FULL COMMITTEE HEARING ON FAMILY FARMER AND RURAL SMALL BUSINESS PRIORITIES FOR 2007 FARM BILL

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FULL COMITTEE HEARING ON FAMILY FARMER AND RURAL SMALL BUSINESS PRIORITIES FOR THE 2007 FARM BILL

THURSDAY, JUNE 7, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:00 a.m., in Room 2360 Rayburn House Office Building, Hon. Nydia Velázquez [Chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Cuellar, Braley, Clarke, Ellsworth, Sestak, Chabot, Gohmert, Davis, Fallin, Buchanan and Jordan.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

ChairwomanVELÁZQUEZ. Good morning. I now callthis hearing to order to discuss the 2007 Farm Bill priorities of family farmers and rural small businesses.

Given that 90 percent of rural businesses are small, the Committee has a vested interest in agricultural and rural development issues. Today, we will hear from key agriculture industry representatives as they outline their small business priorities for the upcoming Congress.

This is a timely hearing as the House Agriculture Subcommittee continues marking off various titles of the 2007 Farm Bill this week. The Committee will look at what can be done to assist these farmers and related industries with competing and surviving in a global economy. The goal is to ensure small businesses in rural areas have the tools necessary to succeed. This includes an examination of the challenges facing the nearly two million family farmers, but it also goes beyond. Countless other small businesses are indirectly impacted by the agriculture economy including most rural businesses, grocery stores, food export companies, food processing plants, and restaurants.

It is clear that small businesses in agriculture in rural America are facing many obstacles. Their bottom lines are affected every time livestock and commodity markets fluctuate. There is the lack of rain or energy prices rise. In spite of these barriers, the family farmer has been able to respond and continue to grow. Our rural economy has shown an ability to adapt and change with the development of new technologies. They have created opportunities by adding different uses for their products, from investing in renewable energy to identifying foreign markets for their products, family farmers have been resilient and local economies have benefited from it.

Continued success depends not only on the existence of various farm support programs, but also on furthering rural development. Many rural areas continue to lack the basic infrastructure to market and sell their products. For example, we need to provide better access to broadband and ensure there are affordable transportation options such as rail. And if there are changes to our immigration policies they must address worker shortages in the agriculture industry.

While tackling these, problems can come with a cost. Having a vibrant agricultural community is sound economic policy, whether it be creating new and improved programs or maintaining existing ones we must do what it takes to ensure family farms and small businesses in this area are thriving.

Agriculture-related issues affect every Member's District. While it may seem that there's no connection between feed prices in Illinois and the price of beef in New York, the economics shows otherwise. American agriculture on farmers have an impact on those in urban districts and rural districts alike.

The priorities presented today will be used by the Committee as it formulates ways to improve the economic environment for rural, small businesses. I look forward to hearing about what policies have been successful and if there are additional reforms needed to ensure future growth. The success of small companies in this sector can serve as a model for other industries.

I appreciate the witnesses coming here today and I now yield to the Ranking Member Mr. Chabot for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr.CHABOT. Thank you, Chairwoman Velázquez, for holding this important hearing on one of the largest reauthorizations that Congress will undertake this year, the Farm Bill. It is appropriate that this Committee consider issues of the Farm Bill because the vast majority of farmers and businesses located in rural America are relatively small. The significance of the farmer reaches back across the misty chords of memory and the America consciousness. President Jefferson noted the importance of the yeoman or small farmer as the backbone of the American democracy. President Lincoln, when signing the legislation creating the Department of Agriculture, called it the people's department.

Anyone who has read the novels of Laura Ingalls Wilder or Willa Cather knows that life on the farm is not easy, nor can one deny that rural America faces significant economic challenges.

At the same time, it's important to remember that rural Americans are not the only ones facing economic difficulty. Urban areas throughout Ohio, for example, have long faced problems of the so-called rust belt. My District has lost many jobs as a result of factories closing. The need for economic development and revitalization are as important to the residents of the factory towns adjacent to the great Midwestern waterways such as the Ohio River and Great Lakes, as it is for the small towns scattered among the fruited plains.

Today, the Committee will receive testimony from representatives of farm groups and those involved in rural economic development. Farmers and livestock producers play a critical role in maintaining the health of the rural economy. Therefore, it makes sense that these groups offer their suggestions on the path that Congress should take in promoting the health of the farm economy and rural America for the next five years.

Despite increased revenues, stemming from tax cuts, the monies available to fund all the discretionary programs including those policies suggested by the witnesses are severely limited. This reality constrains the options that this Committee and this Congress have in meeting the needs of the small business communities in urban and rural areas. In our deliberations we will have to adopt those policies that are most cost effective, providing the greatest opportunities to the largest number of Americans. And once again, I thank you for holding this hearing and I yield back the balance of my time.

ChairwomanVELÁZQUEZ. Thank you. Now we're going to start with our panel this morning which is comprised of distinguished panelists and I welcome the Honorable Glenn English back to the Capitol and Congressman English serves as the Chief Executive Officer of the National Rural Electric Cooperative Association. Prior to assuming this post, Mr. English was elected by the people of Oklahoma's Sixth District to ten terms in the U.S. House of Representatives. As chief spokesman for the nation's consumer-owned co-op electric utilities, he represents the national interest of electric co-ops.

