiums and discounts; to determine whether location differentials should be eliminated; and to determine how a more accurate world price can be discovered. The Working Group will also develop recommendations to add more flexibility in the way loans are redeemed so cotton can move to market more efficiently and competitively. We believe we can develop recommendations for adjustments that can be made to the statute administratively and which protect CCC's collateral and provide an effective safety-net for producers while cotton moves to market in a more timely manner.

Mr. Chairman, we also want to work with you and your colleagues to develop provisions which will assist our struggling domestic textile industry. According to USDA, domestic mill consumption of cotton is forecast at 5.0 million bales for 2006/07 (Figure 1). This is 900,000 bales or 15% below levels of a year earlier. The current projection for consumption will be less than 50% of levels just 7 years ago. It will be the lowest U.S. mill consumption since 1931/32. Quoting from a USDA analyst's report at the recent USDA Outlook Conference *"...this dramatic decline in U.S. mill use has resulted from increased competition of imported textile and apparel products......... China is now the leading supplier of cotton textile and apparel products to the U.S. – accounting for nearly 20% in 2005 and growing rapidly."* Even though textile imports have increased and domestic mill consumption has declined, cotton use at retail actually increased to 23.6 million bale equivalents in 2006 and will continue to increase in 2007 and the foreseeable future. U.S. consumers continue to drive global demand for cotton – thanks in part to the highly successful U.S. producer and importer-funded promotion program operated by Cotton Incorporated. U.S. per-capita consumption of cotton rose to 37.9 lbs in 2006. To place that in perspective, PCI Fibres places annual per-capita cotton consumption in the developed economies of Western Europe and Japan at just over 16 lbs, and USDA is currently estimating that China's consumers purchase only 5.5 lbs of cotton textile products annually.

Figure 1. U.S. Cotton Use (Million Bales)



U.S. mills are competing with heavily subsidized imports without a safety net. In recent months, it has been stated and re-stated that the U.S. needs a robust and viable renewable fuels production base protected by a tariff and tax credit. We support that policy because it clearly benefits farmers and is in the interest of U.S. security. But downstream users of cotton are not afforded the same level of protection and assistance. Their primary protection was traded away during the Uruguay Round of trade negotiations and may be further eroded in the Doha round. As a result, we need to provide assistance to our domestic customers – this country's textile production base. We recommend competitiveness assistance to U.S. mills for every pound of cotton they consume. This modest program would have very low costs and could be offset by minor modifications to other aspects of the cotton program.

Mr. Chairman, I want to also make a few comments about the Administration's farm bill proposal. We are pleased that it recognizes the importance of maintaining the structure of current law. We also appreciate the recommendation that the marketing assistance loan continue to operate without onerous, unworkable limits. But we are deeply concerned by the proposal to implement a loan-rate formula that would result in a sudden, precipitous drop in the cotton loan rate.

We understand that the proposal to significantly increase the direct payment is designed to compensate cotton producers for the lower loan in a WTO compliant manner – but it doesn't do an adequate job. Replacing an important component of our policy that is available on actual production with a decoupled payment based on ancient history doesn't offer adequate compensation – especially to growers in the Southeast and to new growers in places like Kansas and northern Texas.

We are also concerned by the proposal to terminate the 3-entity rule, which has been in place since 1989 when it was viewed as a significant compromise. If we could be assured that the termination of the 3-entity rule and implementation of direct attribution would be paired with the new limits by the Administration – though they still disproportionately impact high value crops produced in high cost, highly productive areas, it might be worth considering as a means to simplify compliance and administrative burden. However, the clear danger is that the 3-entity rule will be terminated and limits will remain at current levels. We also ask for careful consideration of how husband and wife eligibility is to be determined, continuation of the landowner exemption, and an extension of current rules to determine if an individual is actively engaged in farming.

We strongly oppose the Administration's proposal to modify the existing adjusted gross income (AGI) test by dropping the level to $200,000 and eliminating the exclusion for those who earn 75% or more of their income from farming, ranching or forestry. Congress added a $2.5 million AGI test to the last farm bill in response to media criticism that high-income individuals – namely Scotty Pippin and Ted Turner – were receiving farm program payments. This was to ensure that individuals who depend on farming, ranching or forestry for their livelihood were not penalized. The Administration contends that less than 2% of Americans who file tax returns have an AGI greater than $200,000. The Administration also contends that 4.2% of recipients of farm program payments who filed a Schedule F in 2004 have an AGI above $200,000 and that only 4.7% of all payments received by farm proprietors went to those with an AGI over $200,000. That is catchy spin, but dangerously misleading. The real question is what percent of U.S. commodity production will be affected. For cotton, we believe it will be very significant.

Perhaps the most troubling aspect of the new AGI test is that it subjects growers and their lenders to the ping-pong effect of "in one year and out the next" which is directly at odds with the Secretary's call for "predictable" farm policy.

We were also disappointed by a provision in the Administration's FY08 budget proposal to eliminate cotton storage credits when prices are low. Cotton, with a few exceptions, must be stored in an approved warehouse to be loan eligible. The practice of covering storage was put in place to ensure cotton was available at competitive prices. If the Administration's budget proposal is accepted, the practice of covering storage when prices are low would be terminated effective October 1, 2007, just as 2006 crop loans are maturing. This would effectively change the terms of the loan after they were made and result in significant market disruption and income losses to farmers. Inexplicably, the Administration proposed eliminating the storage credits in their FY08 budget proposal, but not in their farm bill proposal.

Access to an affordable crop insurance program 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 time for a thorough evaluation of the cost and benefits associated with the multi-peril crop insurance program. The cotton industry would also be interested in exploring enhancements to crop insurance products that would offer protection on an individual's deductible. The Administration included the concept of supplemental insurance coverage in their farm bill proposal, and many growers are interested in further analysis to identify an effective program that would help mitigate production risk.

The National Cotton Council believes conservation programs will continue to be an important component of effective farm policy. The Conservation Security Program, Conservation Reserve Program and Environmental Quality Incentive Program are examples of proven, valuable ways to promote sound, sustainable practices through voluntary, cost-share, incentive-based programs. However, they are not an effective substitute for the safety net provided by commodity programs. We must maintain an equitable balance in conservation and commodity spending for the development of new farm policy. Furthermore, we support eligibility provisions for conservation programs that are as consistent as possible with commodity eligibility provisions.

Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export-dependant agricultural economy. It also is valuable to maintain a WTO-compliant export credit guarantee program. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets – but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

Mr. Chairman in concert with development of effective farm policy, U.S. trade negotiators must send a clear signal that enough is enough. The U.S. should not continue to provide more concessions (often unilateral) while receiving virtually no positive indications from our trading partners that they will also move down the trade liberalization road. The strong stand by the U.S. in Geneva last July was fully appropriate. Unfortunately, the U.S. seems to have been apologizing ever since. The U.S. must not make additional concessions on domestic support until our market access objectives are met and exceeded. The U.S. should not agree to a Doha result that effectively exempts China – the fastest growing economy in the world – from concessions. The U.S. should not make further inequitable concessions on cotton beyond those made in Hong Kong which includes providing duty-free, quota-free access to cotton imported from developing countries. We appreciated the strong message conveyed to U.S. negotiators in a letter authored by Senators Conrad and Craig and signed by 58 Senators. The message was consistent with an earlier letter and is appreciated by U.S. cotton producers.

The Secretary frequently cites the Brazil cotton case as evidence that the U.S. farm law must be changed in order to be unchallengeable. The truth is that U.S. farm law can always be challenged under current WTO rules and there are no concrete signs that a new farm bill or a new Doha Agreement will change this.

Mr. Chairman, I would like to conclude some brief comments about our concerns with sluggish U.S. cotton sales, high levels of cotton under loan and persistently low prices. Total export commitments to China for the 06/07 marketing year stand at only 3.0 million bales, down 5.0 million bales from last year's number of 8.0 million bales. Unfortunately, China appears to be rationing access in order to maintain prices for her domestic producers. As a consequence, U.S. cotton exports to China are down significantly.

It is the case that cotton still under loan is above the levels observed at this same time in past marketing years. As of early-April, there were 10.6 million bales of the '06 crop of upland cotton still under loan. In recent years, cotton under loan in April averaged about 4.0 million bales. However, it is very important to note that 7.2 million bales of the '06 crop have already been redeemed from the marketing loan. This suggests that the loan is not the market of last resort and that cotton is not locked in the loan. Simply put, there is more cotton in the loan because of the lack of demand from key export markets. When demand improves, cotton will move out of the loan to satisfy that demand.

Instead of assigning undue blame for the current market situation to the cotton program, it is more appropriate to focus on the reasons why U.S. export sales have been lagging. First, as I previously mentioned, the loss of the Step 2 program has hurt the competitiveness of U.S. cotton. The U.S. has a smaller presence in the world market as a result of the loss of Step 2. Second, subsidies, trade restrictions, and other actions are having significant impacts on world cotton trade and prices – and frankly, are having a much greater impact than the remaining provisions of the U.S. cotton program. This second point is well supported by several statements made by USDA analysts in their report prepared for the recent USDA Outlook Conference.

> *"A combination of moderately higher world production and sharply highly world consumption is reducing world stocks for the 2006/07 season. Significant increases in production for China, India, Brazil and Turkey will more than offset reduced production in the United States, Australia, Greece and Syria."*

> *"For India, both area and yields rose in 2006/07 from the year before, as the ongoing adoption of genetically engineered Bt cotton continued transforming cotton authorization across the country. Since much of the Bt cotton planted in India is illegal, estimates of the extent of Bt adoption vary widely."*

> *"Higher production is also expected in Pakistan in 2007/08 as more normal weather and the spread of Bt cotton boosts yields. Commercial cultivation of Bt cotton is not legal in Pakistan, but has reportedly spread to several 100,000 hectares."*

> *"Production in West Africa's Franc Zone in 2007/08 is likely to be about unchanged compared with the year before cotton prices were higher in U.S. dollar terms during the first half of marketing year 2006/07, but for the Franc Zone, this was offset by the strength of the Euro versus the U.S. dollar. A rebounding EU economy drove the Euro 8 percent higher with respect to the dollar, and the CFA Franc is linked to the Euro."*

> *"China imported a record 19.3 million bales in 2005/06; however, imports for the first half of the current season have fallen well short of the year ago level. The primary factor slowing the pace of imports appears to be government-imposed import quotas, which have been more restrictive thus far this season than last. In January 2007, the WTO TRQ of 894,000 tons (4.1 million bales) was released; however, because a portion of the*

quota is reserved for state enterprises, it has not all been allocated to mills."

"China has used a sliding scale import duty on non-WTO TRQ imports that attempts to assure a minimum import price to help support the domestic price for cotton."

"The apparent goal of the more restrictive import policies is to use domestic cotton first before allowing significant imports. The government imposed constraints on imports have made it difficult to ascertain the underlying demand from the world's largest cotton consumer, and importer; thus in turn, has resulted in unusual uncertainty for the world cotton market."

"The [U.S.] cotton product trade deficit in 2006 expanded to a record 18.1 million bale equivalents, more than double the trade deficit of just 8 years ago. During 2006, U.S. cotton textile and apparel imports reached the equivalent of 22.8 million bales of raw cotton, 4 percent above 2005. In contrast, cotton product exports decreased slightly to 4.7 million bale equivalents in 2006, and now account for 86 percent of U.S. cotton mill use compared with 55 percent in 2002."

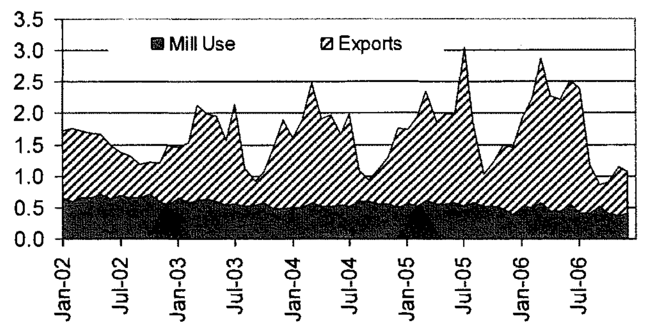
"China's extensive and complex system of import quotas and government cotton reserves has limited the correlation between price movements in China and the rest of the world in 2006/07."

"Subsidies to cotton producers are also being put in place in China, and the Government has frequently intervened in local markets, buying cotton for the government's reserves."

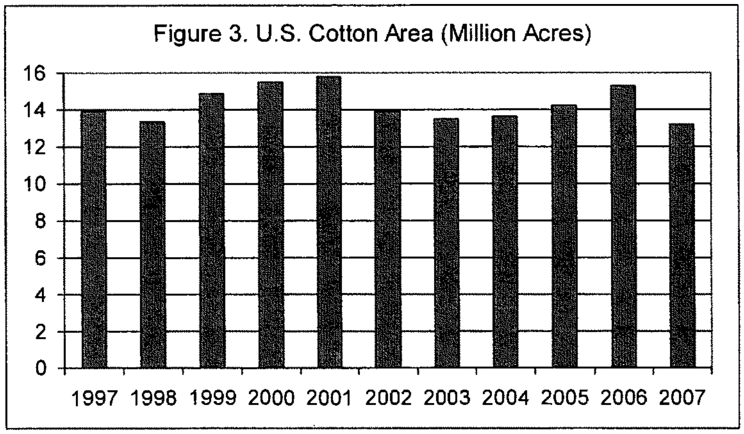
Cotton Outlook, Vol. 85 No. 10 March 9, 3007 pg. 7
".....Beijing has announced a subsidy for the purchase of good quality planting seed...this is part of an overall package for agriculture valued at 8.87 billion Yuan....a massive increase of 48.6 percent over last year......for cotton, farmers in eight regions will benefit....the funds earmarked will be sufficient to pay the subsidy on 40 percent of prospective plantings."

Mr. Chairman, as previously noted, export markets now account for approximately 75% of total disappearance of U.S. cotton. Exports, and subsequently total use, can be highly variable, particularly within the marketing year (Figure 2). The industry recognizes the pressures that a highly-variable demand situation can place on the storage and distribution system. Through cooperation with USDA, the cotton industry is working to improve the flow and efficiency of the system to ensure that we remain the supplier of choice to the world cotton market. In a market environment with a high level of variability and uncertainty, I will reiterate the importance of the safety net provided by an effective farm program. The farm program provides the necessary stability to make the long-term investments that will keep the industry competitive and productive.

Figure 2. U.S. Cotton Monthly Use (Million Bales)



I will conclude my testimony by apprising the Committee of the Council's assessment of U.S. cotton acreage. In recent years, cotton acreage in the U.S. has fluctuated between 13.5 and 15.5 million acres as farmers have adjusted acreage based on agronomic practices and relative returns between cotton and competing crops. For this year, we fully expect that the surge in corn and soybean prices will cause producers to adjust their crop mix, and cotton acres will decline. The Council's acreage survey, conducted in late December and early January, reported cotton acreage intentions at 13.2 million acres – a 14% decline from last year's level (Figure 3). Of course, since the time of the survey, corn and soybean prices have increased further, and the actual cotton acreage decline will likely be even greater. USDA's recent Prospective Plantings report estimated cotton acreage at 12.1 million, down 20% from last year. This year's acreage adjustments are a clear indication that planting flexibility works and farmers are responding to market signals.



Mr. Chairman, thank you for the opportunity to testify today. I will be pleased to respond to your questions.

Testimony of
Lynn Rundle
Chief Executive Officer
21st Century Grain Processing Cooperative
Manhattan, KS

On behalf of the
North American Millers' Association

Before the
Senate Committee on Agriculture, Nutrition and Forestry

Economic Challenges and Opportunities Facing American Agricultural Producers

April 25, 2007

Thank you Chairman Harkin, Ranking Member Chambliss, Senator Roberts and members of the Committee. I am Lynn Rundle, Chief Executive Officer of 21st Century Grain Processing Cooperative, a grower-owned cooperative with 410 farmer members. The company is owned by farmers in Kansas, Texas, Nebraska and Colorado who are not only grain growers, but also own wheat flour mills, food grade corn processing facilities and an integrated oat milling operation.

Our operating assets are located in rural New Mexico; Dawn, Texas (population 25); and South Sioux City and Inland, Nebraska. We distribute food ingredients both domestically and internationally. We are the US' 2nd largest supplier of milled oat products to the food industry. We produce whole wheat and white flour, oat meal, oat flour, coated barley and oat ingredients for use by most of the major US food manufacturers.

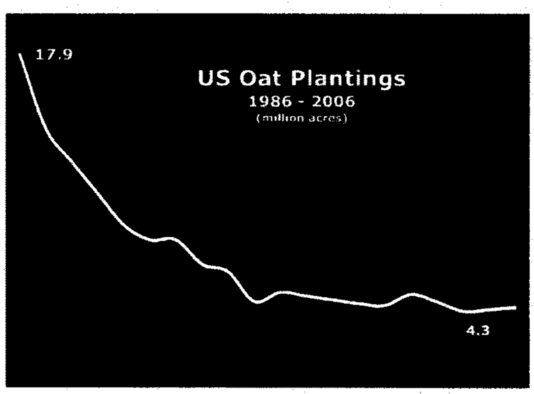
Our farmers, through grain production and ownership of the cooperative, are meeting the growing demand for whole grain and organic products in the US food system. The farmers made their first investment in the value added arena in 1997 and have been growing our business steadily the past 10 years.

I am here today representing the North American Millers' Association, of whose Board of Directors I am a member. NAMA is the trade association representing 48 companies that operate 170 wheat, oat and corn mills in 38 states. Their collective production capacity exceeds 160 million pounds of product each day, more than 95 percent of the total industry production.

Where we are today

Oats

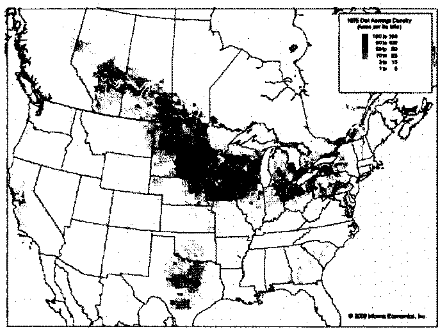
2006 oat production was a mere 107 million bushels, the lowest since USDA began keeping records in 1866, shortly after President Lincoln created the Department of Agriculture. There are just too many reasons for growers to plant something else. For example, in Minnesota, traditionally a leader in oat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



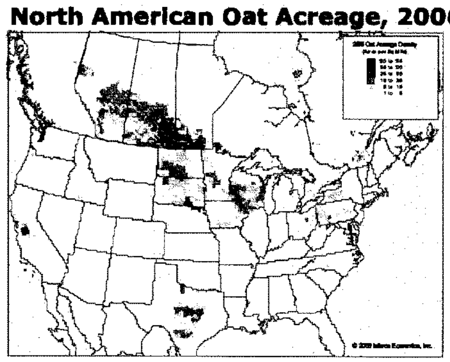
Said another way, the US produced 384 million bushels of oats in 1986. That would fill a train stretching from Fargo to St. Louis. A train filled with last year's production would stretch from Fargo to 30 miles short of Minneapolis.

This dramatic production loss has led directly to the major relocation of the oat milling industry over the past 15 years. Since the early 1990's, a number of millers have ceased operations in the US entirely. Mr. Chairman, most of that processing capacity was in your state of Iowa, but has moved to Canada taking hundreds of industry jobs with it.

North American Oat Acreage, 1975



North American Oat Acreage, 2006



Source: Informa Economics

Wheat

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

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

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

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

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

How did we get here?

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

Federal farm programs - Through the current programs, Uncle Sam is loudly telling growers "Don't plant wheat or oats!" At the same time the US government is encouraging them to grow other crops like corn and soybeans, which hardly need encouragement given the President's biofuels mandate.

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

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

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

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

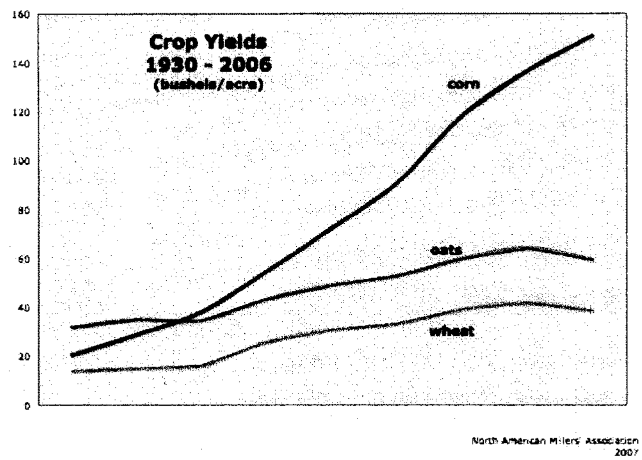
Agronomic advantages of competing crop - Traditionally, wheat was the best crop option for growers on the Great Plains. Corn and soybeans that generated higher returns in the Corn Belt were not suited to the arid climate of the Plains, nor were they suited for the shorter growing season of the northern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

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

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

Table 1: Crop Yield Growth Compared, 1930-06

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



While the picture is gloomy, all is not lost. Demand for oat and other whole grain products is rising. Many companies are continuing to invest in processing capacity in the US. One of our competitors, for example, is investing $20 million to expand the capacity of its mill in Iowa. Regrettably, the oats for that Iowa mill will be grown in Canada.

Recommendations

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

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

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

At the same time, the US' environmental goals can be best met by focusing conservation dollars on waterway filter strips and similar areas which provide the best return on investment. Also, CRP rules must be changed to add flexibility so that growers can respond to market signals without extreme penalties, as is currently the case. Failure to significantly reform CRP will mean that reducing our dependence on foreign oil may result in increased dependence on foreign grain.

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

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

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

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

Summary

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

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

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

For additional information contact:
Jim Bair
Vice President
North American Millers' Association
202.484.2200 Ext. 14
jbair@namamillers.org

Farm Bill: An Investment That's Working

STATEMENT OF THE
AMERICAN FARM BUREAU FEDERATION
TO THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
REGARDING: ECONOMIC CHALLENGES AND OPPORTUNITIES FACING
AMERICAN AGRICULTURAL PRODUCERS TODAY

April 25, 2007

Presented by Bob Stallman
President, American Farm Bureau Federation

TABLE OF CONTENTS

FARM BUREAU'S RECOMMENDATIONS FOR THE 2007 FARM BILL

I. Principles

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

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

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

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

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

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

II. The Farm Bureau's Recommendations

THE FARM BILL:

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

TRADE IMPLICATIONS:

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

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

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

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

COMMODITIES:

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

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

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

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

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

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

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

STANDING CATASTROPHIC ASSISTANCE:

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

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

DAIRY:

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

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

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

CONSERVATION:

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

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

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

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

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

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

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

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

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

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

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

EXPORTS:

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

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

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

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

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

COMPETITION:

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

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

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

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

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

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

Farm Bureau supports voluntary country-of-origin labeling.

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

ENERGY:

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

The Biodiesel Fuel Education Program should be reauthorized.

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

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

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

The Biomass Research & Development Program should be reauthorized.

RESEARCH:

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

Regarding specific priorities:

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

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

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

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

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

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

CREDIT:

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

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

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

NUTRITION:

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

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

MISCELLANEOUS ACTIVITIES:

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

III. The Farm Bill

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

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

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

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

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

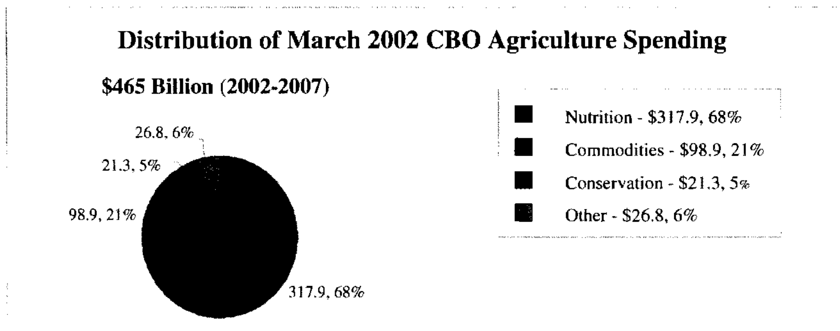
	2002	2003	2004	2005	2006	2007P	TOTAL
Projected Cost in 2002	19.3B	21.3B	20.9B	20.0B	18.7B	17.8B	118.1B
Actual Cost in March 2007	15.5B	17.4B	10.6B	20.2B	20.2B	13.0B	96.9B
Difference	3.8B	3.9B	10.3B	-0.2B	-1.5B	4.8B	**21.2B**

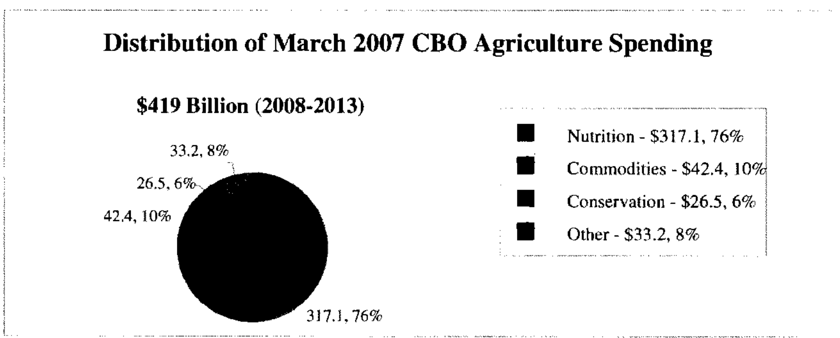
--Farmers' average debt-to-asset ratio is the lowest on record: about 11 percent in 2006

--Farmers have access to a dependable safety net.

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

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





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

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

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

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

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

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

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

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

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

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

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

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

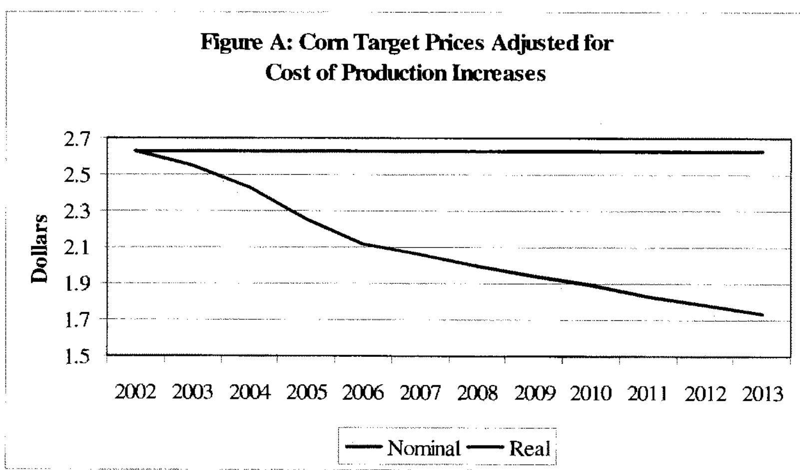
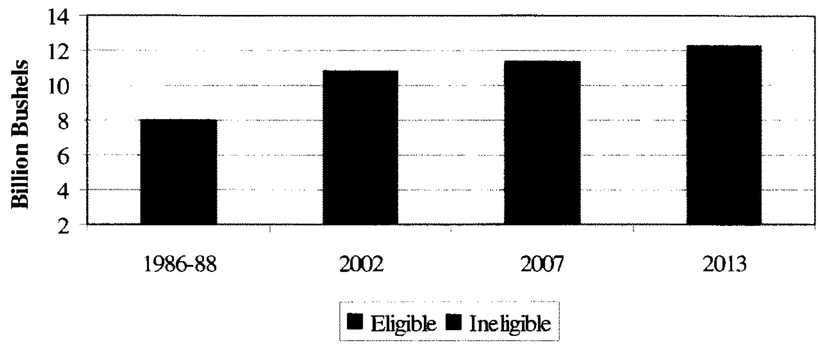


Figure B: Corn Production Eligible for Direct and Counter-Cyclical Support



IV. Trade Implications

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

A significant expansion of trade opportunities is the only acceptable outcome of the WTO negotiations. An agreement on agriculture must achieve a balanced outcome in which the benefits from new market access and the removal of trade-distorting policies provide net gains for U.S. agriculture. An agreement that is positive for U.S. agriculture requires a balance between the gains in exports due to the lowering of tariffs around the world and the reductions in income to producers from lower spending on certain farm programs.

The 2007 farm bill should not be written to comply with what someone assumes will be the "outcome" of the WTO negotiations. We must negotiate a WTO agreement that accomplishes our objectives and then modify our farm bill accordingly – and to the extent necessary – based on the final outcome of the negotiations. At the same time, we should ensure that the next farm bill complies with all of our existing obligations.

This approach provides U.S. negotiators the strongest negotiating leverage. U.S. agriculture does not compete on a level playing field. In today's world market, the anti-competitive trade practices employed by foreign governments against U.S. farmers are not fair. Foreign tariffs average 62 percent on our agricultural exports – more than five times higher than the average U.S.-imposed agricultural tariff of 12 percent. Additionally, the European Union uses 87 percent of the world's export subsidies, which severely disadvantages U.S. exports. The U.S. utilizes only 3 percent and the rest of the world uses the remaining 10 percent.

Each year, the Organization for Economic Cooperation and Development (OECD) estimates average subsidy levels to producers for the world's 30 richest countries. The OECD defines the Producer Support Estimate (PSE) as support as a percentage of farm receipts. This calculation is likely the most comprehensive and accurate way to truly measure the support provided to a nation's agriculture through tariffs, export subsidies, export credits, domestic support programs and the various other ways countries provide support to their producers. In June 2006, OECD released its projection for percentage of PSE by country for 2005. The average PSE for the world's 30 richest countries is 29 percent. The U.S. falls far short of the average – at only 16 percent. The European Union and Japan – two countries that are critical to successful completion of the WTO negotiations – both far exceed the average OECD number for support to their producers.

OECD PSE Percentages Projected for 2005	
Switzerland	68
Iceland	67
Norway	64
South Korea	63
Japan	56
European Union	32
OECD	29
Turkey	25
Canada	21
United States	16
Mexico	14
Australia	5
New Zealand	3

The primary component the U.S. has to offer in the negotiations is reductions in our farm programs. The leading component for many other countries is primarily reductions in high tariffs. If we reduce our domestic supports in the farm bill, we have less leverage to use to convince other countries to reduce their tariffs and exports subsidies. Our strongest negotiating leverage is to maintain our current programs until a WTO agreement is reached that benefits U.S. agriculture.

We are not far enough along in the negotiations to anticipate a likely WTO outcome and to make fundamental changes to the farm bill. Critics of our farm bill say that any successful WTO negotiation will require reductions in our farm programs near the 60 percent of trade-distorting domestic support level offered by the U.S. 18 months ago. While Farm Bureau strongly supports conclusion of a successful WTO round, we should not support a unilateral cut in our domestic programs without a commensurate reduction in tariffs, supports and subsidies from other countries.

In addition, we do not know what will be agreed to at the end of the negotiations. There may be smaller average tariff cuts and a larger number of sensitive products than the U.S. had previously sought. If that is the case, we must look again at whether the market access gains we receive from those reductions outweigh the impact of losses in allowable domestic supports by 60 percent. Altering our farm programs now to reduce supports by 60 percent—just in case that is what is included in the final agreement—makes no sense. That is what is meant by the term "unilaterally disarm." It is important to remember that a similar "stalemate" in negotiations to today's Doha Round occurred during the Uruguay Round. The stalemate lasted three years. In the end, the impasse was broken after an agreement was forged that was less than what many had expected or wanted. If that happens in these negotiations, we could be looking at reducing our authority for domestic supports far less than 60 percent.

Reforming the farm bill now, absent a final agreement, offers no assurance that additional reforms would not be required when an agreement is finalized. The U.S. has already offered a bold reduction in our trade distorting domestic supports only to have it viewed as a "starting point" for the negotiations rather than a down payment. If we attempt to pre-judge our contributions to a successful WTO round in an upcoming farm bill, we could face a second and possibly a third round of farm bill changes.

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

V. Commodities

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

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

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

Direct Payment Program:

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

Revenue-Based Counter-cyclical Program:

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

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

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

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

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

Figure 1: Percentage of Production Costs Covered by Target Prices

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

Figure 2: Percentage of Production Eligible for Support

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

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

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

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

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

Current Counter-Cyclical Payment Calculation

CCP Triggered When:

Season Average Farm Price < Trigger Price

Where:

Trigger Price = Target Price – Direct Payment Rate

- Target Price and Direct Payment Rate fixed in 2002 legislation

Payment Rate Per Acre:

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

- Counter-cyclical yield fixed in 2002 legislation

Payment:

Payment rate per acre * 85 percent of base acres

Proposed Counter-Cyclical Revenue (CCR) Calculation

CCR Payment Triggered When:

Actual State Revenue / Acre < State Target Revenue / Acre

Where:

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

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

And:

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

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

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

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

Producer Payment = Producer Payment / Acre * 0.85 base acres

- Base Acres those used in 2002 farm bill CCP

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

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

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

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

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

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

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

Figure 3: 2006 Oklahoma Wheat Example of CCP and CCR

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

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

Figure 4: 2003 Mississippi Cotton Example of CCP and CCR

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

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

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

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

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

Planting Prohibition:

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

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

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

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

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

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

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

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

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

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

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

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

Payment Limitations

Farm Bureau opposes any changes in current farm bill payment limitations or means-testing provisions. Simply stated, payment limits bite hardest when commodity prices are lowest. Our federal farm program is based on production. Time and time again, this has proved to be the best manner for distributing assistance to those who are most responsible for producing this nation's food and fiber. Farmers who produce more traditionally receive larger payments, but they also take larger risks and have significantly higher investments in their farms. When crop prices are depressed, no farm is immune to difficulty, especially those with greater risk. It is true that larger farm enterprises receive a larger percentage of total farm program payments than smaller ones. However, farm policy has always been production-based rather than socially-based. To reflect that our payments are following that concept, 38 percent of our nation's farms produce 92 percent of our food and receive 87 percent of program payments. We should only move to socially-based policy if we want to allow someone in Washington to decide "winners and losers."

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

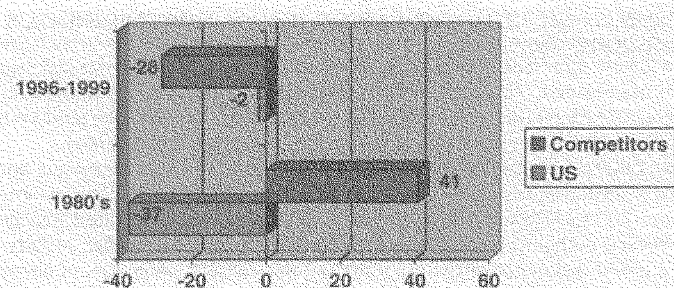
Arbitrarily limiting payments could result in farm sizes too small to be economically viable.

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

Supply Management:

Some are discussing returning to a farm program based on supply management. Over the last 50 years, the United States has tried agriculture policies that idled acreage as a means of improving farm income. They did not work. We idled acres, but we farmed the remaining acres more intensely to make up for the lost market opportunities from idling land. When we idled land, our competitors kept increasing acreage. We must not forget the lesson we learned 25 years ago. In the 1980s, the United States cut back production by 37 million acres and our competitors increased their production by 41 million acres. When we changed our policies in the 1996 farm bill to eliminate set-asides and paid diversions, the whole picture changed. From 1996 to 1999, the U.S. cut back production by just 2 million acres and our competitors reduced their production 28 million acres. We must not return to supply management programs.

Set-Asides Hurt American Farmers



We also tried storing our way to prosperity. That did not work either. We tried having the CCC store grain in bins across the country. We tried having farmers store the grain on their farms. The results were the same. We stored grain and cut acreage while the rest of the world increased production and took our markets. We must not implement a farmer-owned reserve or any federally-controlled grain reserve with the exception of the existing, capped emergency commodity reserve.

Beginning Farmers:

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

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

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

Family Forestry Farms:

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

VI. Standing Catastrophic Assistance

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

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

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

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

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

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

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

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

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

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

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

County-Based Standing Catastrophic Assistance Calculations

Payment triggered when:

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

Where Payment Rate is:

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

Where Payment is:

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

Commodities Covered:

- Field crops, specialty crops and forage crops

Integrating a Re-Rated Crop Insurance Program:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VII. Dairy

Price Support:

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

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

MILC:

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

Dairy Promotion Assessment on Imports:

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

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

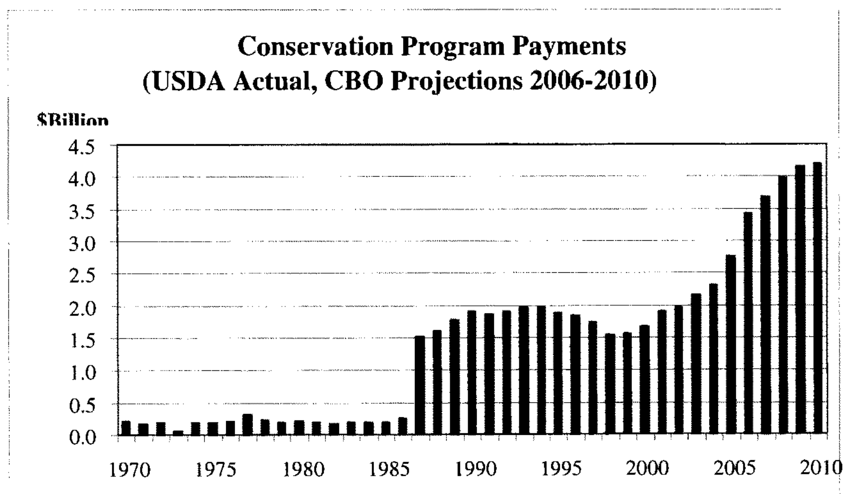
Farm Bureau supports implementation of the dairy promotion assessment on imports.

VIII. Conservation

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

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

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



Farmers' and ranchers' contributions to the environment continue to be on the upswing. In 1982, USDA estimated the average erosion from an acre of farm land totaled 7.3 tons. This same estimate for 2001 was down to 4.7 tons per acre. Surface water quality has also improved dramatically, largely through reductions in nutrient loading. Agriculture has contributed a large share of the 1 billion-pound reduction in discharge into the country's lakes, rivers and streams since 1972 through reduced use and better management of chemical inputs. While more difficult to measure, EPA studies indicate that ground water quality has also improved due to decreased nutrient depositing. Wetland protection has expanded sharply, in large part due to farmer initiative and enrollment of about 3 million acres in the wetland reserve. Wildlife habitat has expanded due to improved farmer management of their land resources and the set aside of particularly sensitive acres. More broadly, agriculture remains the country's number one source of carbon sequestration, helping to offset the impact of the rest of the economy's contribution to greenhouse gas build-ups.

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

Some retirement conservation programs, such as the CRP, actually displace farm income on a dollar-for-dollar basis. Farmers lose operating revenue or rental payments roughly equal to the payments they receive in return for long-term retirement. Some working lands conservation programs, such as EQIP or CSP, share the costs of environmentally friendly investments in farm capacity. In cases where the investment would not have taken place without the program, farmers actually incur higher costs that can dampen income in at least the short term. In cases where the investment would have taken place without the program, some EQIP and CSP dollars can make their way through to the farmers' bottom line. While conservation programs are critical, they have to work in conjunction with—rather than as a substitute for—current commodity programs.

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

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

CRP:

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

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

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

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

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

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

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

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

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

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

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

CSP:

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

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

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

Budget Authority for the CSP
CBO March 2007 Baseline

Fiscal Year
(in millions of dollars)

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

EQIP Mandate for Fruit and Vegetable Production:

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

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

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

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

Enhancing EQIP Funding to Support Expanded Livestock Coverage:

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

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

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

Supporting EQIP and CSP with Improved Cost Data:

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

GPS Conservation Cost Sharing

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

IV. Exports

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

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

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

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

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

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

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

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

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

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

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

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

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

Boosting Support for SPS Trade Programs:

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

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

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

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

X. Competition Issues

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

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

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

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

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

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

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

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

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

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

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

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

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

XI. Energy

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

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

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

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

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

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

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

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

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

XII. Research

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

Regarding specific priorities:

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

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

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

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

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

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

XIII. Credit

Farm Credit System:

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

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

FSA:

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

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

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

XIV. Nutrition:

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

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

XV. Miscellaneous Activities

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

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

XVI. Budget Effects

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

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

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

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

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

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

National Sunflower ASSOCIATION

U.S. Canola Association

STATEMENT BY JOHN SWANSON
NATIONAL SUNFLOWER ASSOCIATION BOARD OF DIRECTORS

On behalf of the

NATIONAL SUNFLOWER ASSOCIATION AND THE U.S. CANOLA ASSOCIATION

before the

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITES STATES SENATE

April 25, 2007

Good morning, Mr. Chairman and Members of the Committee. I am John Swanson and have grown sunflower on our farm near Mentor, Minnesota since 1972. I currently serve on the Board of Directors on the National Sunflower Association as the representative of the sunflower seed industry. I have been involved with sunflower hybrid seed research and marketing throughout the US growing regions and have worked with sunflower development in more than 30 countries. I have also served on the U.S. Canola Association Board of Directors in the past, and am representing both organizations today. Thank you for the opportunity to appear before you today.

Mr. Chairman, the U.S. sunflower and canola industries have a bright future if farm policy impediments to increased production are mitigated. Both oils are low in saturated fat – one of the "bad" fats – and high in unsaturated fats – the "good" fats. Both crops have high oleic varieties that are stable enough to not require hydrogenation to increase shelf life, so they contain zero trans fat as well – the other "bad" fat. Since the FDA required the labeling of trans fat content in January, 2006, the food industry has been scrambling to find enough stable, healthy oils to meet their growing needs, since 9 billion pounds of partially hydrogenated vegetable oils are currently used annually and need to be replaced. And our industries are working to help meet this demand.

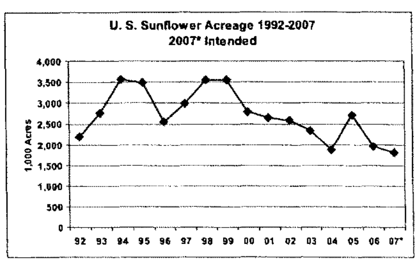
In fact, the U.S. sunflower industry decided in the early 1990's to take control of its future by developing superior oil characteristics into the entire sunflower crop. The private seed companies, USDA ARS and several key food manufacturers took the lead in this very expensive process. This was a challenging effort, but the industry has now entirely changed to NuSun sunflower. NuSun varieties have a balanced fatty acid profile, making them ideal for use in food products and food service applications that require healthier oil with higher stability and longer shelf life.

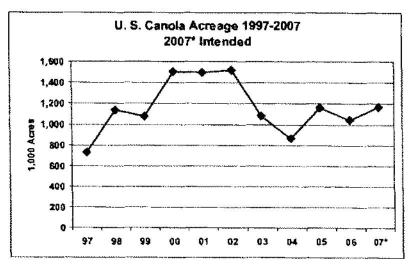
NuSun varieties also require no partial hydrogenation in these applications, meaning they contain no trans fat. Following FDA's decision to require trans fat to be labeled on food products in 2006 and actions or proposals to eliminate trans fats in the food product and manufacturing industry, demand for NuSun sunflower has exploded. A number of major U.S. and Canadian food companies have switched their product formulas to include NuSun in order to avoid trans fat. You can walk down the potato chip isle in your grocery store and see the healthy, beautiful sunflower faces on many of the bags. There is more demand for low saturated and stable oils coming from other users. This is an enormous opportunity for the sunflower industry, after 25 years of work, to find our place in the oils market—and the industry does not want to lose it. Moreover, if the sunflower industry is to meet consumer demand for healthy oils, an adequate and stable supply of sunflower seed oil must be provided.

The canola industry also decided to highlight the healthy qualities of canola oil when it successfully petitioned the U.S. Food and Drug Administration for a Qualified Health Claim. The FDA approved the claim in October 2006, based on the ability of canola oil to reduce the risk of coronary heart disease due to its unsaturated fat content, and demand for canola oil has increased as a result. The canola industry is also increasing the number of high oleic varieties available in response to the food service industry's desire for zero trans fat solutions as city and state governments move to ban the use of trans fat in restaurants.

Canola oil is also an excellent candidate for biodiesel production because it has the highest cetane ratings and the lowest cold flow properties (gel point) of any biodiesel feedstock. Finally, canola and sunflowers are the highest-yielding oil crops on a per-acre basis.

While demand for sunflower and canola oil is high, <u>production of these crops has not responded</u>. A major reason is that support levels for minor oilseeds under the current farm program are discouraging producers from responding to market demand. The minor oilseed marketing loan rate of $9.30 per hundredweight is only 82 percent of the Olympic average of season average prices in 2000-2004. The loan rates for commodities that compete with sunflower and canola are much higher: The soybean loan is 95 percent; corn is 92 percent, wheat is 86 percent, and the dry pea loan rate is 120 percent of the same price average. As a result, sunflower acreage has fallen 47 percent since 1998, from 3.5 million to 1.9 million acres, even as market demand has called for a major increase in sunflower production. Canola lost 47 percent of its acreage from 2002 to 2004, from 1.5 million to 865,000 acres, and was still down 31 percent in 2006.

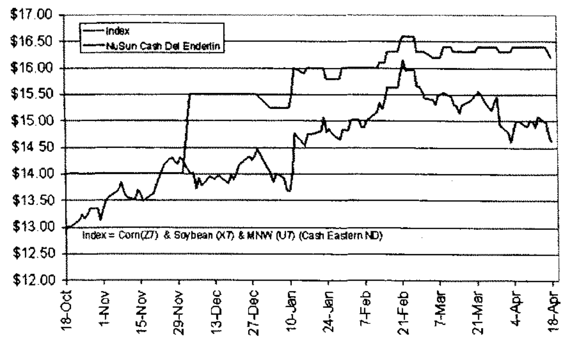




Sunflower and canola were also disadvantaged when target prices were established in the 2002 Farm Bill. The minor oilseed target price of $10.10 per hundredweight is $0.80 higher than the $9.30 loan rate. But since the minor oilseed direct payment is also $0.80, the effective target price is $9.30 – identical to the loan rate. So there is no way counter-cyclical payments can be triggered for minor oilseed producers.

Minor oilseeds are also unable to receive equitable crop insurance coverage when compared to other crops. Producers are telling us they are unwilling to plant sunflowers or canola, even as minor oilseed bids exceed the market price indexes of competing crops, because their crop insurance coverage provides a more lucrative safety net should a crop failure occur. And since loan rates play a role in setting price elections, it is imperative that the inequitable minor oilseed loan rates are corrected in the 2007 Farm Bill.

NuSun Bid vs Corn/Soy/Wht Cash Index



Together with the American Soybean Association, we strongly support adjusting marketing loan rates to a minimum of 95 percent of the Olympic average of prices in 2000-2004, or $10.71 per hundred weight for minor oilseeds; and target prices to a minimum of 130 percent of the same price average, or $14.66 per hundred weight for minor oilseeds. It is absolutely critical that these adjustments be made in the 2007 Farm Bill if our industries are going to survive and be able to supply the healthy oils the food industry and consumers demand.

Thank you for your consideration of our views.

John Swanson
Board Member, National Sunflower Association

National Association of Wheat Growers

415 Second Street, N.E., Suite 300, Washington, D.C. 20002, (202) 547-7800 • Fax: (202) 546-2638

Testimony of Everett "Dusty" Tallman
Chairman of the National Association of Wheat Growers'
Domestic and Trade Policy Committee
before
the Senate Committee on Agriculture, Nutrition and Forestry
April 25, 2007

Mr. Chairman and members of the Committee, my name is Dusty Tallman. I am a wheat grower from Brandon, Colo., and am currently serving as chairman of the National Association of Wheat Growers' Domestic and Trade Policy Committee. Thank you for the opportunity to be here today to talk about challenges and opportunities within the wheat industry.

Since my time here today is limited, I would like to outline some of the major issues facing the wheat industry, and what federal farm policy can do to ameliorate these challenges for the good of farmers, the American economy and the American people. Since the main issue on everyone's minds right now is the 2007 Farm Bill, I have attached NAWG's full recommendations in my written testimony for your review and consideration.

Challenges

The members of the National Association of Wheat Growers realize that the U.S. wheat industry is suffering from both lower net returns and lower levels of support than other program crops, as well as a lack of access to advanced genetic technologies and stagnant demand. These challenges led to an industry-wide Wheat Summit in September 2006 that began with the goal of collaboration on issues ranging from domestic farm policy priorities and science and research to domestic utilization and exports. The second meeting of this Summit was held just last week to work toward industry-wide recommendations for forward movement. Today, I want to discuss one of the keys to future success in our industry – federal farm policy that provides an equitable safety net for wheat growers.

Over the term of the 2002 Farm Bill, wheat growers, like many farmers have seen some price increases for their commodities. While this is good news for growers, it does not alleviate one of the biggest challenges in the farming sector today– skyrocketing production costs.

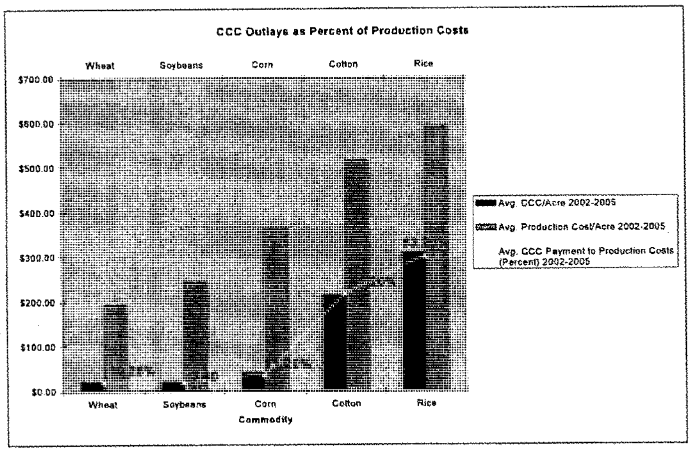
A Food and Agricultural Policy Research Institute report from April 2006 indicated that fuel prices would be up 10 percent from 2005 and fertilizer prices would be up 10 to 15 percent from 2005. The FAPRI report also estimated that fuel and fertilizer costs for wheat growers would be up 24 to 27 percent from 2005 alone. Since 2002, the last time Congress examined comprehensive federal farm policy, the report estimated that fuel prices would be up 113 percent, and fertilizer prices would be up about 70 percent.

As you know, farmers, unlike most other businessmen and women, cannot pass on higher input prices or fuel surcharges. Farmers are "price takers," not "price makers"; farmers don't get to set the price they receive for their product. They also are responsible for increased transportation costs to and from the farm. These increases have serious effects on family farms; they lead to a loss of operating credit and profitability and, ultimately, the loss of farm infrastructure in rural America.

A Reliable Safety Net

One of the most important elements of any plan to restore the wheat industry's competitiveness is federal farm policy that provides an equitable safety net for growers while allowing them to take production cues from the marketplace and while avoiding challenges based on our World Trade Organization obligations. Since 2002, wheat growers have received little or no benefit from two key commodity program components of the Farm Bill, the counter cyclical program and loan deficiency payment program. Severe weather conditions for several consecutive years in many wheat states have led to significantly lower yields or total failure, and the loan program and the LDP are useless when you have no crop. The target price for the counter cyclical program for wheat was also set considerably lower than market conditions indicated, which, combined with short crops due to disaster and, thus, higher prices, has led to no support for wheat in the form of counter cyclical payments. This safety net failure has hurt many wheat growers and has led to a continued decrease in wheat acres.

The chart below clearly shows the inequities in the government-provided safety net to wheat growers over the term of the 2002 Farm Bill. While NAWG members understand the needs of producers of other crops and do not believe that their safety nets should be decreased, it is important for wheat growers to be in an equitable position relative to other program crops.



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

Looked at another way, wheat's target price as a percent of cost of production is significantly lower than the other Title I crops, excluding barley. Target price as percent of cost of production for wheat, using 2005 and 2006 cost of production estimates gathered from USDA in August 2006, is 74.24 percent, compared to 82.62 percent for soybeans, 84.84 percent for corn, 90.05 percent for cotton and 90.99 percent for rice.

For the 2007 Farm Bill, NAWG is recommending that the direct payment for wheat be set at $1.19 per bushel and that the target price be set at $5.29 per bushel, while maintaining the marketing loan program as currently structured.

The decision of the NAWG Board of Directors to support this proposal came about as a result of reviewing data on trends in the wheat industry including historical prices, historical cost of production and historical yields as determined by USDA's National Agricultural Statistics Service and USDA's Economic Research Service. NAWG's Domestic Policy Committee also obtained data from the Food and Agricultural Policy Research Institute and the Agricultural and Food Policy Center that helped determine what it would take to keep wheat growers on the farm. (These reports are available through NAWG or on the NAWG Web site, www.wheatworld.org.)

According to USDA data, historical input costs for 2005 and 2006 – the most representative of forecast production costs over the term of the next Farm Bill - averaged $215.79 per acre. The average yield, on the other hand, has stayed around 38 to 42 bushels. Using these numbers, the average cost to produce a bushel of wheat is around $5.29 while the average market price over the term of the 2002 Farm Bill has been approximately $3.40 (2003-2005).

While most wheat growers purchase crop insurance and rely on it heavily, affordable coverage is typically limited to 65 to 70 percent of expected yield. Wheat growers expressed concern, therefore, about ensuring that a safety net exists for the other 30 to 35 percent of the crop. By providing a safety net to wheat growers of $1.19 per bushel in the form of a direct payment, federal farm policy can assure growers, their families and their bankers that they have a predictable and dependable safety net.

Under the NAWG proposal, the effective price in the counter-cyclical program would be $4.10 ($5.29 target price - $1.19 direct payment). Preliminary data suggests that there may be only one year in the next five in which wheat prices drop below $4.10, and then only to $4.06, translating into very few counter cyclical payments.

While we are aware that some agricultural organizations have expressed concern about the effects the direct payment may have on rental rates, we believe that the direct payment does not cause any greater increase in rental rates or land values than any other income. For instance, the *Wall Street Journal* reported on March 7 of this year that, "Farmland prices are soaring across the Midwest amid a surge in demand for corn driven by the ethanol boom." We believe that higher crop prices and more demand for corn acres are the real causes of increases in land values and rental rates – not the direct payment.

NAWG's members also took into serious consideration our current World Trade Organization obligations. This proposal is based on historical information and, in part, relies on a direct payment that is decoupled from current production.

Overall, the benefits of this proposal echo Secretary of Agriculture Mike Johanns' view of Farm Bill priorities, as stated publicly many times and specifically in an interview on Aug. 2, 2006: "...but it seems to me we should be talking about, how do we make our farm program predictable and beyond challenge and equitable for that matter?"

NAWG members also support an increase in payment limits commensurate with the increase in the direct payment. While we understand this has been a very heated issue in the past, we believe that we cannot use any types of means testing in farm policy, especially since payment limit proposals in the past have always targeted the direct payment more than the counter cyclical or loan payments. This is unfair to wheat producers, who rely most on the direct payment.

Other Opportunities

For the first time in a long time, people outside of the agriculture community are seeing agriculture as a provider of solutions. The public and policy makers are now realizing that the agriculture industry doesn't just provide food, but also feed, fiber and, increasingly, fuel and substitutes for other petroleum-based products. However, it is important to remember that enhanced conservation programs, renewable fuel development and myriad of other exciting possibilities will not happen if growers are not on the land to make them happen. We believe a reliable farm safety net is the key to making these opportunities become a reality.

Renewable Fuels

Most notably, the past few years have seen a frenzy of interest and investment in renewable fuels. As an association, we have largely not pursued the development of grain-based ethanol in favor of advocating for cellulosic ethanol, which most scientists and policy makers agree will eventually provide the bulk of liquid renewable fuel. The leading cellulosic ethanol production companies have stated their preference for wheat straw as an initial feedstock and we believe that straw, supplemented with a dedicated energy crop like switchgrass, could allow for the production of cellulosic ethanol in many parts of the country.

A recent USDA/Department of Energy study identified 1.3 billion tons of agriculture residue and dedicated crops that could be converted into cellulose ethanol on an annual sustainable basis. At the market rate of $15 per ton for agricultural residues like wheat straw, a conservative allocation of that 1.3 billion tons to growers of wheat and dedicated energy crops could result in $13 to $21 billion in additional farm income. By comparison, the current value of the entire corn crop is about $20 billion and the value of the wheat crop is about $7 billion.

Clearly, this is an enormous economic opportunity for growers, who soon will be able to help both their bottom lines and their country's national security, maybe even by growing a dedicated energy crop. The NAWG Board of Directors has unanimously decided in recent months to expand the organization's advocacy mandate to include the representation of biomass energy crop growers. Our grower-leaders did this because they see the development of an energy crop economy for the opportunity that it is, and because they want our organization to have the authority to pursue the policies that will help our growers the most.

Over the past few years, our organization has reached out to the cellulosic ethanol industry, including Iogen, a company that is currently running a demonstration-sized facility in Canada and that has taken major steps toward developing the infrastructure needed to build a commercial-sized plant in Idaho, pending a Department of Energy loan guarantee. We have also reached out to developers of dedicated energy crops, including Ceres, a biotechnology company based in California. Finally, we have dedicated a lot of time and effort toward advocating for the implementation of the loan guarantee program that was included in the Energy Policy Act of 2005. Final issuance of these loan guarantees is the single most important step, we believe, toward the commercial production of cellulosic ethanol.

Climate Change

In a similar vein, our organization sees the opportunities for agriculture in a variety of climate change initiatives. Carbon sequestration is a prime example of a conservation method many farmers already undertake that could be monetized for their benefit. Farmers are, by nature, conservationists, and wheat growers as a group have seen every possible natural disaster over the term of the 2002 Farm Bill. Our growers are excited about furthering their activities in an effort to help the environment.

New Uses

Like most agricultural organizations, NAWG has long been interested in the development of new uses for our products. With increasing and unstable prices for petroleum, there is great opportunity for products that are traditionally petroleum-based to be made using agricultural products. We continue to pursue these and other new uses for wheat and wheat products.

Technology

Biotechnology and other advanced genetic technologies have great promise to increase the value proposition to the wheat industry by reducing input costs and increasing quality and value, including nutritional value. Conversely, the adoption of traits like drought tolerance in corn could exacerbate the downward trend in wheat plantings. NAWG continues to work with other organizations, including our sister organization, U.S. Wheat Associates, to reach out to other, major wheat-producing countries and move the industry toward responsible commercialization of the first wheat biotech trait.

Trade

Trade is extremely important to wheat producers; about half of U.S. wheat production is exported. As world trade is liberalized, there is potential for more demand for high-quality agricultural products, including U.S. wheat, which is among the highest quality and most reliable of its type in the world. However, while these opportunities are abundant, U.S. farmers operate at a severe disadvantage relative to farmers in the E.U., which subsidizes its farmers at a rate six times greater than the U.S., and other countries where agriculture production is protected by an average worldwide bound tariff of 62 percent, which compares to an average U.S. tariff rate of less than 12 percent.

Other Farm Bill Recommendations

COMMODITY TITLE

In addition to the changes outlined above:

- NAWG opposes any type of means testing to establish eligibility for or restrict participation in federal farm programs.
- NAWG supports the continuation of the three entity provisions of the 1996 FAIR Act and separate identity rights for spouses actively engaged in farming.
- NAWG supports creating a separate market classification for Hard White Wheat.

CONSERVATION

NAWG believes that all components of Title II are important and that full and adequate funding for conservation programs should not come at the expense of full and adequate funding for commodity programs; the conservation title should not replace the commodity title. NAWG further believes that participation in a conservation program does not create a new right of public use and fully protects all otherwise applicable private property rights.

NAWG makes the following recommendations for Title II:

Conservation Reserve Program (CRP)
- CRP should be continued and renewed.
- CRP should be limited to the most highly erodible soils.
- CRP payments should reflect local rental rates.
- Any wheat base acreage enrolled in CRP should be restored, but not updated, upon the expiration of the contract.
- CRP acreage should be capped at 39.2 million acres.

Conservation Security Program (CSP)
- CSP should be fully funded and returned to its original purpose.
- If CSP is not fully funded, the "priority watershed" concept should be implemented.
- Choice of crop protection products should not qualify or disqualify producers from participating in CSP.

Administration
- NAWG does not support consolidating the conservation programs administered under the Department of Agriculture. However, NAWG believes that duplication and competing administrative functions should be removed to provide a streamlined sign-up process for these conservation programs.

Other
- NAWG also opposes the proposed sod saver provision from the Administration that would make grassland (rangeland and native grasslands, not previously in crop production) acres that are converted into crop production permanently ineligible for farm price, income support and other USDA program benefits.

TRADE AND FOOD AID

NAWG supports fair and open trade of wheat throughout the world. Nearly half of U.S. wheat is exported and, since 95 percent of the world's population lives outside of the United States, wheat growers recognize that expanded markets will likely be overseas. In addition, wheat growers continue to support food aid programs. However, our requests for Title III cannot come at the expense of the commodity or conservation titles.

To facilitate trade, the wheat industry:
- supports funding of the Market Access Promotion (MAP) program at no less than $300 million annually.
- supports the use of funding allocated to the Export Enhancement Program (EEP) to enhance U.S. wheat exports and market development programs until all export subsidies have been eliminated.
- supports increased funding for CCC export credit programs.

- supports funding of the Foreign Market Development (FMD) program at no less than $55 million annually.
- supports continued legislative authorization of the cooperator program as a line item in the CCC budget.
- supports producer oversight of the allocation of cooperator program funds.

In the area of food aid, the wheat industry:

- opposes any attempt in the World Trade Organization (WTO), or in any other venues, to require that food aid be given as "cash only" instead of allowing donor nations to provide food directly as emergency and development assistance.
- supports funding food aid programs at levels no less than the amounts needed to provide food donation levels of at least 6 million metric tons annually, of which 3 million metric tons should be wheat.
- supports the original intent of the Bill Emerson Humanitarian Trust, that it provide direct food aid and should not be sold back into the U.S. domestic market. The wheat industry also supports the Emerson Trust being replenished in a timely manner.
- believes that current programs administered by the U.S. Department of Agriculture are effective and should remain under USDA management.
- believes that, except in times of emergency, U.S. food aid programs should be comprised of U.S.-produced food.
- opposes withholding of food aid for political purposes.

CREDIT

NAWG supports financing programs for beginning farmers. In addition, NAWG supports the continuation of and increased funding for the FSA guaranteed loan program. NAWG supports full funding for the FSA reduced interest loan program.

RURAL DEVELOPMENT

NAWG is supportive of rural development programs but strongly opposes the diversion of money from other areas of the Farm Bill for these efforts.

RESEARCH

NAWG supports funding for the mapping of the wheat genome and international triticae mapping initiatives. NAWG also supports funding for research into fusarium head blight and other wheat-related diseases and pests, as well as for other research initiatives that would benefit wheat growers.

ENERGY

NAWG supports utilizing Conservation Reserve Program (CRP) acreage, or land to be enrolled in CRP, for the purpose of planting and harvesting dedicated energy crops including, but not limited to, switchgrass. This should be carried out in a manner that maintains the environmental benefits that CRP is designed to achieve.

NAWG also supports the Commodity Credit Corporation offsetting 40 percent of the cost of cellulosic feedstock for the first year of a cellulosic ethanol refinery's life. A similar program intended for other types of biofuel, the CCC Bioenergy Program, expired in 2006, and should be reauthorized to support cellulosic ethanol feedstocks, including dedicated energy crops or agricultural/forestry residues. The program could be simplified to provide a per gallon payment rate, consider a payment limit per eligible entity and be terminated as cellulosic ethanol becomes commercially feasible.

NAWG is highly supportive of programs to encourage the development of a viable renewable energy sector, but strongly opposes the diversion of money from other areas of the Farm Bill for these efforts.

OTHER PRIORITIES

NAWG supports creating a Hard White Wheat development project that would focus on achieving critical mass. U.S. Wheat Associates' HWW Committee will draft a plan that includes a research component and an infrastructure development component. A draft concept paper is available at http://www.wheatworld.org/pdf/Draft%20HWWDP%20(2).doc and will be updated as necessary.

NAWG believes that a nationally-uniform regulatory structure for biotechnology regulation is essential to successfully utilizing this technology. Accordingly, we propose amendments to the Grain Standards Act that would ensure a uniform, national regulatory structure.

NAWG supports federal pre-emption of state labeling requirements for biotech products to ensure that labeling is voluntary, consistent with U.S. law, consistent with international trade agreements, truthful and not misleading.

NOTES

Both the NAWG Domestic Policy Committee and the NAWG Board of Directors began examining several farm policy proposals and options as early as April 2005 to ensure that the organization's recommendations to Congress would provide the best possible safety net for wheat growers.

Proposals that the NAWG Committee and Board examined included several revenue assurance-type programs, including options outlined by the American Soybean Association, the National Corn Growers Association, a NAWG Domestic Policy Committee proposal and most recently, program recommendations from the U.S. Department of Agriculture.

While these programs continue to sound good in theory, after much analysis, we have determined that these programs just won't work for wheat growers. Most are based on a 70 percent cap, and/or either a three-year average or five-year Olympic average income that is used to determine a producer's "target" revenue.

Wheat is grown mostly in areas of variable production that have experienced several recent years of drought and other natural disasters, which brings a producer's potential target revenue much lower than it should be. That, combined with the possibility of only being able to cover 70 percent of revenue makes these programs a no-win situation for wheat growers. The recent proposal by the USDA uses the current (2002 Farm Bill) target price as the basis for figuring a target revenue. Since the current target price is far below what market conditions indicated was necessary for a reliable safety net, a new target revenue based on the same number is completely inadequate. A quick analysis of the current year situation shows that, once again, wheat growers would not receive any support out of the Department's proposal.

In addition, it has been suggested by other commodity groups that, rather than looking at a historic cost of production factor in determining farm policy, historic prices should be used. NAWG members disagree with this principal. Every producer understands that price does not accurately reflect the real economic situation that farmers face. While we also examined proposals based on historic price, we believe that covering your costs is the only key to survival. We also understand that the agronomics of each crop are different, but a proposal based on historic price will not work for wheat growers.

Conclusion

A recent study indicated that wheat production itself provided an average of about $21.5 billion per year to the economy between 2003 and 2005. In addition, about 206,000 jobs were provided through the activities of the wheat industry. Agriculture is responsible for about 15 percent of this country's GDP and more than 25 million jobs. The biggest beneficiary of the farm safety net are American consumers, who continue to pay less as a percentage of income for their food than consumers in any other developed nation.

The fact that American consumers enjoy the most abundant, least expensive, highest quality and safest food is no accident – it is a direct result of U.S. farm policy. For a very small slice of the federal budget - less than ½ of 1 percent - U.S. agriculture policy delivers substantial benefits to consumers, while conserving the nation's natural resource base, sequestering carbon and providing basic goods for trade and manufacturing jobs throughout the country.

Thank you again for the opportunity to be here today. I look forward to working with you as you begin writing the 2007 Farm Bill. I am ready to answer any questions you may have.

DOCUMENTS SUBMITTED FOR THE RECORD

APRIL 25, 2007

Statement

Of

American Cotton Shippers Association

On

2007 Farm Bill
Part III, Challenges and Opportunities Facing American Agricultural Producers

To the

Agriculture, Nutrition and Forestry Committee

United States Senate

Washington, DC

April 25, 2007

Statement
Of
The American Cotton Shippers Association
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Interest of ACSA

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

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

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

The U.S. Cotton Situation

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

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

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

Recommendations

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

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

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

Reform & Compete

The Committee has critical choices to make at this time:

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

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

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

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

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

U.S. Cotton Program Recommendations

1. Maintain the marketing loan.

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

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

4. Loan program:

    a. Maintain the base quality at 41434.

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

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

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

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

    d. Eliminate Location Differences.

    e. Loan Terms FOB Truck All Charges Paid.

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

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

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

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

i. Support a Step 2 payment for domestic mills.

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

Prepared by

Informa Economics

For

American Cotton Shippers Association (ACSA)

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

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

Scope and Methodology

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

Overview Of Current Cotton System

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

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

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

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

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

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

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

The Survey

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

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

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

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

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

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

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

Maintain marketing Loan:

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

Loan program suggestions

a. Maintain base quality at 41434:

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

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

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

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

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

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

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

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

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

d. Eliminate Location Differences

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

e. Loan terms FOB Truck All Charges Paid.

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

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

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

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

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

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

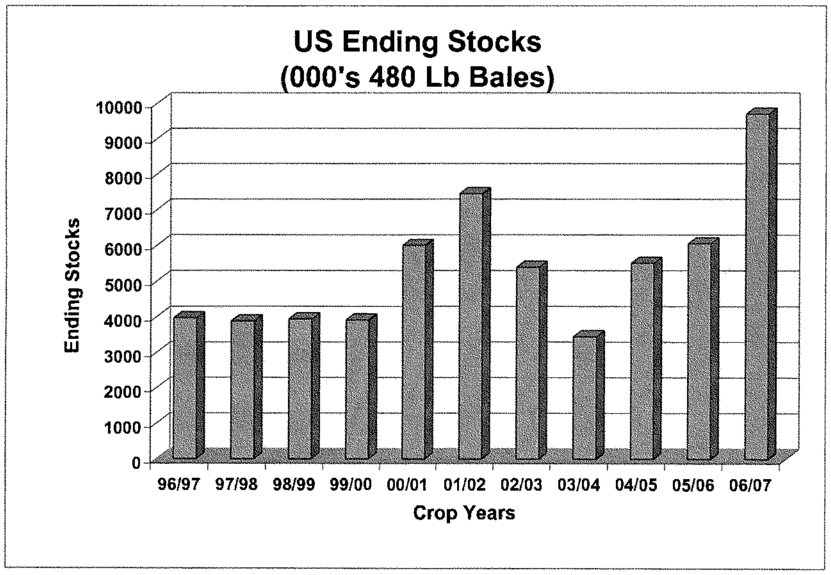
h. Loan rate determination – Should the loan be established at 85% of a 5 year Olympic Average price capped at 51.92 cents per pound, as suggested by USDA, this would increase a producer's risk to payment limitations on counter-cyclical payments. Therefore, the current counter-cyclical payment limit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

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

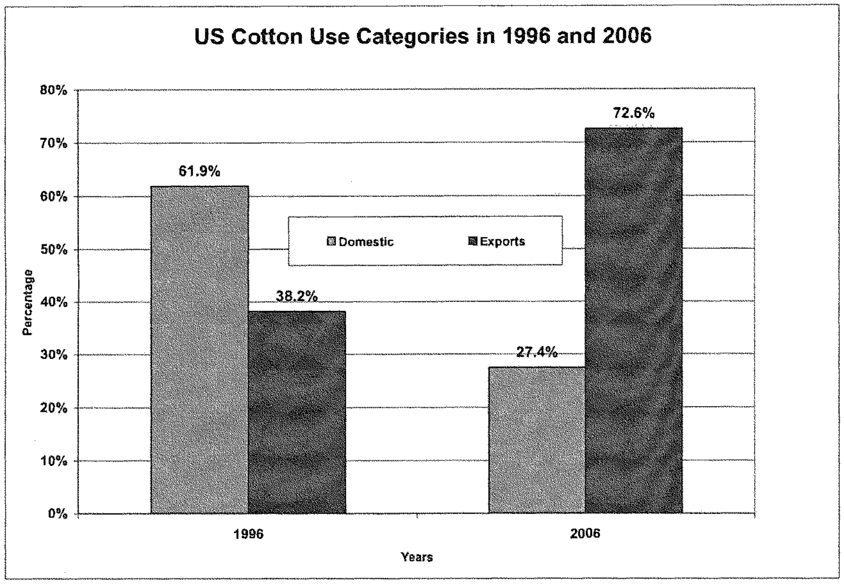
Current Cotton Situation

US Cotton Demand Is Now Predominately The Export Market

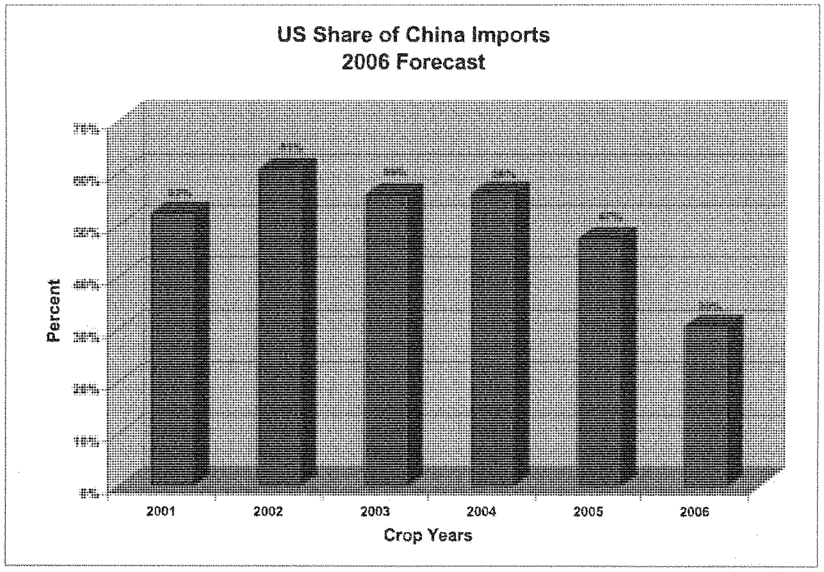
The cotton fundamentals are currently characterized by oversupply, with the US supplies unable to be offered competitively in the international market. Production has improved significantly with increased yields and higher quality cotton. The US is now producing the quality of cotton that the world demands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



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

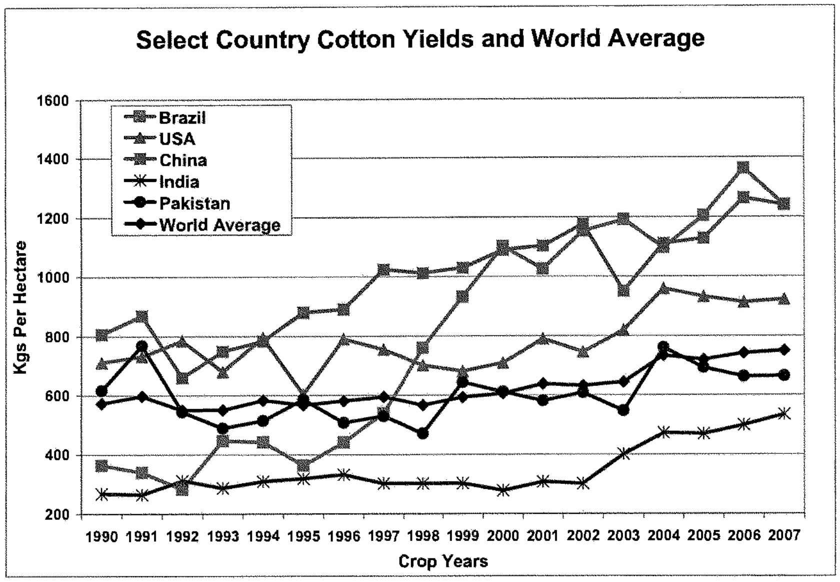


The dramatic shift has been due to the strong competitive advantage of the Asian textile industry. This year Asia is expected to consume about 83% of world cotton mill use compared with about 65% in 1996. The US domestic market is expected to consume about 4% compared with about 13% in 1996. The US cotton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



Foreign Export Competition Increased in 2006

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



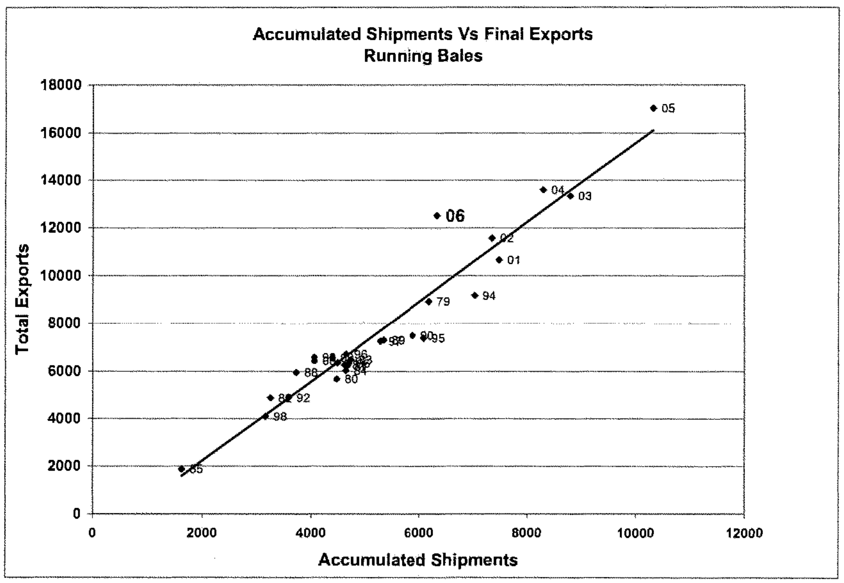
Export Sales Are Anemic

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

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

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

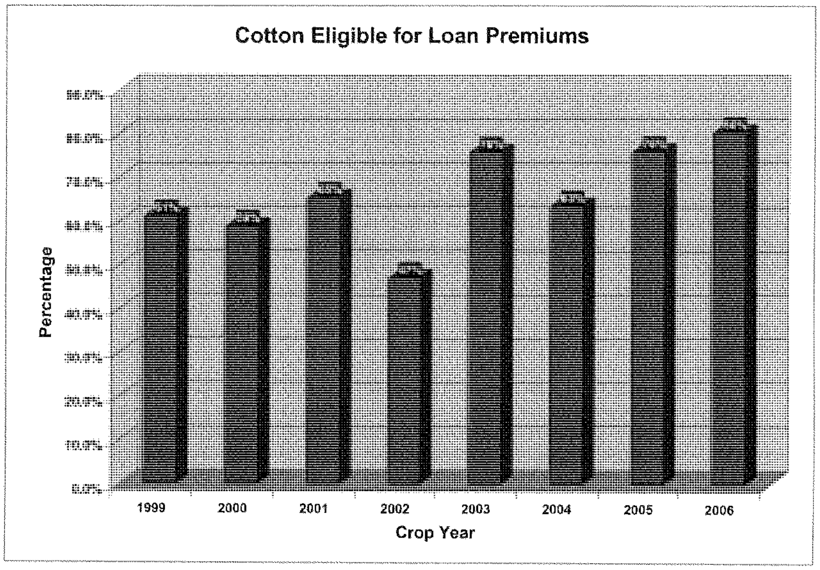
The situation can be summed up as a difficult environment with loan prices higher than the world competition and the inability to be competitive without Step 2. A slightly higher than "normal" A Index also allowed foreign competitors to undercut the US export price. The marketing loan has served the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



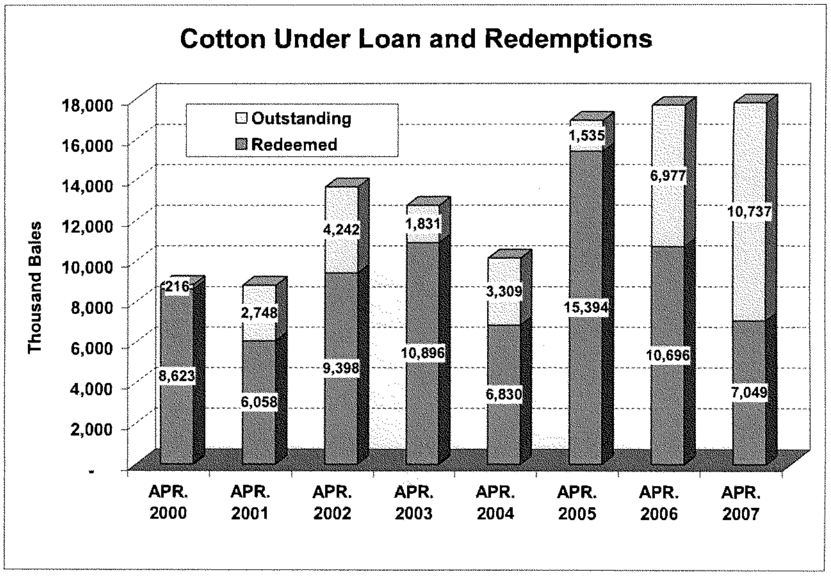
Problems

Cotton Continues To Move Into The Loan Program – And Stay

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



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



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

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

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

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

Table A

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

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

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

Table B

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

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

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

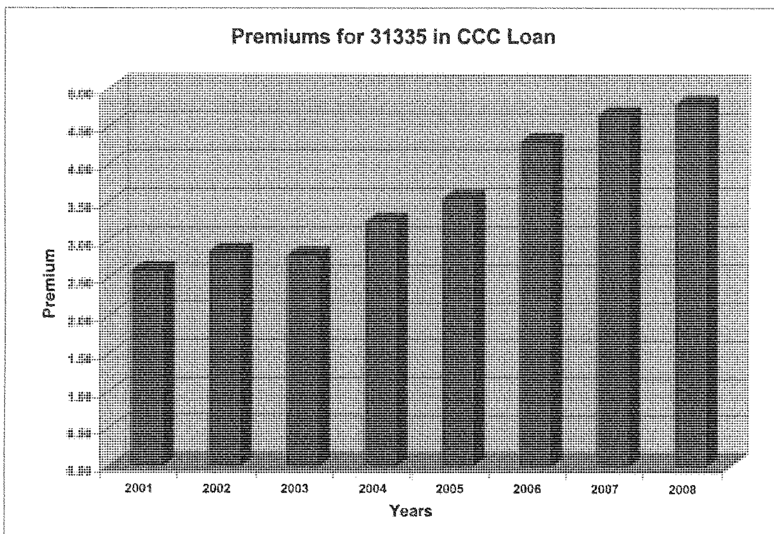
Discount in CCC Loan Schedule

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

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

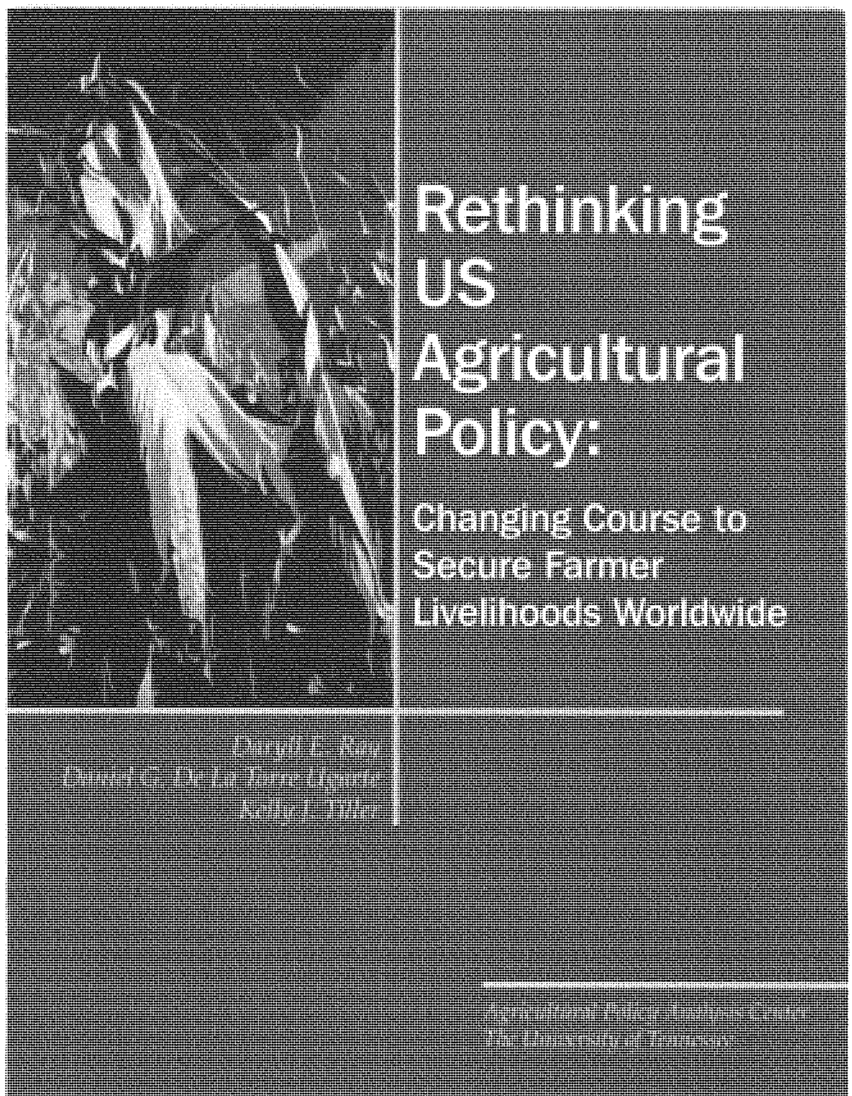
Location differentials in the loan were practical when US mill use was over 60% of US demand but they serve no practical purpose in today's export oriented container driven market. Location differentials do nothing to enhance the marketing of US cotton nor do they make an appreciable difference to the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

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



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

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


Rethinking
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Daryll E. Ray
Daniel G. De La Torre Ugarte
Kelly J. Tiller
Agricultural Policy Analysis Center
The University of Tennessee

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Rethinking US Agricultural Policy:
Changing Course to Secure Farmer Livelihoods Worldwide

Disastrously low prices are plaguing farmers worldwide. A deliberate shift in American agricultural policy in the 1990s has paved the way for these depressed crop prices with no mechanisms in place to change the situation. Prices declined after 1996 because that year's Farm Bill dropped several traditional, crucial safeguards for managing supply and supporting prices.

Conventional wisdom suggested that American agriculture could look forward to a sound future of expanding demand for farm exports. It was thought that the agricultural industry had developed enough to fend for itself, unfettered by restrictive government programs. That wasn't how it worked out.

Since US policies influence the fate of farmers well beyond our borders, policy approaches addressing the needs of US farmers should recognize our larger global influence.

This study

- Explores why the changes in US policy brought about by the 1996 Farm Bill produced declining revenues;
- Demonstrates that the solution to global low prices involves considerably more than just eliminating subsidies; and
- Introduces a policy blueprint that would raise crop prices universally, thus contributing to a healthy and vigorous worldwide agricultural industry.

Changing US policy alone cannot solve the global crisis in agriculture, but it is an important step toward a global cooperative solution that can benefit farmers around the world.

September 2003

Daryll Ray

Daniel De La Torre Ugarte

Kelly Tiller

Agricultural Policy Analysis Center

The University of Tennessee

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EXECUTIVE SUMMARY

Perhaps at no other time in history has so much attention from outside the United States been focused on what is ostensibly a domestic matter—US agricultural policy. And with good cause. Since the late 1980s, but particularly since 1996, the US government's official policy has been to permit, even encourage, a free fall in domestic farm prices while simultaneously promoting rapid liberal trade measures to open new markets for US products.

US farmers, the intended beneficiaries of these policies, have languished, despite official rhetoric to the contrary. Meanwhile, major agribusinesses have thrived, while aggregate US exports remained flat, and farmer income from the marketplace declined dramatically. The precipitous decline in prices of primary commodities, especially grains, is providing agribusiness and corporate livestock producers access to agricultural commodities at below the cost of production, consolidating their control over the entire production and marketing chain.

Today, farmers the world over face an agricultural crisis of immense scope and gravity.[1] Plummeting world prices have followed the US lead, where prices of primary agricultural exports (corn, wheat, soybeans, cotton, and rice) declined by more than 40 percent since 1996. US farmers continue to be forced off the land despite a massive infusion of government payments intended to compensate for lower prices. The impact on farmers in other countries has been even more devastating. From Haiti to Burkina Faso, the Philippines to Peru, these unprecedented low prices have destroyed livelihoods and reaped a harvest of desperation, hunger, and migration.

Solutions to this alarming predicament for the world's farmers depend entirely on how one interprets and understands the responses to two key questions: How do farmers' planting decisions respond to price signals? How do their domestic and export customers respond to price signals? In answering these questions, this paper demonstrates that, in the aggregate, neither crop supply nor crop demand is very responsive to changes in price. A thorough analysis of the historical data on US policy and its influence reveals the truth of what impact that policy has had on farmer incomes. Farmers have tended to respond by doing what they know best: plant and produce more food, guaranteeing their continued financial distress.

Clearly, stopping this cycle requires more than most critics of US policy suggest: that merely eliminating direct payments to farmers will help in the quest to raise farmer incomes via the market.

Instead, a thoughtful examination shows conclusively that government must play a major role in helping to manage excess capacity if prices are to be held within a hand that is reasonable for both producers and consumers. Government policy must continue to keep the engine of the agricultural train running ever more efficiently through its investment in research, extension, technology, credit and marketing, but it must also be willing to slow down the train through the careful and judicious application of a variety

[1] See, for example, *Rigged Rules and Double Standards: Trade, Globalisation, and the Fight Against Poverty*, Oxfam International, 2002, especially pp. 115-117.

of policy tools, many of which were abandoned in the 1990s.

US policy makers bear much of the responsibility for bringing about the alarming conditions facing world agriculture today. So it is obvious that policy makers must respond with fresh thinking and a willingness to consider alternative approaches. This paper explores alternative scenarios for the future, based on simulations of policy instruments and their impacts on prices and production levels. Finally, it offers a blueprint of policy options that enhances farmer livelihoods in the US and around the world.

Impact of US Subsidies

Efforts to decipher the causes of the present crisis have cast a spotlight on one of the US's most visible and, for most, egregious examples of hypocrisy and double-speak: the extremely high level of US government payments to farmers while simultaneously encouraging other countries to reduce domestic agricultural supports. Although these payments have technically fallen within our support reduction commitments under the World Trade Organization (WTO), they have risen dramatically since 1996 and stand as a testament to US admonitions to "do as I say, not as I do," when it comes to trade liberalization. The severe drop in farm income that would have occurred in the absence of this compensation has been cushioned by these payments, which exceeded $20 billion annually for the last several years.

Lacking comparable support from their own governments, farmers in the developing world find themselves experiencing the full force of the price reductions. Meanwhile, farmers in other subsidizing countries, such as the European Union (EU), complain that the US policies amount to unfair trade advantages. Negotiations within the WTO to come to a common Agreement on Agriculture are completely bogged down as a result, with positions hardened on all sides. While specifics may differ, many point accusingly at the US for what are perceived as serious violations of the principles of free trade in agriculture.

How Did We Get Here? Policy Choices Dictate Prices and Payments

The crisis agriculture faces today is no accident. It is the direct result of expanding productive capacity while ignoring the need for policies to manage the use of that capacity. US officials replaced mechanisms for supporting prices and managing aggregate supply with a sudden preference for an unregulated free market. The outcome has been disastrous but predictable. US farm policy removed set-asides, crop reserves, and price support tools, leaving no way to deal with low prices, except for emergency government payments to compensate for farmer income losses.

As price supports were phased out and eventually replaced with marketing loans and income support payments, crop prices tumbled to depths not seen since the 1970s. Even when crop stock levels diminished, tighter market conditions did not lead to normally predictable higher prices. This would be a red flag in any industry, and it is an indication of the significant dangers that current US policy has created. Long-standing expectations about just how low prices could be driven are now in question, with no real bottom in sight and thus, no pressure to drive up prices despite tight world supply. Many agricultural experts feel that the extraordinary agribusiness consolidation now occurring has discouraged the normal price increases that would accompany tight supplies.

The Exportation of Poverty

Finally, US pressure to open new markets resulted in the removal of tariffs and quotas protecting price levels in fragile agricultural sectors throughout the developing world. Dumping of US products increased along with a chorus of voices claiming unfair trade practices. A recent (2003) paper from the Institute for Agriculture and Trade Policy estimates that dumping levels, or the extent to which the export price is below the actual cost of production, are astounding: 25 to 30 percent for corn, 40 percent for wheat and an unconscionable 57 percent for cotton.[2]

Less understood is the complex relationship between subsidies and prices. Subsidies are US government payments made directly to producers. Most critics of these payments, which nearly tripled since the key turning point of 1996, point to their role in increasing production, thereby glutting the market and forcing prices lower. Instead, this study provides evidence to show that the relationship is far from a linear one, with the reality far more complex than many would have us believe. US production of the eight major crops[3] increased as land previously idled by government set-aside programs was brought back on-line. In the absence of traditional supply management and price support tools, prices declined sharply. Faced with drastic impacts on net farm income, the US government responded by paying farmers compensatory sums to help close the gap. These payments began as so-called "emergency payments," in response to the first market shock in the late 1990s. By 2002, it had become clear that farmers and the rural banking sector would not be able to survive on incomes derived solely from the market. Direct payments decoupled from planting and production decisions were reinstated. Additional direct payments are automatically triggered as prices decline, so that subsidies are both fixed and automatic. If this practice does not change, one can expect US government outlays for farm programs over the next ten years (2003 to 2012) to exceed $247 billion.[4]

Consolidation Aided by US Payments and Low Prices

Yet even with these enormous sums being pumped into the system, farmers are failing. For many, the payments do not close the gap between the cost of production and the market price, and the distribution patterns only reinforce the long-standing bias in US agriculture for bigger, less diversified farms. USDA figures show, for example, that between 1993 and 2000, the US lost nearly 33,000 farms with annual sales under $100,000.[5]

Some might argue that, painful as it is, these "adjustments" to the market are essential to re-balance supply and demand in US agriculture. This is simply not so. The number of farms and farmers continues to decline, but the amount of cropland in production remains relatively constant, as seen in

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[2] *US Dumping on World Agricultural Markets*, Institute for Agriculture and Trade Policy, 2003. Available at www.tradeobservatory.org.

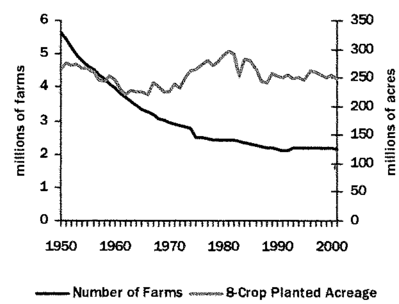
[3] Eight major crops—corn, soybeans, wheat, grain sorghum, barley, oats, cotton, and rice—account for about 74 percent of total cropland in the US. These same crops are the primary "program" crops and receive about 70-80 percent of all government payments. Five crops—corn, wheat, cotton, soybeans, and rice—figure prominently in world export markets and account for over 75 percent of total US crop exports.

[4] Estimates of federal outlays are from the March 2003 Congressional Budget Office (CBO) baseline of Commodity Credit Corporation (CCC) and Federal Crop Insurance Corporation (FCIC) projections. These estimates include price and income support programs, export credit programs, conservation programs, and crop insurance programs but do not include other programs authorized in the Farm Bill, such as nutritional assistance (e.g., Food Stamps).

[5] Calculation by *Public Citizen* from data provided in the US Department of Agriculture Farms and Land in Farms Reports. "Farms and Land in Farms," USDA National Agricultural Statistics Service, Feb. 2001; "Farms and Land in Farms Final Estimates 1993-1994," USDA NASS, Jan. 1999; "Farms and Land in Farms Final Estimates 1988-1992," USDA NASS, Jul. 1995; Cited in "Down on the Farm: NAFTA's Seven-Years War on Farmers and Ranchers in the US, Canada and Mexico," Public Citizen, 2001.

Figure 1

Number of US Farms and US Cropland Planted to the Eight Major Crops, 1950-2001



Since 1950, the number of farms in the US has steadily declined from nearly 5.5 million to under 2 million today.

Despite a loss of more than half of the farms, total cropland devoted to major crops has remained relatively constant in the 250 million acre range. The current average cropland acreage per farm is 2.5 times the level it was in 1950.

Not reflected in this graph is the impact of production technologies over time, allowing ever higher levels of production from the same number of acres and fewer farmers.

Source: USDA, National Agricultural Statistics Service

Figure 1. New production technologies are increasing productivity on those cropland acres, further expanding production.

The unchecked continuation of this trend will surely result in an agriculture dominated almost exclusively by large, highly-mechanized farms planted fencerow to fencerow with the scant selection of crops such operations produce best: corn, wheat, rice, cotton and soybeans. In other words, the policies of the 1990s accelerated the changes in the composition of our farm sector and the degree of its consolidation (including within agribusiness).

Diversified, independent, owner-operated farms are rapidly disappearing, as seen in Figure 1. Many of the remaining small farms may well be controlled by large agribusiness firms through contract production. Such a future spells ruin for farm-dependent rural communities and small and moderate-size farms within the US and around the world. The future is especially grim for the 2.5 billion people in developing countries who depend on agriculture for their livelihoods. Continued access to markets and fair prices for their products means the difference between sustainable livelihoods and disaster.

Eliminating US Subsidies is Not Enough

The elimination of domestic subsidies is the key issue dominating international negotiations on US agricultural policy. While some in the European Union or Cairns Group countries demand an end to US subsidies as a point of fairness or to equalize perceived market advantage, the developing world seeks an end to these subsidies as a point of survival. The goal, well beyond that of merely ending direct payments to US farmers, is to restore a measure of sustainability for the world's poorest farmers for whom receiving better prices—that is, fairer prices—in the marketplace is absolutely critical.

One seemingly rational theory is that the elimination of subsidies will force US farmers to confront the disciplines of the market and respond. It is thought that once the cushion of subsidies is removed, the market will force a reduction in US supplies and a subsequent price increase. Just as low US prices have been transmitted around the world, so would the higher prices, ultimately benefiting agriculturally-dependent countries throughout the world.

However, two separate models testing this scenario reveal a surprising outcome. The removal of subsidies, while causing significant repercussions for farmer income in the US, would not reduce overall US production in a timely fashion or result in substantially higher prices either domestically or on the world market. While prices for cereals in particular would rise over time, the magnitude of the rise (only three percent by the year 2020) means this option does not represent any reasonable or timely improvement for the livelihoods of the world's poorest farmers.

Turning to the US, the consequences of instituting such a policy change are so dramatic that this option is not likely ever to have real political viability in its most absolute form. The drastic reduction of between $11 and $15 billion in net farm income from the average of $48 billion projected under present policies would have enormous repercussions for the rural banking system and, more broadly, for rural economies. This loss of between 25 and 30 percent of net farm income would result directly from the elimination of direct government payments, and crop producers would bear a disproportionately large portion of the drop in income. The decline in income would occur at a time when many feel US agriculture is already in crisis.

Under the more likely scenario of staged reductions in payments, net farm income continues to drop, largely because of the fundamental inability of the sector to self-correct in time. Even in an environment of chronically low prices and farm income, farmlands do tend to stay in production, and aggregate production does not decline enough to drive up prices in any appreciable sense. There would, however, be some adjustments in the mix of crops planted, with cotton and rice losing ground to corn, wheat and soybeans. Some advantages would accrue to cotton and rice farmers in competing countries by reason of the reduced exports in these US crops, but this benefit would not likely persist for long. After a portion of the land in other countries is switched to cotton or rice in response to higher prices, prices would again face downward pressure.

Blueprint of a Workable Alternative

No one policy instrument can be said at this point to hold the key to resolving today's crisis, though several tool combinations hold promise. Their choice and application should result from a careful balancing that seeks to do in concert what none could accomplish alone. This study has identified and conducted a preliminary analysis of a set of policy instruments with potential to increase market prices to a reasonable and sustainable level and effectively manage the excess capacity in US agriculture. This set includes a combination of (1) acreage diversion through short-term acreage set-asides and longer-term acreage reserves; (2) a farmer-owned food security reserve; and (3) price supports.

Acreage Set-Asides. The main objective of annual acreage set-asides is to avoid or to reduce the current tendency toward very low prices by inducing farmers to idle a portion of their working cropland. Longer-term land retirement in the form of a Conservation Reserve Program—a tool already in use—would serve to curb excess productive capacity. Farmers could select some of the most environmentally sensitive cropland and thus ease the environmental burden caused by farming activities

Inventory Reserves. The second policy element, a food stock or inventory management reserve program, would reduce the occurrence and modify the size of price spikes for major commodities. In exchange for a storage payment, farmers would enroll a share of their production in an on-farm storage program when prices are below a threshold level. When prices rise above the threshold, producers would be provided with an incentive to sell their reserves until the price dropped.

Price Supports. The third policy element, price supports, would provide an added measure to help avoid price collapses. Government price supports would be activated through government stock purchases triggered when prices fall below a threshold level, or when set-asides "miss" a low price event.

The authors used a simulation model to examine the impacts of this specific combination of policy measures on production levels and prices. The results of simulating these policy changes are remarkably clear: not only would total cropland planted to the eight major crops drop by 14 million acres in the first year, but prices for the major commodities would increase from a low (for soybeans) of about 23 percent to more than 30 percent for corn, with rice and wheat not far behind. The general increase in the prices of all commodities would lead to net farm income levels close to and above that obtained through a continuation of the status quo, while at the same time reducing government payments significantly below the status quo projections, saving about $10 to $12 billion per year.

Beyond these advantages, production levels could be managed by the diversion of acreage away from traditional tradable crops and toward a non-food, non-tradable crop, such as a bioenergy-dedicated crop like switchgrass, a perennial grass native to the US with high cellulose content.[6] When the annual set-aside was replaced with an incentive to develop a bioenergy-dedicated crop in the simulation model, results demonstrated overall levels of price increase comparable to those achieved by the set-aside policy. This illustrates that annual set-asides, while convenient, would not have to be a necessary component of the program.

Further, results similar to those demonstrated by introducing switchgrass could also be achieved by expanding the acreage enrolled in the Conservation Reserve Program (CRP). Such an approach may also contribute additional environmental benefits. Moreover, if necessary, land diverted to bioenergy-dedicated crops or placed in the CRP could be brought back into production of major crops if unexpected weather or other events jeopardizes the supply of food or demand conditions warrant.

Because the US is a major crop exporter and price leader, this policy blueprint would have immediate impacts, though over the short run. To sustain the improvement in farmer income over the long term, the US would have to be joined by other major agricultural players.

A Farmer-Oriented Agricultural Policy

This illustrative policy blueprint is described as "farmer-oriented," because fair prices from the marketplace would contribute less to concentration and consolidation of corporate control over the farm-to-consumer chain. Net farm income for the US agricultural sector as a whole would be approximately the same as under the scenario of continued present policies, yet independent diversified family farmers would once again

[6] Switchgrass can either be co-fired with coal to produce electricity, while reducing the level of pollutants released into the atmosphere, or it can be processed into ethanol for the production of fuels with consequent environmental benefits.

have every reason to believe they could continue in farming, preserving their rightful role in the production of our food. Family farmers would have more hope for better incomes than under the often-unfair subsidy based system.

US government outlays could drop by more than $10 billion per year, certainly good news for taxpayers. And most importantly, perhaps, it would discourage dumping US products into vulnerable developing countries. Higher prices would be transmitted to the world market, helping to restore the prosperity for rural economies on which national economic development relies.

Conclusion

It is time to acknowledge that the low-price US farm policies benefit agribusinesses, integrated livestock producers, and importers, but are disastrous for the market incomes of crop farmers in the US and around the world.

Any policy that fosters continued low prices for staple foods is a guarantee of continued crisis and worldwide distress. Since US policy affects farmers well beyond our borders, the welfare and future of those farmers must be part of the vision in crafting new approaches. It is time for a new Farm Bill for the world. All major exporting countries must recognize that they too bear a heavy responsibility to cooperate with the US in such an effort. US policy changes alone may yield positive results in the short run, but more permanent benefits will require international policy efforts.

High prices alone will not guarantee sustainable livelihoods for the world's poorest farmers. A range of national and international policies, from credit, land, technology and transportation to tariff protection and access to markets, are essential if agricultural production is to bring a better future for farmers. It is certain that in the absence of higher prices for producers, the US is exporting poverty, while jeopardizing its own diversified family farm base.

Current WTO rules do not expressly prohibit the use of price support and production control policy mechanisms considered in this paper. Instead, WTO commitments place a cap on the overall level of farmer payments. These mechanisms included in the policy blueprint are not in line with mainstream trade liberalization thinking. WTO promotes policy choices that rely on the assumption that some "invisible hand" in agricultural markets will move the sector—prices, supply, demand, income, structure, distribution, and the works—to a higher plane if left to the devices of the free market.

Ending today's crisis must become the most urgent mandate of those who write the rules governing domestic and international agriculture and trade policy. The way out lies not in more of the same but in a balanced application of policy measures left discarded in our headlong rush to an imagined "free market" in agriculture.

Farmer prosperity in the US and the developing world is not only possible, it is achievable. It can be ours at less cost and within a shorter time span than the hoped-for benefits of liberalized agricultural trade promised by the wealthy nations of the world to their developing country counterparts. The choice is ours to make: whose future will be protected, and what kind of global food system will be the outcome of US agricultural policy?

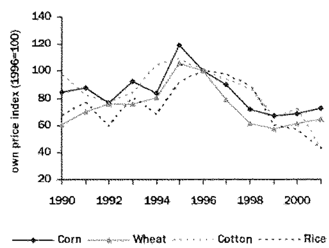
AGRICULTURE IN CRISIS

World crop prices have declined dramatically since the mid-1990s. In the US alone, prices dropped by more than 40 percent since 1995/1996. Figure 2 shows the indexed US price of four major crops that figure prominently in US crop exports: corn, wheat, cotton, and rice. The average price of the eight major crops for the 1999-2001 period was about 20 percent below the price level for the 1985-1995 period.[7] With average weather and yields, crop prices are not expected to increase significantly in the near future.[8]

As an acknowledged price leader in several key commodities and a major agricultural exporter, the US has played a dominant role in agricultural trade throughout much of the past 50 years, particularly in corn, wheat, cotton, rice, and oilseeds. During much of the last century, a major goal of US policy was to keep agricultural production in check by the use of such controls as annual and long-term acreage set-asides and management of crop inventories held by the government. This system offered incentives for farmers to participate in supply management programs.

Figure 2

Indexed US Market Prices for Corn, Wheat, Cotton, and Rice (1996=100)



Since 1996, US crop prices have generally declined about 40 percent.

Corn, wheat, cotton, and rice were selected because they figure prominently in US crop exports. These four crops plus soybeans, grain sorghum, barley, and oats—which are the eight major US crops—account for about three-quarters of US cropland and are the primary program crops, receiving about 70 to 80 percent of all government payments.

While not included in this figure, the magnitude of price drop for other major crops has been very similar to those illustrated.

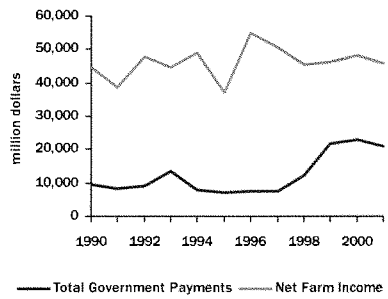
Source: USDA, Economic Research Service

[7] Eight major crops—corn, soybeans, wheat, grain sorghum, barley, oats, cotton, and rice—account for about 74 percent of total cropland in the US. These same crops are the primary "program" crops and receive about 70-80 percent of all government payments. Five of these crops—corn, wheat, cotton, soybeans, and rice—figure prominently in world export markets, and account for about three-quarters of US crop exports by volume.

[8] See, for example, the ten-year projections for major agricultural sector variables provided by the US Department of Agriculture, the Congressional Budget Office, and the Food and Agricultural Policy Research Institute (FAPRI).

Figure 3

Total US Government Agricultural Support Program Payments and Net Farm Income, 1990-2001



Net farm income includes farm marketings and government payments minus total costs.

Between 1996 and 1999, total government payments increased from under $8 billion to well over $20 billion.

From 1990-1998, government payments were about 20 percent of net farm income. From 1999-2001, government payments were 47 percent of net farm income.

Despite government payments that have tripled since 1996, net farm income declined 16.5 percent between 1996 and 2001.

Source: USDA, Economic Research Service

In recent years, however, US policy took a distinct turn in direction. It now relies on exports as the driving force of the agricultural sector. Underpinning this approach is a new-found preference for a completely unregulated free market. The objective is to allow markets to drive prices as low as they need to go in order for the US to out-compete foreign producers and capture a larger share of the world market.

Low Prices Trigger Large Government Subsidies

In response to plummeting prices triggered by the radical changes it introduced in 1996, Congress decided to pay US farmers ever-increasing amounts of direct emergency payments to compensate for low market income. Through much of the 1990s, US government agricultural subsidies ranged from $7 billion to $13 billion. As commodity prices continued to decline, government payments tripled, rising to well over $20 billion by 1999. Despite these record-level payments, net farm income in the US declined 16.5 percent between 1996 and 2001.[9] See Figure 3.

In 2001, government payments to farmers amounted to an astounding 47 percent of farmer income, up from about 20 percent in the 1990s. Despite this enormous infusion of cash, farmer income declined steadily during the same period, and many US farmers are under increasing financial stress.

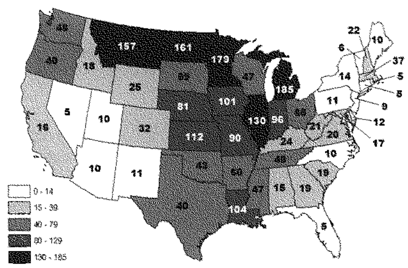
Low Prices Hurt All Farmers

As Figure 3 indicates, the magnitude of government payments to farmers since 1998 obscures the stunning drop in net farm income from market receipts. Moreover, despite their size, the government payments did not improve net farm income during the period. Figure 4 shows government payments as a percentage of net farm income for each state in 2001. The government accounted for more than 40 percent of net farm income in nearly half of the states, and eight states received payments that were more than 100

[9] Net farm income provides a measure of returns to land, operator labor, and management.

Figure 4

US Government Agricultural Support Program Payments as a Percentage of State Net Farm Income, 2001



In 2001, eight states received government payments that were *more than 100 percent* of their net farm income (NFI).

Government payments were more than 40 percent of NFI in 21 of 48 states.

The states that experienced the largest percentage of their income from government programs are also the nation's biggest crop-producing states. This further illustrates the level of dependence of US crop farmers on government subsidies for income.

Source: USDA, Economic Research Service

percent of their net farm income. The states experiencing the largest percentage of income from government programs are also some of the nation's biggest crop-producing states, illustrating the dependency of US crop farms on government subsidies.

Under the current US policy, the cost of producing major crops has been much higher than the prices charged for them.[10] As seen in Table 1, market prices in 2001 were 23 percent below the cost of production (total economic cost) for corn, 48 percent for wheat, 32 percent for soybeans, 52 percent for cotton, and 45 percent for rice. More significantly, even with the subsidies added to market income, returns for wheat, soybeans, and cotton were still well below the cost of production (19 percent for wheat, 12 percent for soybeans, and 27 percent for cotton). With the subsidies included, returns to corn were

Table 1

Per-Unit Market Prices, Total Average Cost of Production, and Government Payments for Selected Crops for 2000 and 2001

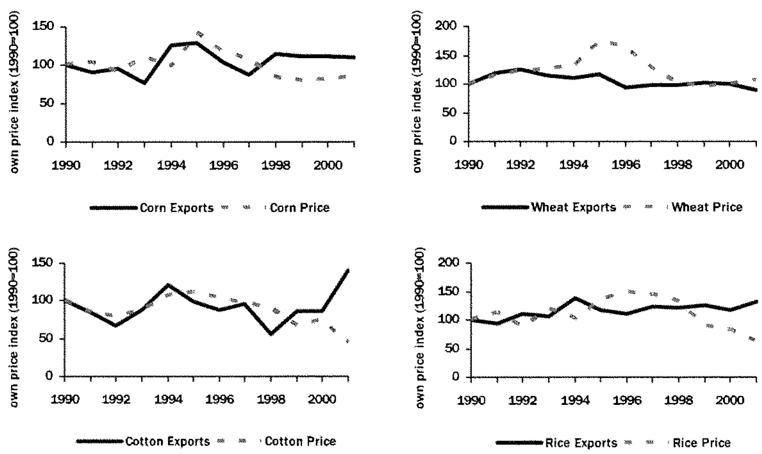
	Corn		Wheat		Soybeans		Cotton[1]		Rice	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Price	1.77	1.84	2.46	2.76	4.45	4.15	0.62	0.40	5.46	4.74
Total Avg. Cost of Prod'n	2.72	2.39	4.62	5.31	6.20	6.14	0.91	0.83	8.57	8.60
Average Gross Income	-0.95	-0.55	-2.16	-2.55	-1.75	-1.99	-0.29	-0.43	-3.11	-3.86
Government Payments	0.79	0.58	1.85	1.53	1.19	1.26	0.14	0.21	6.94	6.92
Average Net Income	-0.16	0.03	-0.31	-1.02	-0.56	-0.73	-0.15	-0.22	3.83	3.06

(1) Includes revenues from cottonseed
Source: USDA ARMS Production Costs and Returns

[10] The USDA's Economic Research Service estimates annual costs of production and returns by commodity. USDA Cost and Returns estimates are derived from Agricultural Resource Management Survey (ARMS) data. For more information on ARMS, see http://www.ers.usda.gov/briefing/ARMS/.

Figure 5

Indexed US Exports and Price for Corn, Wheat, Cotton, and Rice (1990=100)



one percent above costs while rice government payments more than compensated for the market losses (including government payments, rice revenues were 36 percent above the cost of production).

US Policy Distresses Farmers Worldwide

The negative effects of the US policy on agriculture are transferred to poor farmers outside the US through the operation of two sets of dynamics. The first is the downward pressure US prices put on world commodity prices. Low prices affect every other country, especially those driven by trade liberalization to reduce domestic and border protections for their agricultural sectors. Although the US does not hold a monopoly—it is one of a few major players in the oligopolistic world markets—low US prices consistently drive down world prices. Thus, our farm policy directly affects the livelihoods and sustainability of small farmers around the world. The persistent low corn, wheat, cotton, and rice prices illustrated for the US (shown previously in Figure 2) are indicative of world price trends for major grains, rice, and cotton.

The second dynamic is the role of low US prices in displacing exports and production from other countries. This impact affects all commodities somewhat but is of primary importance for cotton and rice. Figure 5 shows that US cotton prices declined about 70 percent since the mid-1990s. Since 1998, US cotton exports have soared, rising more than 80 percent in the last three years to their highest level in 75 years. The US share of world cotton exports has now risen to nearly 60 percent, compared to an average of less than 40 percent in the late 1990s (Meyer et

Box 1 — Farm Structure in the US

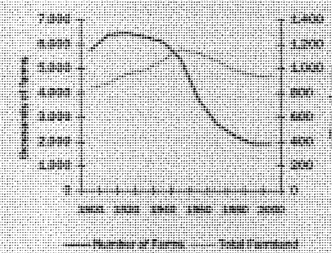
The structure of the farm sector of the US economy has undergone drastic changes over the past century. Because the farm structure both affects and is affected by public policy, it is important to briefly describe the current farm situation as pertaining to the number and size of farms, concentration of production, and tenure.

Farm production has become increasingly concentrated. The number of US farms peaked in 1920 at nearly 6.5 million farms but has fallen to under two million today. The number of acres in production continued to increase until the 1950s when 1.16 billion acres were in production. Since this peak, there has been a steady reduction in productive acres to today's level of 932 million acres. Average farm size has increased from 148 acres at the peak number of farms to 487 acres today.

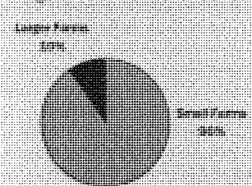
Although 90 percent of US farms are considered small farms—which are defined as those which have less than $250,000 in gross sales—they only account for 33 percent of total value of production. It is the larger farms, with gross sales greater than $250,000, which produce two thirds of agricultural goods on only 32 percent of agricultural land. Because small farmers account for two thirds of all agricultural land, they are important in any discussions regarding land use and the rural environment. Large farms receive about 47 percent of all government payments. This can be viewed as disproportionately large, if considering that large farms are only 10 percent of all farms. Alternatively, it can be viewed as disproportionately small, if considering that large farms account for 67 percent of all production.

In the 1998 Agricultural Resource Management Survey, most small farms did not report adequate income to cover expenses, therefore many small farm households rely upon off-farm income. The largest farms reported the most income after expenses.

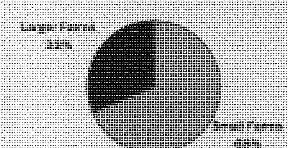
Number of Farms and Farmland Acreage in the US, 1900-2002



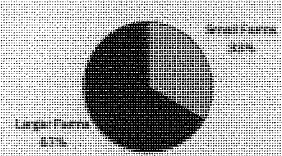
Percentage of Total Number of US Farms



Percentage of Total US Farmland



Percentage of Total US Production



al., 2003). It is important to note, however, that the US share of the world cotton market has grown primarily as a result of capturing much of the foreign demand growth during a period when foreign consumption has outpaced foreign production. Although less dramatic, US rice exports also increased as prices plummeted. This lends credence to those who argue that the US is not just offering, but dumping, commodities on the world market below the production cost to the detriment of small farmers worldwide.

Who are the True Beneficiaries of Low Prices?

Users benefit from these low prices, since US policy alters the normal requirement that the purchaser pay for the full cost of production. The users of US commodities are primarily large and often vertically integrated livestock operations, multinational agribusiness firms and importing countries (though it is often unclear whether importing country consumers directly benefit).

Integrated Livestock Producers Benefit

Government subsidies indirectly provide huge benefits to large and vertically integrated livestock producers, who purchase feed from the market at below production cost instead of growing it on-farm. This places small, diversified farmers at a competitive disadvantage, because they typically feed some crops to livestock on-farm. They thus absorb the full cost of production for the feed. In this way, low prices contribute to the growing pace of concentration in the livestock sector and the weakening position of small US farmers.[11]

A recent report by the USDA's Economic Research Service on Economic and Structural Relationships in US Hog Production illustrates the rapid changes in the livestock sector. Between 1994 and 1999, the number of hog farms in the US fell from more than 200,000 to fewer than 100,000. By 2001, the number had fallen to 80,000. Despite fewer hog farms, the number of hogs in the US did not decline, averaging about 60 million head. Thus unprecedented consolidation occurred in hog production during the 1990s. Over the past decade, the percentage of hog and pig inventory on farms with 2,000 head or more increased from 37 percent to nearly 75 percent. Just over half of all hogs and pigs were on farms with 5,000 head or more in 2001, compared with about a third in 1996.

Agribusinesses Benefit

Large, multinational agribusiness firms are able to purchase agricultural commodities from the market at prices below the cost of production. At the same time, the absence of supply control mechanisms ensures traders and processors an unrestricted availability of commodities. It also ensures input and machinery suppliers an inflated demand for their products, since the government no longer removes any acreage from production through set-asides.

Consumers (Domestic/Foreign) Benefit?

Whether consumers directly benefit from the policies that have fostered persistent low prices depends on the ability of the marketing system to transfer the lower prices to them. In some cases, agribusinesses and middlemen are able to capture some or all of the benefits of low prices. Thus it is difficult to predict whether consumers anywhere will realize benefits from lower prices. As prices fall, importing countries do require less foreign exchange to import commodities needed to feed the population, providing an opportunity for consumer benefits in those cases.

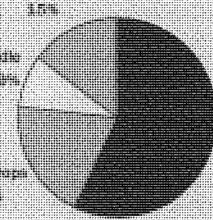
[11] For additional information about increasing concentration in the livestock sector, see Lamb (2002) and various publications and reports availale through USDA's Economic Research Service Briefing Rooms (e.g., http://www.ers.usda.gov/Briefing/Cattle/; http://www.ers.usda.gov/Briefing/Hogs/; http://www.ers.usda.gov/Briefing/Poultry/.

Box 2 — Land Use in the US

Over half of the more than two billion acres in the US is either agricultural or forest land. The other half includes urban areas, parks, swamps, deserts and other unusable land. Agricultural lands account for 455 million acres and include crop land in use, idled land, and pasture land. Pasture and idled land make up 24 percent of all agricultural land.

The eight major crops in the US include corn, soybeans, wheat, barley, oats, cotton, rice and sorghum. These eight crops cover 239 million acres or 74 percent of all crop land in production. Grains and cereals are grown primarily in the Midwestern part of the country. Cotton and rice are grown primarily in the Southern U.S.

Distribution of US Agricultural Land Usage

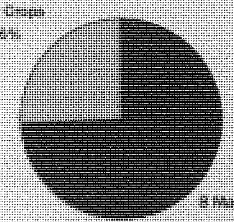


Land Use in the US

Total US Land, 1997 (1,000 acres)	2,263,254
Total in Agriculture and Forestry	1,096,588
Total Agricultural Land	455,052
8 Major Crops	238,900
Other Crops	89,801
Idle	38,839
Pasture	87,512
Total Forest Land	641,536
Grazed	140,361
Not Grazed	501,175

Source: USDA, Economic Research Service

Distribution of Total US Cropland



WHY ARE WE IN THIS MESS?

The current crisis in American agriculture is the result of deliberate changes in US policies. The US has continued the policy of expanding productive capacity, but it has discarded protective devices to manage the use of that capacity. This section reviews the changes leading to the current situation of low prices and high income-support subsidies.

The primary lesson to be gathered from the history of US farm policy is that agricultural markets do not tend to self-correct. Rather, when prices are low, production does not decline enough on its own. Nor does domestic demand or even export demand increase enough to rebalance markets and allow farmers to earn a living—that is, a profit—from selling their products.

Agricultural Policy History in a Nutshell

US agricultural policy has heavily influenced two important aspects of US crop agriculture: growth in its capacity to produce and the proportion of productive capacity used.

From its birth as a nation, the US pursued policies that promoted phenomenal growth in productive capacity, supported by the taxpaying public. In the 19th century, government chose to expand the frontier by distributing land to would-be farmers virtually free of charge.

Once most of the land was put into production, US taxpayers bankrolled a system of research stations and extension services to generate and disseminate new technologies. The system has been a tremendous success. It continues to ensure that each new generation of Americans will have access to ample quantities of safe food at reasonable prices.

The other side of the coin is that publicly-sponsored research and extension services contribute to price and income problems. Clearly, neither the US nor the rest of the world would be facing today's low prices and failing small farms if the cumulative growth in agricultural productivity had not taken place.

From the 1930s through most of the 20th century, US policies included a variety of programs that address the price and income problems arising out of our immense and fully utilized productive capacity. Most programs involved some combination of income support, price support and stabilization, production management, demand enhancement, import restriction, or conservation. Appendix A contains brief descriptions of policies implemented at one time or another under these programs along with a few specific examples. The list is not exhaustive.

The capacity to produce is not a mandate to use it fully. For example, in the manufacturing sector, between 15 and 25 percent of productive capacity is intentionally idled at any given time by reason of market supply and demand conditions (Economic Report of the President, 2003). But unlike firms in other industries, individual crop farmers do not have the ability to influence the total supply of output. Nor have farmers been successful in organizing self-help supply management schemes to adjust output to the needs of the market.

Thus, the traditional role of the federal government was to do for agriculture what it could not do for itself: manage productive capacity to provide sustainable and stable prices and incomes. Until the mid-1980s (and beyond, in some cases), the primary focus of US agricultural policy was on production management programs and price support and stabilization programs.

Production Management Programs

In effect, the Secretary of Agriculture decided how much productive capacity should be left unused each year. The government employed several devices to manage supply, but usually farmers were asked to idle various amounts of acreage. Such an approach is far from exact. For one thing, in contrast to manufacturing tractors, where the number to be built can change daily or weekly, the Secretary of Agriculture has only one opportunity per year to influence how productive capacity is to be used for next year's crop. Factors such as weather and slippage resulting from the idling of the least productive land make estimating annual production a very difficult process.

But even if mistakes occurred, adjustments could be made the following year, and the market was aware of this option. So if, in a given year, yields were high, inventories increased, and prices declined, the market responded to the high probability that a set-aside would be imposed the next crop year. Without a set-aside or similar mechanism, crop demanders will delay purchases in a high-yield year because they believe that crop prices will be as low or lower again next year.

Despite their built-in complications, supply management policies have historically prevented the chronic overproduction and depressed prices that would have occurred from a full use of agriculture's productive capacity all the time.

Price Support Programs

Price support programs put a floor under major-crop prices. So if the Secretary erred in setting aside too little acreage because of above-average yields or unusually low demand, prices were prevented from plummeting uncontrollably. The price floor was equal to the loan rate for a crop, that is, the per unit value of the crop used as collateral under a government loan. For example, if the government values a crop of 1,000 bushels of corn at a loan rate of $2 per bushel, the price floor for the crop would be $2. When the loan comes due, the farmer could "give" the grain to the government in full payment of the principal and interest on his loan, thereby receiving the $2 loan rate as the "price" for his crop. If the market price were above the loan rate plus interest, the farmer had the option of paying off the loan, plus interest, and selling his crop at the higher market price. The use of a high loan rate, especially if there are no means to manage supply, can lead to an excessive accumulation of government stocks, along with expensive storage costs.

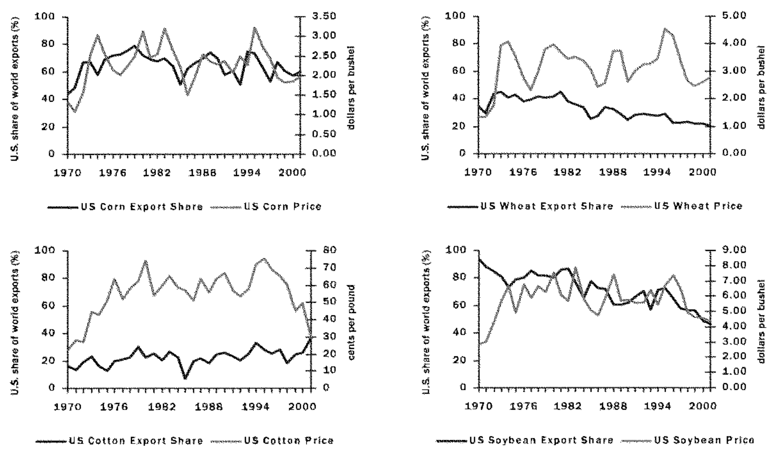
Policy Shift Toward Freer Markets

Over the last two decades, the goal to ensure growth in productive capacity has remained, but the protection of prices and farmer incomes through managing the capacity has not. Rather, the government has placed its reliance on the free market to determine prices and to make direct payments to support farmer incomes during times of low prices. To absorb excess inventory, US policy shifted away from production management and price support and toward demand expansion—especially export demand. Advocates of freer markets and trade liberalization were successful in persuading policy makers to encourage lower prices by reducing crop price supports, expecting that a barrage of exports would follow. It was expected that by modifying the "government intervention" of price supports, the US agricultural sector would quickly adjust to the greater export volume and farmers would reap the benefits of the export boom.

Since the mid-1980s, the United States has deliberately attempted to reduce market

Figure 6

US Exports and Share of World Exports for Corn, Wheat, Cotton, and Soybeans, 1970-2001



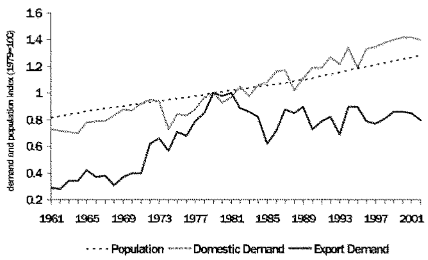
prices for commodities in pursuit of increasing US competitiveness in export markets. Emphasis on trade liberalization and the need to comply with international trade agreements further contributed to full-scale endorsement of this objective.

Despite the popular misconception among economic experts that these policies have been the source of great export growth, exports have not generally increased at all. The export boom did not materialize. In fact, as Figure 6 shows, the US share of world wheat and soybean exports has been declining steadily for the last 30 years. Corn exports have remained relatively flat, although variable. And contrary to expectations, corn exports have actually tended to increase during periods of higher prices and decrease in periods of lower prices, since the US is the world's residual corn supplier. Although the behavior of cotton typically is somewhat different, US cotton exports typically are more responsive, but even they did not "boom" as price support levels were reduced.

When the export boom did not occur, proponents of freer markets argued that the remaining government price support and supply control programs were putting a crimp on exports. In fact, a growing number of economists held the belief that commodity programs were relics of the past. It was assumed that because agriculture is less of a force in the economy today (only 2 percent of the population lives on farms, as compared with 25 percent in the 1930s), farmers are more likely to respond to low prices because they purchase more of their fertilizer and fuel rather than produce it on the farm. This thinking led gradually to the conclusion that government intervention in the agriculture sector was no longer needed. It was thought that intervention was a hindrance to realizing

Figure 7

Indexed US Domestic and Export Demand for the Eight Major Crops and US Population, 1961-2002 (1979=100)



The trend for US exports of the eight major crops has been flat since the early 1980s.

Domestic demand for major crops has increased steadily, outpacing growth in US population due to recent increases in non-food demands.

the full income potential of the agriculture sector. At the same time that conventional wisdom about the price responsiveness of the agricultural sector was shifting, the agribusiness lobby was gaining power and influence. The growing influence of the agribusiness lobby has outpaced that of grassroots farm organizations.

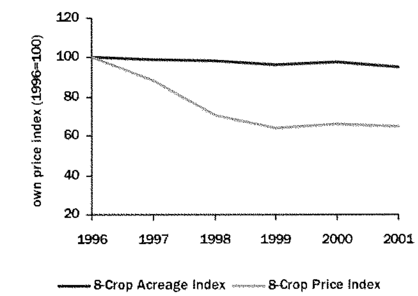
The result of this thinking was the 1996 Farm Bill, which removed all vestiges of government price supports and annual supply controls. The 1996 Farm Bill was debated and passed during a period of very high prices and high optimism for growth in the US agricultural sector. In 1995, prices of most major crops—corn, wheat, cotton, grain sorghum, oats, and barley prices—were at their all-time record highs. The high prices were primarily a result of tight world markets, compounded by weather conditions in the US that resulted in 1995 yields that were well below trend levels. At the time, USDA forecasters were projecting tremendous growth in US crop exports for the foreseeable future.

Exports of soybeans, and especially cotton, did increase and actually exceeded projections during recent years. But that was not the case for most other crops. As shown in Figure 7, the trend of US exports for the eight major crops taken together continued to be flat after 1996. The skyward export trend in the 1970s, while perhaps burned into minds, does not reflect recent reality. Domestic demand, which has grown faster than US population because of non-food demand, has been the driving force for major-crop demand for the last quarter century.

With the removal of the set-aside program, acreage previously withheld from production was freed up. With no mechanisms for acreage reduction to manage supply, the immediate response was an increase in crop acreage. It was no surprise that acreage planted to the eight major crops increased over six percent (over 15 million acres) the year the set-aside policy was removed. Inventory adjustments and world conditions staved off massive price declines, but only until 1998. Thereafter prices plummeted, and government subsidies ballooned to compensate for lost market income. Even as prices declined, the previously idled acreage that came into production in 1996 remained in cultivation. Since 1996, the indexed market price for the eight major crops

Figure 8

Indexed US Market Price and Acreage for the Eight Major Crops (1996=100)



Since 1996, crop prices have generally declined nearly 40 percent.

Even in the face of dramatic and persistent low prices, aggregate crop acreage has declined very little and very slowly.

Source: USDA, Economic Research Service

has declined by nearly 40 percent (See Figure 8). Radically lower prices did not appreciably cut the aggregate crop acreage remaining in use.

Another feature of the 1996 policy—elimination of price supports—has had the effect of sustaining the persistence of low prices. Current US agricultural policy is left with nothing to limit the downward price spiral. Even successive yearly reductions in grain stocks have not had the expected price-enhancing impacts of yesteryear. In the current environment, market participants know that no supply management programs can be used next year to raise prices. So crop demanders do not bid up prices to secure future grain needs. They rightly expect, with all-out production, prices will be as low or lower next season. Over the last five years, market participants have been more and more comfortable with less and less grain in the granary at the end of the crop year. Hence, prices have fallen much farther than they would have under similar stock conditions before 1996.

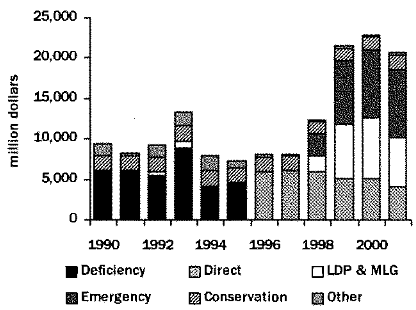
Prior to 1996, government commodity payments were generally used as financial incentives to encourage farmers to participate in supply management programs. Since 1996, government commodity payments are strictly income support payments. The Congressional response to the massive price slide was to institute record-level payments to farmers to partially compensate for lost income. Annual commodity program payments by program are presented in Figure 9. Beginning in 1998, subsidies to farmers increased by 250 percent over the period 1990-1997. Post-1997 subsidies took the form of unanticipated loan deficiency payments (LDPs), marketing loan gains, and ad hoc/emergency/disaster payments.[12]

Low prices triggered high subsidies in the US, not the reverse, as many believe. While some blame high US subsidies for low prices, the data clearly show the opposite: that higher and higher subsidies were authorized in response to lower and lower prices and incomes. The problem is not the income-

[12] While not part of this analysis, there is even conjecture that the elimination of price support mechanisms has allowed an increasingly oligopolistic grain industry to depress prices deliberately and arbitrarily.

Figure 9

US Government Commodity Payments by Program, 1990-2001



Prior to the 1996 Farm Bill, the largest share of government payments were deficiency program payments. Total government payments in the early 1990s averaged $7 billion to $8 billion annually.

In the 1996 Farm Bill, the deficiency program was eliminated in favor of a declining direct payment program. Additional program support through the marketing loan program and ad hoc emergency (direct) payments brought total payments for the eight major crops above $19 billion.

Source: USDA, Farm Service Agency; APAC Databook

support payments that were added by recent legislation but the supply control and price-supporting mechanisms that were taken away.

Low prices would not be a problem if demand increased enough to compensate for the lower per-unit price. But this is not the case. Despite record-level government payments, farm income continues to slide downward as farmers receive less and less of their income from the market (see Figure 4 showing government payments as a percentage of net farm income by state in 2001). Even as prices plummeted—making US commodities more competitive in world markets and giving rise to dumping on world markets below the average cost of production—exports remained flat.

On a Downhill Road with No Brakes

The 1996 real-time test of free markets in agriculture flopped. Small farms are failing in droves, and those that remain are in severe distress. Under the current legislation—extended in the 2002 Farm Bill with the addition of a new income support program that automates the "emergency" payments when prices are low—the accelerator works but the brakes have been disconnected. The goal of growth in productive capacity remains, but the goal of protecting farm prices and incomes by managing the level of production has been abandoned. While the large government payments to producers may have hindered the adjustment process, it is necessary also to recognize that adjusting to the low prices implies a further drop of at least $10 to $12 billion in annual net farm income. This loss of income would have devastating consequences for rural communities and small farmers.

Why Agricultural Markets Do Not Self-Correct

As seen above, once production increased and prices fell, there were no policy mechanisms in place to limit the downward spiral. The agriculture sector did not self-correct as the framers of this new policy had predicted. Though the ambitious export projections of the mid-1990s did not materialize, agriculture could have been spared if, like other industries, its markets could self-correct. In other words, if the assumption was correct that farmers are more price responsive, then they would cut back production on their own, causing a recovery in prices. But that didn't happen. As seen, the government's response to low prices was to pay out record subsidies to compensate for lost income created by low prices. The cause of the low prices was the elimination of government price support and acreage reduction programs. The farmers were simply cultivating more cropland than the market could handle.

The overriding problem is that agricultural markets do not self-correct. Why? Other industries self-correct. Why doesn't agriculture? If that were known, perhaps future policy dead ends can be avoided.

The self-correction issue is so important in the case of crop agriculture because market disruptions occur so frequently. Weather-based fluctuations in yields are an obvious market shock. US yields affect domestic supply, and yields in importing countries and export-competitor countries affect US export demand. The effects of weather shocks on yields and most other short-run influences on agricultural markets tend to be random from one year to another.

A longer term, more predictable force that affects agricultural markets is that productivity growth tends to outstrip the traditional slower growth in food demand. Domestic demand for agricultural products in a country like the US grows with population but, unlike the demand for cars, houses, clothes and most other product categories, doubling a consumer's income will have a minor impact on his demand for food. Likewise, the rate of growth in export demand over time has been disappointing, especially in the case of grains. If the growth in demand for agricultural products kept up with production, low farm prices and incomes would be much less of an issue.

In the agricultural sector, productivity-enhancing technologies are quickly adopted, increasing supplies and putting downward pressure on prices. The lower prices, in turn, become further incentives to adopt more cost-reducing technologies, and prices continue their slide. In this way, production agriculture is under constant price pressure, with periods of brief reprieve generally the result of disasters or other random events. Given that food is essential for life, it is urgent that the productive capacity of agriculture continue to stay well ahead of immediate needs. Most agree that this important part of agricultural and food policy should be continued, despite its severe downward pull on farm prices. The mere presence of low prices is not the problem. What matters is how consumers respond in terms of the amount they are willing to buy and how producers respond in terms of the amount they are willing to produce next season. If consumers bought more of the lower priced goods and producers cut their production, excess inventories would quickly vanish and prices would arrive at profitable levels once again.

If this adjustment could take place in the agricultural sector, there would be no fundamental price and income problem. This is exactly the way it works in most product-producing industries: consumers buy more and producers provide less in response to a drop in prices or increase in inventories or a drop in sales. Prices rise and profitability reappears. But as we have seen, neither the quantity of crops demanded nor the quantity supplied is significantly responsive to changes in price, so timely market self-correction does not take place. Total annual output remains relatively constant irrespective of prices, the level of subsidies, or other sources of revenue.

Even when individual farmers go bankrupt, total output changes very little. In contrast to other industries, where a plant closure

Box 3 — Food Consumption Patterns

Although food demand in all countries is fairly inelastic, consumers in poorer nations tend to be more responsive to price and income changes. As the incomes of poorer consumers rise, they will shift their consumption away from lower valued goods and toward higher valued goods. Richer consumers are already consuming greater quantities of higher valued goods, such as meat and dairy, therefore, an income change does not affect their consumption levels as dramatically. Likewise, when there is a change in commodity prices, poorer consumers respond by substituting expenditures between foods, whereas richer consumers are less likely to alter their food group choices when prices change. In this manner, poorer consumers are said to be more income and own-price elastic than richer consumers. But because food is a necessity, food demand is considered inelastic at any income level, as compared to other non-necessity goods.

A study by Regmi analyzed the consumption responsiveness of 115 countries by dividing them into three groups: high, medium and low income. The results confirm the hypothesis that poorer nations are more elastic in food demand. The table below shows that low-income nations have an own-price elasticity of -0.75, meaning that for a one percent increase in food price, they will reduce the amount consumed by 0.75 percent. High-income nations have an own-price elasticity of -0.3 for food. This means that they will only reduce their consumption of food by one-third of a percent when food prices rise by one percent.

Similarly, as incomes rise in poorer nations, they spend a greater portion of the increase on food, with an elasticity of 0.73. High income nations have a much lower income elasticity of 0.29. The decreasing elasticity of food as incomes rise results in poorer nations spending more than half (55 percent) of their income on food while richer nations spend 16 percent (Regmi et al.). The poor tend to concentrate their diet on the cheapest food source, but as incomes rise, consumers diversify their consumption into other food groups. Therefore, some commodities such as meat and fish have a high elasticity for lower income nations, but basic necessities like rice and flour have a lower elasticity. The table below provides estimated elasticities for a variety of commodities in poorer nations.

Region	Commodity	Own-Price Elasticity	Income Elasticity	Source
Low income (32 countries)	Food	-0.75	0.73	Regmi et al.
Medium income (41 countries)	Food	-0.60	0.58	Regmi et al.
High income (26 countries)	Food	-0.30	0.29	Regmi et al.
Brazil (low income)	Vegetables		0.82	Costa
Brazil (low income)	Meats		0.64	Costa
Malaysia	Bread	-1.04	0.53	Abdullah et al.
Malaysia	Rice	-0.30	0.31	Abdullah et al.
Malaysia	Flour	-0.48	0.43	Abdullah et al.
Vietnam (Red River)	Rice	-0.82	0.43	Minot and Goletti
Turkey	Bread	-1.07	0.38	Akbay and Boz
Indonesia	Corn	-0.26		RAP
Indonesia	Cassava	-0.39		RAP
Indonesia	Soybeans	-0.78		RAP

Abdullah, NMR, AAA Rahman, A Radam and AZ Baharumshah. (1999) Demand and Prospects for Food in Malaysia. Paper presented at the Seminar on Repositioning the Agriculture Industry in the Next Millennium, organized by Centre for Policy Studies in Serdang, Malaysia, 13-14 July.
Akbay, C and I Boz. (2001) Food Consumption Patterns of Socioeconomic Groups: An Application of Censored System of Equations, presented at the ERC/METU Conference in Ankara, Turkey, Sept 10-13.
Costa, Fabiano. (2001) Changes in Food Consumption Patterns in Brazil. Food and Agribusiness Research, issue 009-2001, June.
Minot, N and F Goletti. (1997) Impact of Rice Export Policy on Domestic Prices and Food Security: Further Analysis Using the Viet Nam Agricultural Spatial Equilibrium Model (VASEM), International Food Policy Research Institute, July 9.
Regmi, A, MS Deepak, JL Seale Jr. and J Bernstein. (2001) Cross-Country Analysis of Food Consumption Patterns. Changing Structure of Global Food Consumption and Trade, ERS WRS-01-1.
RAP Publication. (1998) Livestock Industries of Indonesia Prior to the Asian Financial Crisis, Food and Agriculture Organization of the UN, no. 37, Dec.

means a reduction in industry size because the land and other assets are sold to a different industry, crop acreage typically remains in production. It is merely tilled by someone else. A farm sale does not typically reduce the size of the agricultural industry. In fact, output per acre may actually increase because the new owner is a better manager or is better capitalized.

The bottom line is this: regardless of the cause of decline in revenue, total crop output declines very little in response. Self-correction works no better on the demand side than on the supply side. To establish an agricultural policy based on the assumption that free market adjustments will occur within a reasonable time is not only naïve and ill-advised, it simply will not work.

US PRICES MATTER

US prices for major commodities have a direct influence on world prices. This section shows the strength of that influence and the impact of low US prices on small farmers and developing nations. In one sense, this is a foregone conclusion, because if the US price did not affect world prices, and specifically prices in developing countries, then other countries wouldn't be complaining about US subsidies or any US agricultural policies.

US Commodity Price Leadership

Current international grain markets are oligopolistic, that is, a few dominant sellers influence the market. One, or a small number of powerful sellers, sets the price and allows smaller suppliers to sell as much as they choose at that price. Several studies have used oligopoly models to describe the international agricultural commodity markets (McCalla, 1966; Alaouze et al., 1987; Bredahl and Green, 1983; Mitchell and Duncan, 1987).[13] In these models, the US is described as a price leader, influencing the world price by its domestic price. Small suppliers face a perfectly price elastic export market, wherein they can sell as much as they can export at the leader-influenced price. The price leaders are "residual suppliers," making up the difference in satisfying import demand not met by the other exporters. Small exporters set their price slightly lower than that of the price leaders. Importers view price leaders as a last-resort seller at the highest price.

According to Mitchell and Duncan, who conducted extensive tests based on an oligopolistic model, the volume of a non-dominant nation's exports does not depend on world demand. It can export all available crops at a given price. Conversely, the price leader's export volume rises and falls with world import demand. If world demand increases, it will increase its export volume. In times of contracting world demand, its exports diminish first.

Mitchell and Duncan concluded that the US exhibited price leadership in the rice and coarse grain markets. In a later update of the Mitchell and Duncan studies, Hellwinckel and De La Torre Ugarte (2003), in recording an additional 20 years of data, found that the US serves the role of price leader in the corn, rice and cotton markets.

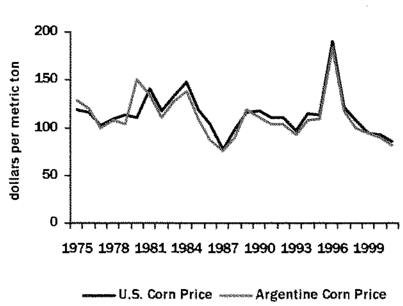
US Price Influence: Supporting Evidence from Specific Countries

One need only observe the behavior of corn and rice to conclude that the US impacts world prices, whether or not it is dominant by volume in a particular commodity. This section describes how US price leadership interrelates with major agricultural exchanges in other countries, specifically, the extent to which US corn prices affect corn prices in major corn export countries and in major corn import countries. Data and evidence on the price of US rice are also introduced. While the US is a major exporter of corn, its export market share for rice is much smaller. These two extreme cases show the

[13] Even though international grain markets are oligopolistic, models that show benefits of freer trade tend to assume atomistic competitive markets.

Figure 10

US Corn Price and Argentina Corn Price



There is a very strong relationship between the US corn price and Argentina's corn price. Results of a price regression model indicate that after accounting for US corn stocks-to-use, a one percent increase in the US price of corn results in a one percent increase in the Argentine corn price.

The prices reported are the Argentina Buenos Aires FOB port price and the US Gulf ports export price.

range of US influence on prices in other countries.

The Case of Corn

About 25 percent of US cropland is planted to corn, yielding 9 to 10 billion bushels per year valued at about $20 billion. About 20 percent of US corn is exported. Corn not exported is used for domestic demands or stored for later use. Even though exports do not dominate US corn demand, US corn exports far outstrip corn exports of all other countries. In 2001, the US accounted for two-thirds of world corn exports.[14]

Relationship to Argentina Corn Price Argentina—which accounted for about 12.5 percent of world corn exports in 2001—is America's primary competitor on the world corn export market. Figure 10 shows the price charged by the two countries since 1975. The Buenos Aires FOB port price and the US Gulf Port price seldom show much of a differential.

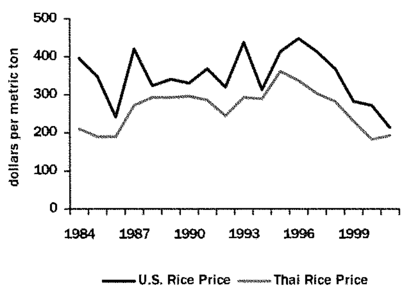
A model was developed to determine the influence of the US corn price and the US stocks-to-use ratio on the Argentine corn price. According to the model results, 84 percent of the variation in the Buenos Aires price was directly related to the Gulf Port price. A one-percent increase in the US price of corn results in a one-percent change in the Argentine price.

Even trading practices of the major Argentine commodity exchange highlight the influence of US commodity prices. The primary commodity market in Argentina, the Mercado a Termino (MAT), operates on a schedule very similar to that of the Chicago Board of Trade (CBOT), despite a time zone difference of three hours. The MAT opens at 11:55 a.m. local time to ensure an opening 35 minutes prior to the CBOT's at 9:30 a.m.

[14] The second leading corn exporting country is Argentina, accounting for about 12.5 percent of world exports in 2001. Japan is the largest corn importer, purchasing 21 percent of all corn imports in 2001, followed by Korea (11 percent) and Mexico (7.5 percent).

Figure 11

US Rice Price and Thailand Rice Price



There is a strong relationship between the US rice price and the rice price in Thailand, the leading rice export country. Results of a price regression model indicate that a ten percent increase in the US price of rice results in a 4.7 percent increase in the Thai rice price.

The prices reported are the Texas Long Grain rice price (US) and the Grade B 100% rice price (Thailand).

local time, and it closes one hour before the CBOT. The opening and closing times of the MAT are adjusted by one hour twice annually to correspond with daylight savings time and standard time in the US, a practice otherwise rare in Argentina.

Relationship to Mexico and Philippines Corn Price A second model was used to examine the relationship of US corn prices to those of Mexico and the Philippines. The model compared the US corn stocks-to-use ratio with the Mexican price, the lagged Mexican price, and a dummy variable indicating pre-NAFTA and post-NAFTA years. Model results indicated that a ten-percent increase in the US corn stocks-to-use ratio translates to a six-percent decline in the Mexican corn grain price. A ten-percent increase in the price of US corn results in a 3.6 percent increase in the Philippine corn price.

The Case of Rice

The US is not a dominant exporter of rice by volume, yet is one of the most influential participants in the world rice market. America harvests between 3.0 and 3.5 million acres of rice, averaging about 200 million hundredweight with a value of $1 billion (less than two percent of the value of the eight major US crops). Just over half is consumed in the US (55 percent in 2002). The rest is exported. In 2001, the US was the third leading rice exporter but with only a 10 percent share, behind Thailand (31 percent) and Vietnam (14 percent). Six countries—Thailand, Vietnam, US, Pakistan, India, and China—accounted for about 80 percent of world rice exports in 2001 (Child, 2003).

A model was developed to track the relationship between the US and the Thai prices. The Texas Long Grain rice price (the major US rice port price) and the Thai Grade B 100% rice price are presented in Figure 11. Again, model results showed a strong correlation between the US price and the price of the leading competitor on that export market. Eighty-four percent of the variation in the Thai rice price could be explained by the Texas price and the US rice stocks-to-use ratio, and a ten-percent increase in the US price will result in a 4.7 percent increase in the Thai price. This correlation is compelling evidence that even where the US is not a dominant exporter, its commodity exchanges influence world prices.

The Role of Prices in the Developing World

Fully 96 percent of the world's farmers live in developing countries. In 58 of these countries, including the world's poorest, with a population exceeding three billion, half or more of the work force is primarily dependent on agriculture (Tomich et al., 1995). The World Bank estimates that a ten-percent growth in agricultural production in these countries could reduce the number of people living under the poverty line by as much as six to ten percent. Clearly, policy changes in America designed to foster agricultural production in the poorest nations could help to improve the livelihood of a significant portion of the world population.

Of course, US policy is not the only factor influencing agricultural production in developing countries. Profitability, technology, credit, infrastructure, marketing efficiency, institutional development, all play a vital role. However, changes in most of these factors are not likely to be immediate and may take several years to have an impact.[15] On the other hand, changes in some factors, especially profitability, may have a direct and immediate impact on farmer welfare and agricultural growth. Receipt of higher prices by farmers in developing countries could improve the well-being of billions of people. Because most of these countries do not have the resources to import enough food, adequate domestic production is overwhelmingly essential. Earlier, evidence was presented showing the role the US plays as a leader in world agricultural commodity markets. It is clear that US prices impact international and domestic prices around the world. The extent to which prices in a particular country are influenced by US policy depends on the degree to which its economy is open to trade.

Farm Price Formation in a Small Country with an Open Economy

A "small" country, as used here, means one whose volume of imports or exports has no ability to impact world market price. Most developing countries are included in this category. A country is a "net importer" of a commodity when domestic production is not sufficient to satisfy domestic demand at a given price. An agricultural producer in a small net importing country will most likely price goods according to the following formula:

$P_{producer} = (P_{world} + T_{transportation}) * (1 + t_{tariffs}) - M_{margin}$

This means that the price a domestic producer receives can be approximated by taking the prevailing world price plus the cost of transporting the crop to the border or local port, or the border price. Taxes and/or tariffs are added to the border price to arrive at that producer's wholesale price. The wholesale price is reduced by an amount similar to what the intermediaries take as gross margin for marketing the farmer's production. The net result is the domestic producer's price. Using a similar logic, it is possible to approximate the price to consumers by adding, rather than subtracting, a marketing margin charged by intermediaries for taking the product to the corresponding market.

The price received by farmers could increase in several ways. First, it can follow rising world prices. Second, in the case of

[15] The most direct connection between US agricultural policy and developing countries is through prices and market access. While market access policies are certainly an important aspect of studying the impacts of US agricultural policy on developing countries (especially in the case of cotton), they are not the focus of this study. This effort deals exclusively with US commodity policies that directly affect government payments and programs directed to US farmers.

imported commodities, prices would increase as tariffs or other taxes increase. Third, the net price received by producers could increase if marketing charges decline. If the country's marketing system is such that the impact of higher world prices or higher tariffs is not transferred to producers, then intermediaries will have higher margins, and producers will not benefit at all.[16] As to producers in exporting countries, the formula can be simplified as follows:

$P_{producer} = P_{world} - M_{margin}$

Producers can raise prices to follow an increase in world prices. The farmers will not benefit, however, if the gain is appropriated by the intermediaries. For farmers to gain, the marketing system should provide for the transfer of a large share of the price increase to farmers.

Impact of Changing US Agricultural Policies

Higher US prices would have their most direct impact by closing the gap between the cost of production and the market price in the US. This, in turn, would reduce the amount of US commodity dumping that occurs as a result of current US agricultural policies. Higher prices would provide a more level playing field for export competitors, while at the same time increasing competition between US exports and local production in developing countries. Also, if the higher US prices are a direct consequence of reducing the production of major crops, the volume of US exports would also be reduced, opening export opportunities for other countries as well as opportunities for increasing local production.

The effects of higher world prices would not be uniform, either across crops or across countries. Consequences would vary, depending on the nature of the crop (food or nonfood); the orientation of the country as a net exporter or importer; the particular characteristics of the domestic agricultural sector; and the overall economic, social, and political structure of the country. Still, it is possible to identify how a redirection in US policy resulting in higher world prices could impact developing countries. Using the simplified version of the price formula ($P_{producer} = P_{world} - M_{margin}$), higher world prices for any of the major commodities will increase incomes for farmers around the world, as long as their internal marketing systems pass along a share to agricultural producers.

If higher prices are transferred to producers, the area planted to these crops is likely to increase as farmers react to the higher prices. The increase in planted acreage would come from shifting acreage away from staple crops, from acreage dedicated to other crops or to sustain livestock activities, or from acreage previously idle. The higher prices would thus trigger re-allocation of acreage from other uses into major crops. This would result in higher prices for the non-major crops as well, since their production would be reduced by the loss of acreage.

As acreage in other countries is shifted into major crops over time, the price gains could be erased altogether. In that case, the final outcome would be simply a worldwide reallocation of production without a significant price change. The net result to any particular country would depend on the duration of the price and income increases and the ability of its economy to use short-term gains to foster economic development.[17]

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[16] The incentive for the marketing system to pass on higher world prices to producers is a primary concern. This incentive is largely based on the degree of competitiveness in the food marketing system, i.e., the number of firms, individual and collective firms' market power, etc. Though not the subject of this study, concentration, market share, oligopolies, and monopolies within the global food marketing system are very important issues to study and address.

[17] Though not the focus of the analysis presented in this study, this concern is a critical reason to examine the possibility and impacts of global cooperation in supply and inventory management over the long run, in addition to changes in US agricultural policy.

Moreover, as acreage shifts to the production of major crops, the prices of the other crops, especially staples, would rise as they become more scarce. Such a price increase could threaten the food security of a country. In the case of an exporter of major crops, a shift from acreage normally cultivated for domestic use to the production of exports could threaten the country's food supply. Shifts of acreage to major crops in countries with limited agricultural potential or those that are net importers of major crops could result in disaster.

Since many developing countries are deeply in debt, overwhelmed by imbalances in export revenues, or suffer from exchange rate instability, higher world prices would play a vital role. If such a country is an exporter of major crops, increasing foreign earnings could improve its overall ability to import staple foods. On the other hand, reallocating acreage into an export crop previously planted to crops for domestic use could diminish the availability of staples for the local population. As we have seen, in a net importing country, higher world prices could increase local production only if the marketing system transfers to farmers a significant share of the increase in world prices.

Impacts on Small Farmers and Less Developed Countries (LDCs)

The US, a first-tier commodity market, is one of the world's largest exporters of corn, rice, sugar and cotton. Not surprisingly, when the US releases those commodities onto world markets at prices lower than the cost of production, it has a powerful depressive effect on second-tier commodity markets. Though low prices affect all farmers, first-tier countries like those in North America and Europe are better positioned to protect their farmers from the adverse effects. First-tier farmers receive direct subsidies to compensate for the loss of income. Second-tier countries provide no such luxuries for their farmers. Chronically low prices can be devastating to farmer income and countrywide prospects for development.

Mexico: Corn Prices Halved, Tortilla Prices Doubled In Mexico, a second-tier country, depressed corn prices work a double curse. Corn is virtually a symbol of that country, so closely is it associated with the Mexican way of life. When the Mexican government opened its borders to inexpensive US and Canadian corn under the North American Free Trade Agreement (NAFTA), the price of corn plunged nearly 50 percent. Faced with half the price they were accustomed to receive, millions of Mexican farmers could not cover the costs of production. Many left their farms and migrated to cities to seek employment. Others expanded production where they could, even using erosive hillsides (Nadal, 2000).

It is important to note that despite the price plunge and out-migration, Mexican corn acreage and production levels remained nearly unchanged. Remaining farmers took over production and made less – or lost more – at the margin. At the same time, consumer prices for an important Mexican staple rose dramatically. NAFTA's requirement that Mexico remove the protection given to the production of corn tortillas meant that tortilla prices were free to skyrocket. And they did. Consumer prices for tortillas, the staple of the Mexican diet, rose 50 percent in Mexico City and even higher in rural areas. This commodity price/consumer price anomaly illustrates the folly of concluding that low farm prices necessarily benefit consumers.

Haiti: From Self-Sufficient to Malnourished
In 1990, Haiti, another second-tier country, was nearly self-sufficient in providing its rice requirements. Today, after years of importing cheap rice from the US, Haiti's local production has collapsed. Its rice output is merely half of its 1990 volume. The other half has been taken over by cheap US imports. The rice-growing areas of Haiti now contain some of the poorest and most malnourished

populations on the island. A once proud, nearly self-sufficient rice producer is now dependent on food imports. Sadly, Haiti's economy cannot cover the cost in the long term, because it will not be able to maintain the required stores of foreign exchange. Beyond that, domestic production of other staple foods is also losing the battle against competition from cheap foreign imports. As one Haitian farmer said of her situation: "While rice is so cheap, we can never find a way out of our poverty. These imports make our lives impossible. I can no longer afford fertilizers, so I am producing less. My farm no longer grows enough even to feed this family. There is not enough money for health care and education (Oxfam International, 2002)."

Africa and SE Asia in Downward Spiral
Similar stories can be repeated in countries throughout the world. In 2001, the US sold its surplus wheat at 44 percent below the cost of production, corn at 33 percent below, rice at 22 percent below, and cotton at a whopping 57 percent below (Ritchie et al., 2003). This hit the countries in west and central Africa like a hurricane, virtually all of which are Least Developed Countries (LDCs). How can these countries possibly compete against a price 57 percent below production costs?

West and central Africa harvest nearly five percent of the world's cotton. Production in 2001/2002 was particularly good and would have been profitable if the international price had exceeded just 50 cents a pound (World Bank, 2002). Instead, because US cotton depressed world prices, these countries suffered a loss of some US$ 200 million. Should present US policies remain, these countries have no hope of reversing the downward spiral they face in the cotton sector. In Ghana, where local production costs for poultry run US$ 1.29 a kilo, imported poultry is flooding the market at US$ 0.65-1.00 a kilo. Then there is Vietnam. Its sugar industry, which offers a local price of US$ 278 a ton, must engage in the impossible task of competing with a world price of US$ 210-218 a ton.

As suggested earlier, when farmers need to make money, they tend to do what they are good at: plant crops they can sell. As small farmers increasingly focus on crops sold for cash, the amount of locally produced subsistence crops declines, making basic food more expensive and less secure. Poorer countries are then forced to import food they are otherwise well equipped to produce themselves. Indonesia is another example of this tragic twist. Until 1984, it was self-sufficient in rice production but is now one of the biggest importers of rice. This cycle of poverty will probably never turn around without a change of policy by America and the other first-tier countries.

Everywhere, overproduction and low prices predispose first-tier countries to dump their excess, forcing formerly productive second-tier small farmers into poverty. The effects are pernicious where the developing country's economy is already frail and the farmers are operating with limited resources.

US Prices Do Matter

These analyses and other studies clearly allow the conclusion that the US is a world price leader. US prices directly impact those of other countries across a wide spectrum of country-specific export/import situations. Thus there is no reason to doubt that domestic farm policies affecting prices move prices globally as well. While price is not the only thing that matters, it must be seriously dealt with where a change in American agricultural policy could make a vast difference in reducing poverty and increasing incomes worldwide.

The radical shift in US policy in the 1996 Farm Bill has contributed to worldwide poverty and food insecurity. To prevent dumping and raise farmer incomes, the problem of low prices in the US must be solved. Because the US price matters, it is crucial that policy makers appreciate the depressing effects our policies have reaped.

It is not difficult to see that higher farm income and production that trails a rise in world prices would improve the livelihood of agricultural producers. If these conditions continued, they could introduce economy-wide improvements and higher incomes for the overall population. The higher income might more than make up for the likely increase in food prices.

Developing countries are normally unable to establish safety nets for displaced farmers or assist the urban poor in managing increases in food costs. A developing country, therefore, should manage the opportunities afforded by a rise in world prices. Its local marketing system should be designed to transfer price changes equitably among producers and consumers. Pursuing trade and agricultural policy changes without addressing adjustment costs, inefficiencies or unfair concentration of benefits could turn an economic opportunity into a severe setback.

In summary, higher world prices could increase the revenues of local farmers in developing countries. Whether or not the farmers benefit, though, is strongly influenced by the ability of the internal marketing system to transfer the gains to producers.

THE 2002 FARM BILL

The 2002 Farm Bill contains the policies governing American agriculture today. Scheduled to remain largely unchanged through 2007, the Bill continues and expands the programs introduced in the 1996 Farm Bill. The deliberate design is to allow prices to fall as low as market and weather conditions will permit. Three safety net mechanisms appear in the form of income support programs: (1) continuation of the direct payment program;[18] (2) a new counter-cyclical payment program;[19] and (3) continuation of the marketing loan program, which authorizes payment of loan deficiency payments and marketing loan gains.[20]

More of the Same

Like its 1996 sister Bill, the 2002 Farm Bill leaves no policy mechanisms in place to control production. Acreage set-asides are absent, although the long-term removal of environmentally sensitive lands through the Conservation Reserve Program is extended and expanded. Nor are there safeguards to prevent crop prices from falling even below their current levels, i.e., no price supports via non-recourse loans. On the flip side, there are no policy mechanisms in place to prevent crop prices from skyrocketing should a catastrophic event cause a severe shortage of stockpiles.

The 2002 Farm Bill authorizes a new Conservation Security Program, which makes direct payments to farmers for conservation practices on working farmland. Funding authorization for existing conservation programs is increased.[21] Emphasis is shifted away from retiring environmentally sensitive lands in favor of improving environmental performance on lands in cultivation. In addition to commodity policies continued from the 1996 Farm Bill, the 2002 Farm Bill in-

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[18] Under the 1996 Farm Bill, producers of major commodities were eligible for fixed, declining payments for program crops. Producers received payments based on historical production (program base acreage). Payments were made regardless of the level of production, even if no crop was produced. These direct payments were often referred to as "transition payments," AMTA payments and Production Flexibility Contract payments. Under the 2002 Farm Bill, these payments are fixed and decoupled and are referred to as "Direct Payments."

[19] The counter-cyclical payments authorized in the 2002 Farm Bill are essentially a vehicle for "automatically" distributing the emergency/disaster/ad hoc payments that were made since 1998. Producers do not have to produce the commodity to be eligible for counter-cyclical payments; thus, they are partially decoupled. They are also partially coupled, since they are triggered when market prices fall below established, fixed target prices. The payment rate for counter-cyclical payments depends on the effective price for the commodity. The effective price is the direct payment rate plus the higher of the market price or national loan rate. Counter-cyclical payments are made on 85 percent of historical or updated base acreage for the crop using historical or updated program yields. Thus, as market prices decline, counter-cyclical payments increase.

[20] The marketing loan program allows farmers or processors to pledge a portion or all of the commodity as collateral and obtain a loan from the Commodity Credit Corporation (CCC), agreeing to repay the loan plus interest within a specified period. When market prices are below the loan rate, farmers are allowed to repay the loan at a lower loan repayment rate (based on local or world market prices). When a farmer repays the loan at a lower loan repayment rate, the difference between the loan rate and the loan repayment rate is the *marketing loan gain* and represents the farmer's program benefit. Alternatively, producers may choose to receive marketing loan benefits through direct *loan deficiency payments (LDP)* when market prices are lower than the loan rate. The LDP rate is the difference between the loan rate and the loan repayment rate. This option allows producers to receive the benefits of the marketing loan program without having to actually take out and repay commodity loans.

[21] While the legislation authorizes new and expanded conservation program funding, program implementation and budgetary allocations are separate matters. At this time, Congress has not yet fully funded the Conservation Security Program and implementation has been slower than anticipated.

cludes export credit guarantee programs, expanded food assistance and export promotion programs, and land conservation and environmental improvement incentives, among other diverse measures.

Absent any major unanticipated supply or demand shifts, like widespread drought, the 2002 Farm Bill essentially guarantees the continuation of low agricultural prices. Compensation will continue for American farmers for unsustainable prices and inadequate income through large direct government payments. The impact of low prices on agricultural markets or incomes in other countries is simply not a consideration in current US policy.

Implications for Farmers

Assuming that the policies mandated by the 2002 Farm Bill remain in place, how will US agriculture fare over the next decade? Based on the 2003 US Baseline for the agricultural sector provided by the Food and Agricultural Policy Research Institute (FAPRI), a simulation was estimated using the POLYSYS model (additional information about the POLYSYS model is available in Appendix C). This simulation projects the performance of the US agricultural sector under the continuation of the status quo in US farm policy.

Annual projections for US acreage planted to the eight major crops, prices for five major crops, net farm income, and government subsidy payments are presented in Box 4.

Under a continuation of the status quo, acreage planted to the eight major crops is projected to remain nearly constant, varying by only a half million acres (much less than one percent) from 2003 to 2011. The share of total acreage planted to each of the major crops is also projected to remain nearly constant. Soybeans show the largest acreage gain over the nine years, increasing about five percent.

Prices of corn, wheat, and soybeans are flat over the projection period. Cotton and rice prices increase about 25 percent between 2003 and 2011—driven by FAPRI-embedded assumptions of a higher volume of exports in the case of cotton, and growth in domestic consumption in the case of rice.

Continuation of 2002 Farm Bill policies results in relatively constant net farm income, ranging between $46 billion and $52 billion. Increasing net farm income in the early simulation years is primarily due to rising prices and large government payments. Leveling prices and government payments coupled with rising production costs contribute to lower net farm income in later simulation years, averaging around $46 billion to $47 billion between 2007 and 2011.

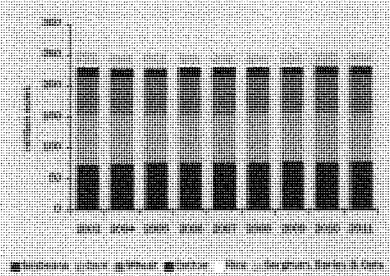
Since prices do not change dramatically throughout the period, government payments continue to be a significant component of net farm income. Through 2006, government payments are expected to average above $20 billion per year. As slight gains in prices occur in later years, total government payments level off around $18.5 billion annually. Annual direct (decoupled) payments remain level around $5 billion throughout the period. Loan deficiency payments (LDPs) decline from over $7 billion annually to under $5 billion as prices rise slightly and counter-cyclical payments also decline from about $5 billion to under $4 billion.

The FAPRI projections are not surprising. Absent any major unanticipated supply or demand shifts, aggregate crop acreage will remain nearly unchanged through 2011, although the crop mix adjusts at the margin. Crop prices remain generally flat and low, except for increases in cotton and rice prices. Therefore, a continuing burden on scarce budget dollars to compensate US farmers for low prices is assured, yet government subsidies will do little to relieve the economic stress in the US agricultural sector and in rural areas in general.

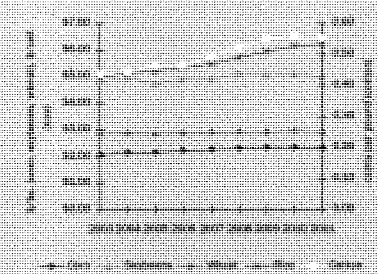
Box 4 — Continuation of the Status Quo

The following figures show 10-year projections for major agricultural sector variables assuming that the policies in the 2002 Farm Bill remain in place. Planted acreage is projected to remain nearly constant, declining one half million acres or two-tenths of a percent over the next decade. Prices of feed grains and soybeans are projected to remain relatively flat while cotton and rice prices are projected to increase substantially. Realized net farm income is at $46.5 billion in 2003 and rises to $52 billion in 2005 before declining and leveling off between $46 billion and $47 billion through 2011. Government commodity program payments are expected to remain around $21 billion per year for the next few years before peaking at $22.7 billion in 2005 then declining to around $18.5 billion per year through 2011. Simulations are based on the 2002 FAPRI *Baseline Projections for the Agriculture Sector*.

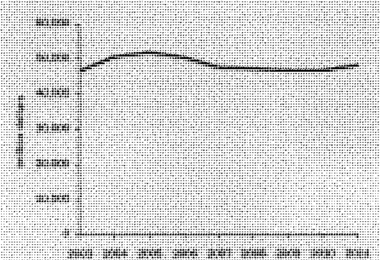
US Acreage Planted to the Eight Major Crops Under Current Farm Policy, 2003-2011



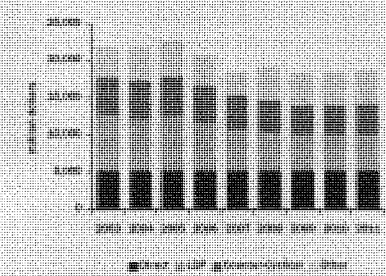
Projected Prices of Five Major Crops Under Current Farm Policy, 2003-2011



Projected Net Farm Income Under Current Farm Policy, 2003-2011



Projected Government Program Payments Under Current Farm Policy, 2003-2011



In summary, the 2002 Farm Bill will not cause a departure from the low commodity prices that have persisted since the mid-1990s. It continues the approach of making up losses in net farm income in the US with government subsidies. Its provisions offer little by way of improving the economic welfare of farmers in developing countries, whose production is either threatened by low-priced imports, or whose revenues are curtailed by the woefully inadequate prices for their exports. Market prices will languish below the cost of production, and American commodities will be dumped on world markets, further weakening the position of poor farmers around the globe.

CONFLICTING VIEWS: HOW TO FIX BROKEN POLICY

Nearly everyone with a stake in agriculture agrees that persistent, low prices negatively affect American farm income and disproportionately affect income in some of the poorest regions of the world. But differing perspectives abound as to what causes the low prices and high subsidies and what could or should be done to restore prosperity to the farming sector in the US and elsewhere.

Brief summaries of the prevailing views of the agricultural crisis are included in Appendix C. Based on principles found in most every introductory economics textbook, these views focus on specific aspects of agricultural markets, or they make implicit (or explicit) assumptions about market responses that lead to explanations of the current low commodity price situation. And they propose ultimately unconvincing solutions to the palpable problems plaguing world agriculture.

The Free-Market Solution

The most commonly held view among commentators is that high subsidies paid to farmers in developed countries are responsible for overproduction and low prices. As evidence, they point out that subsidies rose sharply at precisely the time prices plummeted. Hence subsidies cause low prices. Subsidies are believed by many economists to be "trade distorting" and an absolute negative. While subsidies are not necessarily prohibited by current trade liberalization frameworks such as the WTO, they are generally limited and, at best, frowned upon. It is argued that subsidies are proof that government intervention in the agricultural "free market" creates economic inefficiencies.

Proponents of this view hold that if agricultural markets are allowed to work freely, the agricultural sector will prosper. So that farmers, agribusinesses and consumers can make efficient decisions, it is necessary to eliminate any government actions that may interfere with market signals. The expectation is that all market forces—supply, demand, price, and structure—will respond to free market signals and adjust in a timely and efficient manner.

The Farmer-Oriented Solution

This view asserts that prices fell because the US eliminated policy mechanisms to manage productive capacity, and it recognizes the unique characteristics and nature of agricultural markets. Its advocates, noting that food production is central to human life, argue that governmental and business investments will increase agriculture's ability to produce more, better and safer food. They also recognize that neither agricultural supply nor demand, especially in the aggregate, is very responsive to changes in price. The expectation is that the agricultural sector will not respond to free market signals and adjust in a timely and efficient manner absent government intervention. This perspective comes down in favor of the need for government policy to manage productive capacity.

These two rival positions imply quite different policy prescriptions. The conventional, free-market view calls for eliminating market-distorting subsidies and government imposed protective measures. The farmer-oriented approach requires country-specific government policies that can manage—effectively and timely—the use of productive capacity.

WHAT IF WE GET RID OF SUBSIDIES?

While evidence points to low prices as the cause of high subsidies in the US, many experts around the world see just the opposite: that US subsidies are a major cause of low world prices. *If this is true, then eliminating subsidies should cause an appreciable increase in prices.* Those who seek to strengthen the "invisible hand" of unshackled market forces call for the immediate demise of all direct government payments, insisting that a non-subsidized American agricultural sector would work its way to a new equilibrium. They predict that US production would decline drastically, causing US prices and, consequently, world prices, to rise. This position is the one taken by the World Trade Organization (WTO). Their goal: to liberalize trade in agriculture and remove market-distorting subsidies. Given the strength of the trade liberalization movement, this approach is receiving considerable attention around the globe and has a number of supporters.

Worldwide Price Impacts

The International Food Policy Research Institute (IFPRI) recently conducted a study examining the effects of various trade liberalization scenarios on world commodity prices (IFPRI, 2003). Using the IMPACT agricultural sector model, IFPRI looked at the country-level and regional effects of trade policy scenarios on 16 commodities. One scenario required developed countries to remove protectionist measures and trade-distorting subsidies, or "price wedge" subsidies (producer and consumer subsidy equivalent price differences between domestic and international prices) by 2006 while developing countries maintain their existing policies. In removing all protectionist measures of every kind, this study sets an even stricter standard than simply eliminating US subsidy programs. The effects on world and regional prices are shown in table 2. *The bottom line: the much predicted price increases failed to appear appreciably or quickly.*

World corn prices experienced the largest gain among the cereals. Note that after 20 years, the extent of the price increase is less than 3 percent. The US experiences a price drop of 9.5 percent by 2020, while corn prices in identified developing countries increase between 2.4 and 2.6 percent. These mere traces of price movement after 20 years would be of little help in improving incomes of farmers in developing countries.

Other commodities are affected even less. Rice prices rose only 1.6 percent by 2020. The price of rice in the US declined 4.2 percent over the period while it increased between 1.1 and 1.6 percent in developing countries. The impact on wheat and other coarse grains is smaller still: a world price increase of 0.8 percent for wheat and 1.1 percent for other coarse grains by 2020.

The picture for meat and dairy commodities is entirely different. Baseline policies cause larger trade distortions for meat and milk compared to cereal. Thus, it is no surprise that starting from a high level of trade distortion, the complete removal of all protective policies results in significant price impacts. World dairy prices experienced the largest change, increasing 19.2 percent by 2020. World prices of beef, sheep and goats increased 5.2 percent by 2020. World poultry prices increased 3.8 percent and pork only 0.4 percent by 2020.

Table 2

Effects of Developed Country Trade Liberalization on World Prices and Regional Producer Prices, 2020 (*Source: IFPRI, 2003*)

	Baseline, 1997	Developed Country Subsidy Elimination, 2020			
	World / Producer Price (1)	World Price (1)	% Change from Baseline	Producer Price (1)	% Change from Baseline
Beef	1,748	1,839	5.2%		
Pork	2,245	2,254	0.4%		
Poultry	716	743	3.8%		
Sheep & Goats	2,841	2,989	5.2%		
Milk	292	348	19.2%		
Wheat	123	124	0.8%		
Other Coarse Grains	89	90	1.1%		
Rice	252	256	1.6%		
USA	214			205	-4.2%
Mexico	196			199	1.5%
Other Latin America	196			199	1.5%
Central & W. Sub-Saharan Africa	178			180	1.1%
Southern Sub-Saharan Africa	141			143	1.4%
Indonesia	192			195	1.6%
Thailand	194			197	1.5%
Philippines	224			227	1.3%
Vietnam	220			223	1.4%
Corn	104	107	2.9%		
USA	95			86	-9.5%
Mexico	80			82	2.5%
Other Latin America	77			79	2.6%
CW Africa	40			41	2.5%
Southern Africa	42			43	2.4%
Indonesia	76			78	2.6%
Thailand	80			82	2.5%
Philippines	117			120	2.6%
Vietnam	80			82	2.5%

(1) Prices are in US$ per metric ton.

US Price Impacts

Simulations were conducted using another model, POLYSYS (see appendix C), assuming the removal of US marketing loan payments (loan deficiency payments and marketing loan gains), counter-cyclical program payments, and direct payments by 2003. Other government payments, including environmental and conservation programs and subsidies on commodities not included in this study (e.g., dairy, sugar, wool and mohair, honey, minor oilseeds), remain and are paid at the levels set by the 2002 Farm Bill.

While it is not realistic that all government commodity program payments would be eliminated in one year, this simulation demonstrates that the removal of government supports will result in an unambiguous and dramatic reduction in net farm income. The modest changes in price cannot make up for the lack of government payments: farmer income would drop 25 to 30 percent under this scenario.

In the US, the most dramatic result of eliminating government payments—between $13 and $18 billion per year—is a loss of $11 to $15 billion in net farm income, fully

Table 3

POLYSYS Simulation Results Under the Subsidy Elimination Scenario and Percentage Changes from the Baseline Scenario for Planted Acreage, Price, Net Farm Income, and Government Payments, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Planted Acreage (mil. ac)									
Corn	81.2	79.2	78.7	78.2	78.4	79.5	78.8	79.9	78.8
% change from baseline	1%	0%	0%	0%	1%	1%	1%	0%	0%
Wheat	63.5	61.2	61.2	61.2	61.5	61.1	60.8	61.2	61.4
% change from baseline	1%	0%	0%	0%	0%	0%	0%	0%	0%
Soybeans	72.7	74.1	74.9	75.4	75.9	75.1	76.6	75.6	77.4
% change from baseline	0%	0%	1%	0%	0%	0%	0%	0%	0%
Cotton	13.0	13.8	13.8	13.8	13.4	13.6	13.7	13.7	13.6
% change from baseline	-12%	-7%	-7%	-7%	-7%	-6%	-5%	-5%	-6%
Rice	2.8	2.9	3.1	3.1	3.0	3.0	3.0	3.0	3.0
% change from baseline	-14%	-9%	-5%	-7%	-7%	-6%	-6%	-5%	-5%
Season Average Price									
Corn ($/bu)	$2.03	$2.12	$2.09	$2.19	$2.21	$2.24	$2.28	$2.25	$2.23
% change from baseline	-2%	-2%	-1%	-2%	-2%	-2%	-3%	-3%	-3%
Wheat ($/bu)	$2.80	$2.85	$2.80	$2.87	$2.89	$2.89	$2.94	$2.97	$2.94
% change from baseline	-2%	-1%	-1%	0%	-1%	-1%	0%	0%	0%
Soybeans ($/bu)	$4.80	$4.96	$4.71	$4.88	$4.89	$5.14	$5.07	$5.15	$5.04
% change from baseline	0%	0%	0%	-1%	0%	0%	0%	1%	1%
Cotton ($/lb)	$0.492	$0.498	$0.518	$0.511	$0.547	$0.576	$0.593	$0.600	$0.604
% change from baseline	12%	12%	12%	10%	11%	10%	8%	7%	9%
Rice ($/cwt)	$5.80	$6.12	$5.81	$5.90	$6.20	$6.41	$6.68	$6.74	$6.82
% change from baseline	17%	19%	11%	11%	13%	12%	12%	10%	9%
Net Farm Income (mil. $)	33,590	35,483	36,794	35,843	35,026	34,118	34,313	34,664	36,060
% change from baseline	-28%	-30%	-29%	-29%	-26%	-27%	-26%	-25%	-25%
Gov. Payments (mil. $)	8,344	4,191	4,615	3,733	3,908	3,916	3,974	4,112	4,238
% change from baseline	-61%	-81%	-80%	-82%	-79%	-80%	-79%	-78%	-77%

25 to 30 percent. Since only minor changes in price occur under this scenario, it is evident that most of the income loss results from the elimination of direct government payments. In summary, discontinuing government payments influences two groups of crops differently, but results in an unambiguous and dramatic reduction in net farm income. Acreage for rice and cotton declines. Consequently, their market prices rise. Corn, wheat, and soybeans experience some increase in plantings, and their prices decline, although slightly.

This result is not particularly surprising, given the nature of agricultural supply and demand. As we have seen, the total supply, or acreage, of major commodities taken together is not very responsive to changes in price, and the aggregate of the demands on major commodities, domestic and exported, does not increase significantly when prices are low.

Long run adjustments are likely to occur. If prices continue at very low levels without subsidies or other relief for farmers, production would eventually decline. Land prices would drop sharply. Capital resources would move out of agriculture and into other industries. Aggregate acreage would contract.

Disagreement arises as to how soon the acreage reduction would take place and how extensive it would be. Some argue that the shock of sudden and substantial declining revenues would force large quantities of land out of production quickly. Severe adjustments would occur in rural communities, including wide-spread bank failures. But if farmers remain true to past behavior, they or their replacements would try to find ways to cover the variable costs of producing on most of the land currently under cultivation. After a number of years and several waves of land price reductions, more significant quantities of land would come out of production, especially in areas of lowest yield. But this marginal cropland would likely be abandoned after the analysis period considered in this simulation.

As to loss of acreage, remember that large agribusiness interests in the US have an incentive to maintain productive capacity. It is entirely possible that production would be maintained through farmer contract arrangements with large agribusiness enterprises, similar to those currently pervasive in the US poultry industry.

Supporting Evidence from Other Countries

Over the last few decades, several countries have moved toward policies of reducing government involvement in agricultural markets. Canada, Mexico and Australia have established track records of fewer government controls and freer markets.

Changes in commodity production in these countries are the result of a complex array of factors. However, evidence clearly indicates that removal of and reductions in subsidies have not led to significant drops in production. In fact, production increased in several cases. These observations support the IMPACT and POLYSYS models' results that eliminating subsidies will not significantly or quickly reduce production or increase prices.

The Canadian Experience

Huge increases in Canadian agricultural subsidies through the 1980s contributed to less than a three-percent rise in the number of acres cultivated. Then, fiscal deficits in the 1990s forced a 35 percent cutback in Canada's support programs over a three-year period. The most notable was the erasing of all subsidies for grain transportation in 1995. This and other significant reductions in government support levels between 1996 and 2001 resulted in less than a one-percent decline in farmland use.

The Canadian experience drives home yet again that cropland will remain in production, despite major subsidy cuts. But the mix of crops farmed did change significantly in direct response to government policy changes. Three crop groups historically account for just over half of Canada's total farmland: (1) wheat, (2) selected grains (oats, barley, and corn), and (3) selected oilseeds (principally canola but also including flaxseed, soybeans, sunflower, and mustard seed).

Figure 12 shows the Canadian acreage planted to each of these three crop groups since 1981. Between 1991 and 2001, acreage of Canada's leading crop, wheat, declined 23 percent. The elimination of subsidies for grain transportation in 1995 was a major contributor to this significant shift. Over the same period, oilseed production increased 143 percent. While the crop mix changed as relative prices and program payments changed, aggregate land in production changed little.

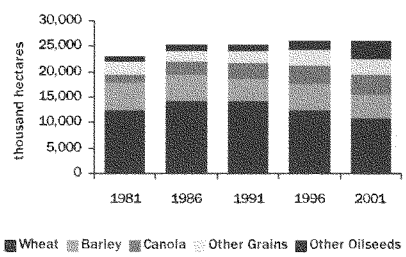
The Australian Experience

The Australian experience again demonstrates the tendency of farmers to continue to produce as much as they can, even when faced with declining government subsidies. Since 1991, despite continuing low world prices, planted areas of wheat, coarse grains, and oilseeds have increased more than 56 percent in Australia, as shown in Figure 13.

The Australian experience illustrates an interesting relationship between the crop and livestock components of Australia's agricul-

Figure 12

Canadian Farmland Planted to Major Crop Groups, 1981-2001

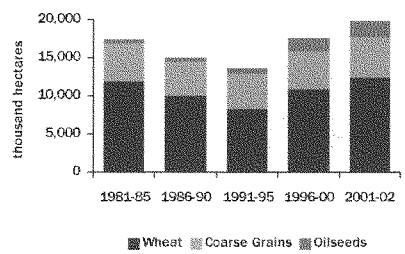


Between 1991 and 2001, Canadian wheat acreage declined 23 percent. Much of the lost wheat acreage was converted to oilseed production. Total oilseed acreage increased 143 percent between 1981 and 2001, now accounting for 8.5 percent of total Canadian farmland. Oilseed gains were primarily in canola and soybeans.

Source: Agriculture Canada

Figure 13

Total Planted Area by Crop Group, Australia, 1981-2002



Total planted area in Australia has more than doubled since the 1960s, increasing nearly 50 percent since the early 1990s. The increase since 1991 has been driven by the reduction in wool subsidies and declining sheep numbers. Sheep farmers have converted pastures to crop production.

Coarse grains includes barley, oats, sorghum, maize, and triticale.

Oilseeds includes canola, cottonseed, linola, linseed, peanuts, safflower, soybeans, and sunflower.

Source: Australian Commodity Statistics 2001, Australian Bureau of Ag and Resource Economics

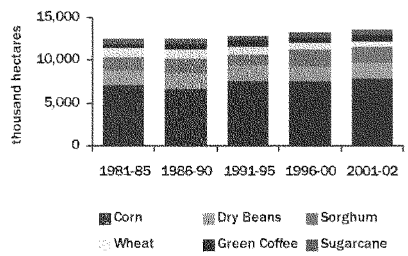
tural sector. Australia is the world's leading supplier of wool with sheep production representing a large share of agricultural receipts. The Australian government's support for wool production collapsed in 1991, contributing to a 31 percent decline in sheep inventories since 1991. Faced with declining government supports for wool, sheep farmers converted significant pasture acreage to crop production. This experience provides further evidence for the observation that farmers will remain in agriculture and continue to produce as much as they can—even in the face of declining prices and declining subsidies—as long as they can.

The Mexican Experience

Mexico's four major crops—corn, dry beans, grain sorghum, and wheat—account for about 80 percent of the total harvested area, with green coffee and sugarcane comprising an additional nine percent. Total har-

Figure 14

Mexico's Total Harvested Land by Crop, 1981-2001



Mexico's four major crops—corn, dry beans, grain sorghum, and wheat—account for about 80 percent o the total harvested area, with green coffee and sugarcane comprising an additional nine percent.

In the early 1990s, Mexico virtually eliminated price supports for major crops in transition to a more liberalized agricultural economy.

NAFTA was implemented in 1994, allowing importation of US corn.

Source: SIACON; FAO

vested area and the share of the six major crops is shown in Figure 14.

Mexico's harvested acreage data reveal an upward trend since the 1980s. Notably, corn acreage has increased nearly 18 percent since 1986. This increase in acreage has occurred over a period of significant reductions in Mexican government supports for the agricultural sector and also a period of significant increases in foreign competition inside Mexico.

Beginning in the early 1990s, Mexico eliminated supports for some commodities, reducing the number of commodities eligible for price supports from twelve to three. Remaining price supports were converted from per-unit to per-acre to conform to trade liberalization pressures.

Additional and more significant program support reductions followed in the mid-1990s. Implementation of a new government program in 1994, PROCAMPO, moved supports in the direction of direct, decoupled income transfers. More importantly, implementation of the North American Free Trade Agreement (NAFTA) in 1994 called for phasing out import quotas for US commodities. The stated objective of NAFTA was to allow the Mexican agricultural sector to profit from liberalized trade. The observed result has been increased domestic production of basic crops, including corn, despite unprecedented access to cheaper foreign imports of major commodities. Confronted with sharply lower prices, declining government support, and new trade liberalization measures, acreage and production of traditional crops in Mexico has continued to increase.

A FARMER-ORIENTED POLICY BLUEPRINT

Although touted widely as "the" solution to the current agricultural crisis, eliminating subsidies in the US or even in all developed countries will not result in timely price increases of a magnitude that could help the world's large population of small farmers. Subsidy elimination would cause a shift in the mix of crops produced and, therefore, some relative changes in prices, meaning that some farmers and countries will be helped and others harmed. But the overall impacts are negligible. Getting rid of subsidies will certainly not result in the levels of agricultural prosperity claimed by its advocates.

Well, if phasing out subsidies will not solve the problem, what will raise prices and improve the lives of farmers? One compelling option is to explore the use of price-enhancing and stabilizing mechanisms from the rich history of American agricultural policy in addressing today's failures. The changes of the late 20th century were driven by the belief that the upswing in exports resulting from lower prices would usher in a booming agriculture sector. The lower prices have, indeed, occurred, but a boom is nowhere to be seen.

One saving course of action is to redirect the goal away from low market prices and high subsidies and toward managing productive capacity. Managing the excess is an explicit recognition that the farming community is not capable of a timely response to changes in supply and demand. Carefully crafted and implemented policies can provide a reasonable and sustainable level of farm prices and income, a higher level of stability, increased dependence on market revenues and less reliance on government payments. An appropriate cluster of policies could improve the position of American farmers and provide relief to farmers around the world.

A Policy Blueprint

The idea is to increase market prices to a reasonable and sustainable band and then manage the excess. Several combinations of policy tools show promise as paths to achieving this objective. This study identifies and analyzes one such combination. It includes: (1) acreage diversion through short-term acreage set-asides and longer-term acreage reserves; (2) a farmer-owned food security reserve; and (3) price supports through government commodity purchases.

No single policy instrument is powerful enough to address the complicated issues presented by the current crisis. The policy blueprint illustrated here consists of several instruments working together. This blueprint is not meant to exclude other policy mechanisms that may be able to achieve the goals of higher and stable prices. Rather, it serves as a starting point for evaluating the potential for alternative policy directions to bring about positive changes.

Diversion of Acreage

The diverted-acreage component includes a short-term annual set-aside program and a long-term land retirement program. Acreage retirement would reduce excess production and improve environmental performance. Farmers would be encouraged to retire environmentally sensitive cropland for ten or more years and institute conservation or restoration practices on the retired land. This policy is currently in operation as the Conservation Reserve Program (CRP).

Short-term set-asides would avoid the occurrence of very low prices by inducing farmers to idle a portion of their working cropland. As the average market price falls below a threshold, a set-aside rate is triggered. The set-aside rate is the portion of a producer's cropland that must be idled for that crop year. Participation of farmers in the set-aside program would be a prerequisite to their receipt of farm program benefits. It is expected farmers would idle some of their less productive cropland, thereby reducing the effectiveness of the set-aside program.

Food Stock Management

The second element of the blueprint is a food stock or inventory management reserve program. Stock reserves would reduce the frequency and size of price spikes for the major commodities. Historically, large price spikes pull idle or new cropland into production. As seen earlier, newly introduced acreage will tend to remain in production even as prices fall.

When prices are below the defined threshold level, producers would enroll a share of their production in an on-farm storage program. The farmer holds the commodity on reserve, isolating it from the market, in exchange for a storage payment from the government. The farmer maintains full ownership. When the price increases beyond a threshold price—called the "release price"—producers are given strong incentives to sell reserves until the price drops. Handled in this manner, the reserve becomes a genuine price support mechanism, effective according to its size. Because the size of most reserves would be limited, the reserve operates as a temporary weapon against depressed prices. The expected short duration of specific reserves works to limit the government's storage payments.

Price Supports

The third element—a price support mechanism—would trigger government purchases of commodities from the market when the price falls below the threshold. The price support comes into play only when set-asides "miss" a low price event. Since the purchased stocks would be owned by the government, they would be the first to return to the market when the price increases beyond the release price. The purchased stocks provide an added margin against price spikes.

While a non-recourse loan is technically operational in the current farm policy legislation, it does not function as a price floor because of the availability of the loan deficiency payment (LDP) and marketing loan gain (MLG) options. By eliminating the LDP and MLG options, this policy blueprint restores the function of the non-recourse loan rate as a price floor.

Previous Experience

These are not new policy tools. Each has played a role in US farm policy history, and none has an unspotted record. However, assessment and perception of their past performance has had more to do with implementation than anything else. The contention is that the illustrative combination of the above three instruments would provide a workable set of controls leading to higher prices and higher market returns for producers.

Results of Implementing the Blueprint

A simulation of the blueprint of policy instruments—acreage set-asides, stock/inventory management and price supports—was conducted using the POLYSYS model. The purpose was to estimate performance over the period from 2003 to 2011. Details of the assumptions incorporated in the illustrative simulation model are provided in Box 5. Obviously, the particular size, rates, prices and triggers associated with this approach (i.e., the selected assumptions according to Box 5) will directly affect the outcome. Thus, the results serve as a starting point for discus-

Box 5 — Details of the Policy Blueprint Simulated

Elimination of Government Payments

- No counter-cyclical payments (CCP)
- No direct payments (DP)
- No loan deficiency payments (LDP) or marketing loan gains (MLG)

Stock Management

- Storage payments: $0.30/bushel for corn, wheat, soybeans; $0.30/hundred-weight for rice
- Maximum stock size:
  - Corn: 3,000 million bushels; approximately 30% of total use
  - Wheat: 700 million bushels; approximately 30% of total use
  - Soybeans: 700 million bushels; approximately 25% of total use
  - Rice: 40 million hundred-weight; approximately 20% of total use
- On-farm storage
- Entry level price/loan rate:
  - Corn: $2.44/bushel
  - Wheat: $3.44/bushel
  - Soybeans: $5.50/bushel
  - Rice: $7.15/hundred-weight
- Release price:
  - Corn: $3.90/bushel
  - Wheat: $4.80/bushel
  - Soybeans: $8.00/bushel
  - Rice: $10.40/hundred-weight

Set-Aside / Short-Term Land Retirement Program

- Cropland set-aside, *not crop-specific* set-aside
- Set-aside trigger: for every crop with a previous year price below the established price threshold, a 5% set-aside is triggered. The set-aside is additive across crops. A set-aside is triggered by rice for not meeting the established threshold only if it is the only crop not meeting the threshold price.
- Hence, the maximum set-aside rate is 15%
  - Corn: $2.90/bushel
  - Wheat: $4.10/bushel
  - Soybeans: $6.60/bushel
  - Rice: $8.50/hundred-weight
- The corresponding slippage rates are:
  - 5% set-aside: 0.67
  - 10% set-aside: 0.585
  - 15% set-aside: 0.50

Price Support Mechanism

- A price support program, through government commodity purchases, is implemented only after the maximum level of the stock reserve has been achieved
- Prices are supported at the entry price for the stock reserve program, which is in fact a price floor:
  - Corn: $2.44/bushel
  - Wheat: $3.44/bushel
  - Soybeans: $5.50/bushel
  - Rice: $7.15/hundred-weight
- Government stocks are released before the reserve stocks are released and at price levels similar to those for exiting reserve stocks:
  - Corn: $3.90/bushel
  - Wheat: $4.80/bushel
  - Soybeans: $8.00/bushel
  - Rice: $10.40/hundred-weight

Table 4

POLYSYS Simulation Results Under the Farmer-Oriented Policy Blueprint and Percentage Changes from the Baseline Scenario for Planted Acreage, Price, Net Farm Income, and Government Payments, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Planted Acreage (mil. ac)									
Corn	76.2	76.3	77.6	77.2	78.3	79.2	80.2	81.1	82.0
% change from baseline	-5%	-4%	-1%	-1%	0%	0%	2%	2%	5%
Wheat	59.5	61.2	61.9	62.0	62.6	62.6	63.1	63.3	60.8
% change from baseline	-5%	0%	1%	1%	2%	2%	3%	4%	-1%
Soybeans	69.0	69.9	70.6	70.9	71.4	71.3	71.7	71.8	72.7
% change from baseline	-5%	-5%	-5%	-6%	-6%	-5%	-6%	-5%	-6%
Cotton	12.6	12.9	13.1	13.0	12.7	12.9	13.0	13.2	13.1
% change from baseline	-14%	-13%	-12%	-12%	-12%	-11%	-10%	-9%	-9%
Rice	2.9	3.0	3.1	3.1	3.1	3.0	3.0	3.0	3.0
% change from baseline	-9%	-8%	-5%	-4%	-4%	-6%	-6%	-6%	-6%
Season Average Price									
Corn ($/bu)	$2.59	$3.03	$2.94	$3.07	$3.03	$3.04	$3.07	$3.12	$3.13
% change from baseline	25%	40%	39%	38%	35%	32%	31%	34%	37%
Wheat ($/bu)	$3.63	$3.72	$3.70	$3.72	$3.70	$3.71	$3.73	$3.72	$3.93
% change from baseline	28%	29%	31%	29%	27%	28%	28%	25%	34%
Soybeans ($/bu)	$5.71	$6.14	$5.99	$6.19	$6.14	$6.31	$6.36	$6.41	$6.23
% change from baseline	18%	23%	27%	26%	25%	23%	26%	25%	24%
Cotton ($/lb)	$0.508	$0.542	$0.561	$0.550	$0.591	$0.616	$0.640	$0.640	$0.644
% change from baseline	16%	22%	21%	19%	20%	17%	17%	14%	16%
Rice ($/cwt)	$7.18	$7.20	$7.21	$7.22	$7.26	$7.33	$7.57	$7.60	$7.72
% change from baseline	45%	41%	38%	35%	32%	28%	27%	24%	24%
Net Farm Income (mil. $)	38,958	46,114	49,867	49,643	48,656	47,421	47,439	48,327	50,365
% change from baseline	-16%	-9%	-4%	-1%	3%	1%	2%	4%	5%
Gov. Payments (mil. $)	13,936	6,300	7,801	6,351	6,811	6,874	7,410	7,418	7,932
% change from baseline	-35%	-71%	-66%	-70%	-64%	-64%	-61%	-58%	-57%

sion. Table 4 presents the simulation results for crop acreage, prices, net farm income and government payments.

Total cropland planted to the eight major crops declines by six percent in the first year. The total planted acreage drops by an average of 14 million acres at the beginning of the period, and is 4.5 million acres lower than the baseline by 2011. The initial dramatic drop can be explained by the relatively large initial acreage set-aside established to raise prices. When prices increase, the acreage set-aside is reduced, as discussed above. The aggregate acreage set-aside ranges from 19 to 35 million acres over the period.[22]

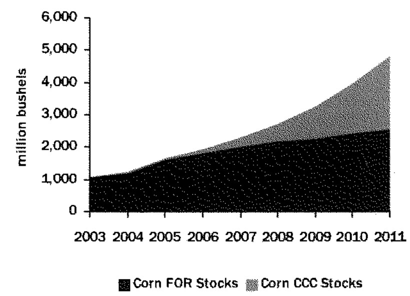
As expected, the largest relative acreage losses came from cotton and rice. Initially, cotton acreage was reduced by 2.1 million acres, or 14 percent. Thereafter, acreage slowly increased to a level nine percent below the baseline by 2010. Rice acreage initially declined by nine percent, settling in at six percent below the baseline by 2008. Corn and wheat acreage initially declined because of the large beginning set-asides, yet this acreage returned to levels above the baseline as relative prices caused some cotton and rice acreage to shift to corn and wheat.

The three-tiered combination of policy mechanisms—the set-asides, stock reserves

[22] The lack of a one-to-one correspondence between active cropland reductions and acreage set-asides is attributable to slippage and the setting aside of lands that would periodically remain idle anyway.

Figure 15

Corn Reserve (FOR) Stock and Government (CCC) Stock Levels, 2003-2011



By design, the farmer-owned stock reserve fills first. By the third year, the government stock purchase (CCC purchases from the market) program begins to accumulate stocks.

The farmer-owned stock reserve averages below the three billion bushel maximum. In actual implementation, measures (such as stock adjustments or caps) would be put in place to prevent excessive stock accumulations.

and price supports—resulted in average prices well above the low baseline levels. The price of corn increased on average by $0.70 to $0.80 per bushel, a 30 percent increase. The price of rice increased from 24 to 45 percent. Initial rice prices were about 45 percent higher than baseline levels and only about 24 percent higher than baseline prices by the end of the simulation period. Wheat prices were 25 to 31 percent higher; soybean, about 23 percent higher.

The general increase in prices leads to net farm income close to and above the baseline. After 2006, net farm income exceeds the baseline. The gap during the first years is largely the result of adjustments in the livestock sector to higher feed costs. In fact, the gap in the returns to crops is only $1.7 billion lower in 2003, and future estimates are consistently above the baseline level.

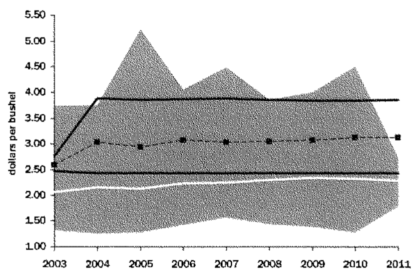
As expected, government payments were significantly below the baseline situation. The figure in table 4 shows the total cost of direct payments to farmers and the expenses associated with the reserve and price support programs. Total government outlays start just under $14 billion in 2003, when most of the reserves need to be filled, and then fluctuate between $6.3 and $7.9 billion, consistently lower than the estimated subsidies and other expenses under the 2002 Farm Bill. On average, the blueprint simulated results in huge government savings: $10 to $12 billion per year.

The results for corn stock reserves and government stock programs are shown in Figure 15. Notice that the average reserve level is less than the maximum three billion bushels. This is a strong indicator that the reserve keeps the price of corn from soaring to levels beyond the release price. In actual implementation, measures would be put in place to prevent excessive stock accumulations. Such measures could include adjustments in set-aside rates or caps on stock levels.

Figures 16 and 17 illustrate the impact of the blueprint on price and income variability. Under the baseline policies of the 2002 Farm Bill, the shaded area in Figure 16 outlines the points at which the price of corn will fall with 90 percent probability. The white line indicates the average price for the baseline scenario. The area between the black lines indicates, with the same 90 percent probability, the price of corn under the blueprint. The black broken line within the black price band represents the average annual price. It is clear

Figure 16

Corn Season Average Price Probabilities, Baseline Scenario Versus the Farmer-Oriented Policy Blueprint Scenario, 2003-2011



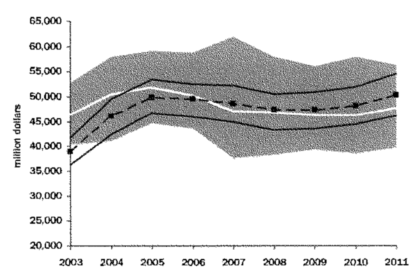
The shaded area indicates the baseline area in which the price of corn will fall with a 90 percent probability, and the baseline average corn price is the white line.

The solid black bands indicate the policy blueprint scenario area in which the price of corn will fall with a 90 percent probability, and the policy blueprint scenario average corn price is the dotted black line with squares.

From this graph, it is evident that the policy blueprint scenario truncates both the upper and lower tails of the price distribution compared to the baseline.

Figure 17

Net Farm Income Probabilities, Baseline Scenario Versus the Farmer-Oriented Policy Blueprint Scenario, 2003-2011



Again, the shaded area indicates the baseline area in which net farm income will fall with a 90 percent probability, and the baseline average is the white line.

The solid black bands indicate the policy blueprint scenario area in which net farm income will fall with a 90 percent probability, and the average under the policy blueprint scenario is the dotted black line with squares.

It is evident that the policy blueprint scenario requires farmers to give up the possibility of achieving very high income levels in exchange for eliminating the possibility of very low income levels.

that the blueprint works effectively at both ends: the upper and lower tails of the price distribution are flattened. The upper tail is truncated by the stock reserve programs; the lower tail, by the set-aside and price support programs.

Figure 17 applies the same type of analysis to net farm income. This blueprint demonstrates that the upper and lower tails of the distribution of net farm income have been truncated. Farmers will give up the possibility of achieving very high income levels in exchange for eliminating the possibility of very low income levels.

Table 5

POLYSYS Simulation Results Under the Farmer-Oriented Policy Blueprint Replacing Annual Acreage Set-Asides with Intermediate-Term Bioenergy-Dedicated Crops and Percentage Changes from the Baseline Scenario for Planted Acreage, Price, Net Farm Income, and Government Payments, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Planted Acreage (mil. ac)									
Corn	79.6	80.2	78.5	78.6	78.9	79.4	79.6	79.5	78.6
% change from baseline	-1%	1%	0%	1%	1%	0%	2%	0%	0%
Wheat	59.0	58.9	58.9	58.8	59.2	58.8	58.6	58.6	58.3
% change from baseline	-6%	-4%	-4%	-4%	-3%	-4%	-4%	-4%	-5%
Soybeans	70.1	68.9	71.0	70.9	71.1	70.6	71.0	70.8	72.6
% change from baseline	-3%	-7%	-5%	-6%	-6%	-6%	-7%	-7%	-6%
Cotton	13.0	13.1	12.8	12.7	12.2	12.4	12.4	12.6	12.2
% change from baseline	-12%	-12%	-14%	-14%	-16%	-14%	-14%	-13%	-15%
Rice	3.0	3.0	3.0	2.9	2.9	2.8	2.8	2.8	2.9
% change from baseline	-7%	-8%	-8%	-11%	-11%	-13%	-12%	-12%	-8%
Switchgrass	6.0	6.7	7.3	8.0	8.5	9.2	9.7	10.1	10.6
Season Average Price									
Corn ($/bu)	$2.52	$2.83	$2.85	$2.96	$3.00	$3.02	$3.08	$3.15	$3.14
% change from baseline	22%	31%	34%	32%	33%	32%	31%	36%	37%
Wheat ($/bu)	$3.63	$3.84	$3.86	$3.88	$3.88	$3.96	$4.05	$4.05	$4.17
% change from baseline	28%	33%	36%	35%	33%	36%	38%	36%	42%
Soybeans ($/bu)	$5.69	$6.15	$5.93	$6.13	$6.16	$6.43	$6.48	$6.54	$6.36
% change from baseline	18%	24%	25%	25%	26%	25%	28%	28%	27%
Cotton ($/lb)	$0.500	$0.530	$0.570	$0.580	$0.630	$0.650	$0.700	$0.700	$0.730
% change from baseline	14%	19%	23%	25%	28%	24%	28%	25%	32%
Rice ($/cwt)	$7.18	$7.19	$7.29	$7.39	$7.51	$7.84	$8.04	$8.30	$8.37
% change from baseline	45%	40%	40%	39%	37%	37%	35%	35%	34%
Net Farm Income (mil. $)	37,079	45,691	50,714	50,189	49,031	48,879	49,108	50,559	52,650
% change from baseline	-20%	-10%	-2%	0%	4%	4%	6%	9%	10%
Gov. Payments (mil. $)	14,238	7,172	8,153	6,566	6,670	6,464	6,214	6,107	5,750
% change from baseline	-34%	-67%	-64%	-69%	-65%	-67%	-67%	-67%	-69%

Bioenergy Crops to Manage Production

As previously mentioned, other policy devices might serve as substitutes for any one of the three instruments in the blueprint. For example, an intermediate-term program to divert acreage away from traditional tradable crops toward a non-food, non-tradable crop might serve to replace the set-aside device. Switchgrass immediately comes to mind. This is a perennial grass with high cellulose content, native to the United States. Relatively clean burning, it can be co-fired with coal to reduce the level of pollutants released into the atmosphere or it can be processed into ethanol for the production of fuels with consequent environmental benefits.

Practices associated with the production of switchgrass are no different from those used to produce alfalfa hay. In contrast to a land retirement program the cultivation of switchgrass is a farming activity.

Switchgrass is enjoying a great deal of attention these days. The US Department of Energy is currently conducting numerous pilot projects testing the application of switchgrass to a variety of uses. Studies by the US Departments of Agriculture and Energy, the University of Tennessee, and the Oak Ridge National Laboratory conclude that a framework could be developed to encourage the conversion of acreage to the production of switchgrass for use by utilities and fuel manufacturers (De La Torre Ugarte and Walsh, 2003). This would give an obvious boost to farm income and would reduce reliance on subsidies. Incentives would be needed to encourage utilities to incorporate switchgrass into their energy generation, but the use of switchgrass would work to reduce reliance on undesirable fossil fuels.

According to the simulation, the annual set-aside component of the blueprint can be replaced realistically with a bioenergy production program using switchgrass for energy. An incentive would provide up to $25 per dry ton to be shared by pre-arrangement among agricultural producers, utilities, and ethanol producers. According to De La Torre Ugarte and Walsh, this monetary incentive would be sufficient for both producers and end users to develop a long-term sustainable bioenergy industry (De La Torre Ugarte and Walsh, 2002).

Table 5 shows that the overall levels of price increase from a switchgrass application are comparable to those generated by the set-aside program. To compensate for the loss of income in the first few years, some of the significant savings generated under the blueprint could be used. By the end of the period of analysis, the effect promises to be stunning: net farm income could experience growth of ten percent above the baseline situation, and government payments, including the $25 incentive, could be reduced by a remarkable 69 percent.

Thus the illustrative blueprint is not rigid in the assumption that annual set-asides are a necessary component. Similar levels of price and acreage impacts can be achieved with land retirement, and even better results with the cultivation of acreage in a way that does not pressure traditional crop acreage and prices. This approach is even more appealing when the alternative land use is in a non-food, non-traditional category. Diverted land can be brought back to major crops if unexpected weather jeopardizes the supply of food or if other conditions warrant. One other possibility is the dedication of traditional crops exclusively to energy production.

CRP Expansion Could Achieve Similar Impacts

The acreage planted to switchgrass in Table 5 is an approximation of the lower limit for an expansion of CRP acreage that could achieve similar price and income results. This is because acreage enrolled in the CRP is more likely to be environmentally sensitive than the switchgrass acreage, thus average productivity of CRP acreage would likely be lower. Further expansion of CRP acreage may provide additional environmental benefits.

Summary

In summary, the preliminary estimation of impacts associated with the blueprint suggests that this approach has potential for sizable benefits to producers. It would increase US prices substantially—by about one third, on average—without significantly reducing farm income, and at less than half the cost of current failing policies. From a purely humanitarian and societal view, its impact on US market prices would go a long way in sustaining the livelihoods of small, poor farmers worldwide.

CONCLUSIONS

It is time to recognize that low-price farm policies benefit agribusinesses, integrated livestock producers, and import customers but are disastrous for market incomes of crop farmers in the US and around the world.

Higher prices alone will not guarantee sustainable livelihoods for the world's poorest farmers. A range of national and international policies affecting credit, land ownership, technology, transportation, tariff protection and access to markets is essential if agricultural production is to deliver a better future for farmers. However, as this study has shown, the US is exporting poverty with its products by its continuous pursuit of measures that depress prices throughout the world. At the same time, it is jeopardizing its own diversified family-farm base.

Policies that assure rock-bottom world prices for staple foods are guarantors of continued economic distress affecting billions of people. Since our policies determine the fate of farmers well beyond our borders, the welfare and future of those farmers must be part of America's goal in crafting new approaches.

Changing US policy alone cannot solve the global crisis in agriculture. Most, if not all, major exporting countries will have to recognize that they, too, bear a heavy responsibility to cooperate with the US in a concerted effort to improve farmer livelihoods. If other nations do not recognize this responsibility, it is doubtful that the necessary changes will ever be enacted.

The emphasis on WTO-style trade liberalization has discouraged the use of some of the policy mechanisms described in this study. That doors have been shut, however, is not a reason to continue moving blindly in the wrong direction. Those who write the rules governing domestic and international agriculture and trade policy must be put on notice that an end to today's agricultural world crisis is their most urgent mandate. The way out lies in a careful and balanced application of policy measures discarded in our headlong rush to an imagined "free market" in agriculture.

A future that brings prosperity to farmers in the US and in the developing world is not only possible, it is achievable. It can be ours at less cost and within a shorter time span than the hoped-for benefits of liberalized agricultural trade promised by the wealthy nations of the world to their developing country counterparts. The choice is ours to make: whose future will be protected, and what kind of global food system will be the outcome of US agricultural policy?

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APPENDIX A

Types of Farm Programs & Policy Instruments	Objective / Purpose	Program Examples	Description / How It Works
Income Support Programs			
Direct Payment Programs	Decoupled income support payments. Designed as a "transition" away from commodity payment programs.	Production Flexibility Contract (PFC or AMTA) Payments; Direct Payments	Lump-sum, decoupled payments to participants in previous farm programs; payments calculated on yield history and program-crop acreage.
Disaster / Emergency / Ad Hoc Payment Programs	Unscheduled assistance in response to weather or market or other unanticipated negative conditions.	Market Loss Assistance Payments; Crop Loss Assistance Payments; Livestock Disaster Payments	
Marketing Assistance Loans & LDPs	To provide producers with interim financing on their eligible production and prevent government acquisition of stocks.	Loan deficiency payments (LDPs); merketing loan gains	Producers receive a nonrecourse commodity loan which they may repay at less than principal plus interest when market prices are below the loan rate or they may choose to receive an LDP in lieu of securing a loan.
Deficiency / Target Price / Counter Cyclical Payment Programs	Crop-specific or decoupled income support payments paid when crop prices are below a target price; decline or disappear as market prices increase.	Deficiency payment program (also called target price program); counter cyclical payment program	Payments made based on the difference between an established target price and the higher of the commodity loan rate or the national average market price.
Price Support & Stabilization Programs			
Nonrecourse Loan Program	To provida a price floor at the loan rate, strengthen prices by withdrawal of commodities from the market, and even out marketings throughout the year.	Nonrecourse loan program	Provides commodity-secured loans to producers for a specified period of time, after which the producer may either repay the loan and accrued interest or transfer ownership of the commodity pledged as collateral to the CCC as full settlement of the loan.
Farmer-Owned Reserve (FOR) Program	To reduce price volatility and assure ample stocks in times of short supply through subsidized long-term storage of grain.	Farmer-Owned Reserve	Producers entered into a 3-year agreement receiving a nonrecourse commodity loan with the possibility of deferred interest and storage cost reimbursement in exchange for some restriction on the timing of grain removal from the reserve.
Marketing Orders	Specify minimum prices processors must pay for products within a specified area.	Federal milk marketing orders	
Production Management Programs			
Annual Acreage Reduction Programs	Raise crop prices by reducing production through annual land retirement.	Acreage reduction programs (ARPs); set-aside programs; paid land-diversion programs	Participating farmers idled a crop-specific, nationally set portion of their crop acreage base to be eligible for CCC loans and deficiency payments.
Multi-Year Acreage Reduction Programs	Long-term (10-15 year) retirement of environmentally sensitive cropland.	Conservation Reserve Program (CRP); Wetlands Reserve Program (WRP)	Landowner receives an annual rental payment to convert environmentally sensitive land to approved conserving uses for 10-15 years.
Marketing Quota or Allotment Programs	Raises crop prices by restricting supply below the market-clearing quantity.	Peanut marketing quota program; federal tobacco marketing quotas; sugar allotment program	Provide each processor or producer of a specified commodity a specific annual limit on sales, above which penalties would apply.
Demand Enhancement Programs			
Export Programs	Help US exporters meet competitors' prices in subsidized markets.	Export Credit Guarantee Program; Export Enhancement Program; P.L.480 (food aid)	Exporters receive subsidies based on the volume of exports to specifically targeted countries.
Domestic Programs	Subsidize or promote domestic purchase/use of commodities to increase domestic utilization and achieve social objectives.	Food Stamps; commodity distribution programs; commodity promotion programs	Distributes surplus government commodity stocks or subsidizes the purchase of qualifying commodities.
Import Restriction Programs			
Tariff & Quota Programs	Raise domestic crop prices by reducing the amount of lower priced imports allowed to enter the domestic market.	Non-tariff barriers; tariff-rato quotas (TRQ); fixed tariffs; bound tariffs; import quotas	Tariffs are surcharges applied to import commodities; quotas are import quantity restrictions; TRQs allow a predetermined quantity of imports to anter after payment of a relatively low tariff.
Conservation Programs			
Working Lands Programs	Improve the environmental performance of the agricultural sector.	Environmental Quality Incentives Program (EQIP); Conservation Security Program	Participating farmers receive cost-share or direct payments to address onsite and offsite problems with soil erosion, animal waste, and water quality.
Non-Working Lands Programs	Preserve and restora agricultural and environmental resources.	Farmland Protection Program; Conservation Reserve Program; Wetlands Reserve Program	Participating farmers receive cost-share or direct payments to remove environmentally sensitive lands from production or restore/preserve desirable habitats.
Other Government Programs			
Subsidized Federal Crop Insurance	Provides fermers with a means to manage the risk of crop losses resulting from natural disasters.	Catastrophic (CAT) insurance coverage; multi-peril crop insurance (MPCI); revenue insurance	Federal government subsidizes producer insurance premiums.
Government Sponsored Research	Increases agricultural productivity through technological developments or reduced costs.	Agricultural Research Service; Cooperative State Research, Education, and Extension Service (CSREES)	

APPENDIX B

Sources of the Current Agricultural Crisis: Views and Policy Prescriptions

Conventional Academic Economists

This group includes such writers as Bruce Gardner, David Orden, Kym Anderson, Vincent Smith and Joseph Glauber. They currently represent the most prevalent viewpoints in global policymaking arenas. They argue that agricultural support and protection programs are fatally defective. In a world without government policies that interfere with the mechanisms of the marketplace, the free market will attract resources to the most productive activities, and this will deliver net benefits to society. This group believes governments can best support "non-market" objectives through non-distorting methods like the decoupling of payments from the dynamics of the marketplace. They hold that US agricultural policy is moving in the right direction.

Free Marketers

This is the position taken by conservative "think-tanks" such as the Heritage Foundation and the Cato Institute. The group includes such writers as John Frydenlund, Brian Riedl, and Chris Edwards. John Frydenlund, in the Heritage Plan for Rural Prosperity, argued that competition in the free market would greatly benefit US farmers. "Re-established as a reliable supplier of low-cost products, the US would regain its preeminence in world agricultural exports. Farmers would be freed to do what they do best—out-produce the rest of the world—and this expansion of productive output would mean growth in farm income, even though some prices might fall temporarily" (Frydenlund, 1995). The free marketers believe that the only weaknesses in the marketplace today are caused by policy makers who cave in to special interests during a time of naturally depressed prices. "Farms that cannot adjust should exit the industry" (Edwards, 2001).

New Economy Theorists

This group observes that "consolidation and supply chains are changing the nature of farming," where "supply chains arise through vertical integration, in which a single company owns each link of the supply chain" (Lamb, 2002). They argue tbat "keeping inefficient producers afloat leads to excess supplies, low prices, instability and future farm crises" (Lamb, 2002). Additionally, the "New Farm Economy" will supply safer food because "supply chains have greater incentives to enhance food safety" (Lamb, 2002).

The new economy theorists cite two problems that would arise if government subsidies were discontinued: a failure of financial banking throughout rural America, and too much political "rent seeking" power in the hands of farmers. They propose a rolling buyout procedure to cull from the market those farmers who rely too beavily on government assistance. "During periods of low farm income or low farm prices, farmers would have on option to enter a buyout agreement with the government or to remain in agriculture without government subsidies" (Lamb, 2002). The rolling buyout plan, they predict, will usher in vertical integration and consolidation in such magnitude that producers could gain market control, and overproduction would cease to be a problem. Lamb states that "the key to finally ending government interventions is to create a farm system in which the remaining farmers see greater returns from market transactions than from government farm programs" (Lamb, 2002).

Demise Theorists

The most extreme free-market prediction was made by Steven Blank, a University of California agricultural economist. He argues that since US farmers cannot compete in the production of bulk commodities with farmers in other parts of the world, who enjoy significantly lower land and labor costs, America will soon be out of the farming business altogether.

The rationale for this theory is that "advances in production technology created the need for global markets." Because food has an "absolute limit to the volume that can be consumed over time," demand is very inelastic and prices can decline drastically. This combination of expanded supply through technology and limited consumption created the current situation of falling prices and "commodities being produced in greater quantities than the global market can absorb" (Blank, 1998).

Tariff Abolitionists

This group argues that although price supports and direct subsidies do skew commodity prices downward, tariffs are the real price depressants. The perspective of many domestic crop production organizations is mirrored in the stance of the US House Agriculture Committee: "With foreign tariffs on agricultural goods more than five times higher than US tariffs, US farm policy helps level the playing field" (House Ag. Committee, 2002). The abolitionists view the tariffs of other nations as unfair competition; therefore, the US needs to support its farmers until such tariffs are eliminated. Because high tariffs are more damaging on less-developed nations than other forms of government interference, this group maintains that if you want to address low prices, tariffs should be the first issue to tackle (Tokarick, 2002).

Agrarians

Ironically, the Agrarians, the least represented group in global trade arenas, represent the viewpoint of the majority of small farmers throughout the world. They reject outright the idea that a global unrestricted marketplace will lead to net gains for the majority of the population. They favor a system of local economic self-determinism, where independent regions would negotiate a level at which they would partake in trade. This group encompasses such 20th century writers as J. Russell Smith, Liberty Hyde Bailey, Albert Howard, Wendell Berry, Wes Jackson, John Todd and Jane Jacobs.

Agrarians view the current low prices as the result of long-term development of technology, economies of scale and, most importantly, the steady eroding of economic boundaries at the local level. Although they may not be against measures on the larger economic scales that would increase the per-unit price of commodities, they believe the long-term solution will entail the emergence of community level self-imposed economic boundaries. Their solution involves a kind of secession: "not a secession of armed violence but a quiet secession by which people find the practical means and the strength of spirit to remove themselves from an economy that is exploiting them and destroying their homeland" (Berry, 2002).

Rent Seeking Theorists

Many economists have come to see political institutions as markets in themselves. They "recognize the non-separability of political and economic markets" (Rausser, 1982). From this perspective, agricultural policy can be seen as the interplay between demand (special interests groups such as the Farm Bureau, county agricultural agents and the USDA) and supply (elected officials). Elected officials "pursue policies until the marginal expected gain in votes equals the marginal expected loss in votes." The result: political economic seeking transfers (PESTS) are created by "powerful interest groups seeking to benefit their own welfare to the detriment of society as a whole" (Rausser, 1982).

Although rent seeking theorists believe there may be market failures in agriculture which need to be addressed by intervention, they see the current situation as a failure of government to adequately correct market failures. Low prices and overproduction are the result of inherent systematic processes by which certain farmers and corporations are receiving unjust income transfers. The solution can be achieved through "institutional innovations in the same fashion that biological and physical scientists produce technological innovations" (Rausser, 1982).

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APPENDIX C

The POLYSYS Modeling Framework

The Policy Analysis System (POLYSYS) is an agricultural sector modeling system designed to simulate the effects of changes in government policies and other exogenous variables. POLYSYS is used to evaluate the impacts of those changes on key variables of the agricultural sector including: supply, domestic demand and exports, stocks, market prices, government expenditures, net farm income, and other performance variables. Each POLYSYS analysis is anchored to a baseline situation, from which changes are introduced and simulated. In this analysis, POLYSYS is anchored to a ten-year baseline of key agriculture sector variables according to the July 2002 FAPRI baseline projections (FAPRI, 2002).

The POLYSYS model includes eight major crops—corn, grain sorghum, oats, barley, wheat, soybeans, cotton, and rice—and six major livestock categories—beef, hogs, sheep, broilers, turkeys, and eggs. POLYSYS models agricultural supply using Agricultural Statistics Districts (ASD), as defined by the National Agricultural Statistics Service, as the basic unit of analysis. There are 305 ASDs in the continental US thus, the crop supply side of the modeling system is the result of aggregating impacts in 305 ASD regions. Crop demand is modeled nationally and includes demands for feed, food and industrial domestic uses, as well as demand for exports. The livestock sector is included mainly to provide feedback for changes occurring in the crop sector, such as feed prices, and to provide impacts on changes in feed demand and farm income.

The planting or production decision is modeled at the ASD level (305 regions in the US) and assumes that producers allocate their acreage to a crop mix that maximizes their expected net returns. The national crop supply, then, is the summation of regional production resulting from the optimal allocation of acreage as described above. The demand for agricultural commodities includes domestic (feed, food, industrial) and export demand. The demand for each crop and use is driven by a set of short and long term price elasticities, and solves simultaneously with the supply module to estimate the equilibrium supply, demand (domestic, export) and prices for all crops. An inventory identity equation ensures that supply and demand are balanced. Finally, changes in crop and livestock markets interact with equations representing income and government program relationships to estimate the changes in farm income and government program variables.

QUESTIONS AND ANSWERS

APRIL 25, 2007

Senator Grassley

Questions:

1.)Do you members of the Commodity organizations believe that the CRP rental rates are adequate for farmers to keep their land in the program?

This question should be geared more for AFBF and NFU.

2.)I conducted a series of farm bill town meetings over the last recess period. I heard from a number of producers that livestock concentration was a serious concern. How should Congress address this growing problem?

3.)As I go around Iowa and hold town meetings on the farm bill, one recurring theme is the need to do more to assist beginning farmers. In the last Farm Bill, we passed the Beginning Farmer and Rancher Development Program to provide grant funding for innovative programs to get new farmers started in agriculture. The Senate bill back in 2002 provided farm bill funding for the program, but unfortunately that was dropped in conference, and as a result the program, while authorized, has never gotten off the ground. So to this day USDA still does not have a beginning farmer program. I am interested in hearing from the panel, in just a word or two, whether your organization would be willing to support funding for the Beginning Farmer and Rancher Development Program?

Bread for the World
Seeking Justice. Ending Hunger.

June 26, 2007

In our organizing work in churches throughout the country, we have heard a great deal of concern about the difficulties beginning farmers and ranchers face. We don't have a position on this particular program, but in principle Bread for the World supports shifting resources from relatively affluent people to those who are struggling, which often includes farmers and ranchers who are getting started. In addition, we are concerned that programs authorized by the Agriculture Committees, even as mandatory programs, are not always funded. In general, Bread for the World supports appropriations that match authorized funding.

Sincerely,

David Beckmann
President

Enclosure

50 F Street NW, Suite 500, Washington, DC 20001
Tel: (202) 639-9400 Fax: (202) 639-9401
www.bread.org

Responses of to the questions submitted by Senator Grassley relative the Senate Agriculture Committee hearing on April 25, 2007.

Submitted by the North American Millers' Association

1. Do you believe that the CRP rental rates are adequate for farmers to keep their land in the program?

NAMA response: We have no opinion on this subject, other than our general belief that government support payments should not distort planting decisions on non-sensitive land. Likewise, government payments should not encourage idling of land that is not environmentally sensitive.

2. Regarding livestock concentration, how should Congress address this growing problem?

NAMA response: We have no opinion on this subject.

3. Does you organization support funding for the Beginning Farmer and Rancher Development Program?

NAMA response: We have no opinion on this specific program. However, we do believe that a large amount of the land enrolled in the Conservation Reserve Program can be farmed in environmentally sustainable ways. Even by USDA's own definition, there are millions of acres that are not environmentally sensitive. Allowing these acres to exit the CRP would increase the land available to all growers including beginning farmers. It would also assist the US in meeting the demand for biofuels.

United States Senate
Committee on Agriculture, Nutrition and Forestry
Challenges and Opportunities Facing American Agricultural Producers, Part III
April 25, 2007

American Farm Bureau Federation Responses to Senator Grassley's Questions

1. Do your members of the commodity organization believe that the CRP rental rates are adequate for farmers to keep their land in the program?

The value of agricultural land is a moving target, and the current demand for corn for ethanol and livestock feed is having a significant impact on the value of land. Therefore, we believe that existing CRP contract holders should have the option to rebid into the program when their contracts expire. The calculation of CRP rental rates should be re-examined to ensure they mirror the rental rates of comparable land in the immediate area, and rates should be based on the agricultural production value of the land.

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

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

2. I conducted a series of farm bill town meetings over the last recess period. I heard from a number of producers that livestock concentration was a serious concern. How should Congress address this growing problem?

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

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

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

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

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

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

3. As I go around Iowa and hold town meetings on the farm bill, one recurring theme is the need to do more to assist beginning farmers. In the last farm bill, we passed the Beginning Farmer and Rancher Development Program to provide grant funding for innovative programs to get new farmers started in agriculture. The Senate bill back in 2002 provided farm bill funding for the program, but unfortunately that was dropped in conference, and as a result the program, while authorized, has never gotten off the ground. So to this day USDA still does not have a beginning farmer program. I am interested in hearing from the panel, in just a word or two, whether your organization would be willing to support funding for the Beginning Farmer and Rancher Development Program?

AFBF shares the Senator's concern that the average age of farmers continues to climb while the number replacing them shrinks. Much thought has been given during the debate on the upcoming farm bill as to how to help young and beginning farmers get started in the business, and in theory we support efforts to do so.

Most of our young farmer members say that land availability at reasonable prices is their biggest impediment to successfully entering farming, so we would specifically be supportive of programs, including the Beginning Farmer and Rancher Development Program, that address this concern.

○