Welcome, Mr. English, you have five minutes to make your presentation.

STATEMENT OF THE HONORABLE GLENN ENGLISH, CEO, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr.ENGLISH. Thank you very much, Madam Chair. I appreciate that very much and it is a pleasure to be back in the Congress. It's always a pleasure to see many of our former colleagues and people who have come since I left the Congress.

Electric cooperatives are very unique as far as those who are providers of electric power. There are some 930 electric cooperatives in 47 states across this country, so utility-wise, they're the only utilities really who cover the entire country, all the way from Alaska and Hawaii up to the State of Maine. However, we cover a lot of territory.

We have some three quarters of all the land mass in the United States being served by electric cooperatives. We only have about seven consumers per mile or seven members per mile, so from an infrastructure standpoint, there are very few people and if you look at what they have to pay for as members and owners of those electric cooperatives because keep in mind that as cooperatives they are owned by the consumers themselves about 40 million consumers actually on it.

Well, those 40 million people have got to pay for 42 percent of the distribution infrastructure of this country. And that seven people per miles is the ratio in how these costs are broken out. Bigger power companies, investor-owned utilities, for instance, have some

35 people per mile and certainly on municipals they have 47 people per mile, so as you can see, the burden is distributed much more heavily with regard to those living in rural America. That also breaks out as far as revenues are concerned. About $10,000 per mile is the revenue that comes from electric cooperatives or two electric cooperatives. The investor-owned utilities about six times that, some $62,000 per mile and municipals about $86,000 per mile.

So as you can see, you've got a few people bearing a huge amount of burden covering a huge part of the land mass of the United States in providing this service to people living in rural America. We are growing very rapidly. We are growing about twice as fast as the larger power companies, so you've got a lot of folks moving in different parts of rural America and of course, that is part of our responsibility.

In addition to that, we are also running out of power capacity. As far as the generation that was built during the 1980s, that's pretty much used up as far as we're concerned and that's pretty much the end of it for us. And the generation that we will have to acquire through building or through other means is going to be the most expensive generation history of this country.

We started over a year ago started telling our members out there, member owners of these cooperatives that your rates are going to go up and they're likely to go up substantially, now the impact that has as far as rural America is concerned and particularly small business and small start-up businesses, we have a lot of ethanol plants, biodiesel plants that are starting up in rural America. Obviously, as is the case with any start-up business, that is going to be something that they most likely had not planned on and could be an additional burden.

Our responsibility is electric cooperatives, since these are owned by consumers is really two things. Employees, directors that are elected by the membership out there, one is to keep the lights on, obviously provide power to those members; and the second is do our best to try to hold down those rates as much as we can. So we've got a huge challenge in front of us in dealing with this particular difficulty and the question is over the next 10 to 15 years is where we acquire the additional power that's going to be necessary. And given the fact we're growing faster than anyone in the electric utility industry, given the fact that the Department of Energy has said between now and the Year 2030 there will be a need for a 40 percent increase in the amount of power that this country needs to keep this economy going. Then obviously, we've got a huge challenge ahead of us as does the entire electric utility industry.

But for rural America, for small business, for farmers, people that are living in those areas, obviously we've got a huge challenge in trying to hold rates down instead of simply letting this thing skyrocket. But it is going to go up and go up dramatically.

Thank you very much. I'd be happy to respond to any questions.

[The prepared statement of Glenn English may be found on page 31 of the Appendix.]

ChairwomanVELÁZQUEZ. Thank you.

And now the chair will recognize Mr. Ellsworth for the purpose of introducing his constituent.

Mr.ELLSWORTH. Thank you, Madam Chairwoman, it's probably appropriate that I take this introduction as a fellow Hoosier, maybe the only one in the room who can pronounce Mr. Buis' name properly on the first try.

Tom Buis is the president of the National Farmers Union, NFU. Before moving to Washington, D.C. in 1987, Mr. Bias was a full-time grain and livestock farmer with his brothers Jeff and Mike in my District, the Eighth District of Indiana and his brothers continue to operate the family farm there.

Mr. Buis has also worked as a Special Assistant for Agriculture for a man that I would call a role model, former Senator Birch Bayh. The National Farmers Union has represented farmers and ranchers in all states for over a hundred years, operating organized chapters in 32 states. As the president of the NFU, Mr. Buis is here this morning as an advocate for the interest of the family farmers in Congress.

Mr. Buis, thank you and welcome.

STATEMENT OF TOM BUIS, PRESIDENT, NATIONAL FARMERS UNION

Mr.BUIS. Thank you, Congressman, Madam Chairman, Members of the Committee. It is a honor to be here, and I do appreciate someone in Washington being able to pronounce my name on my first try. I get all types of attempts, and thank you, Congressman.

You know, the Farm Bill and what is going to happen over the next several months is vitally important to rural America. In preparation for this, what we did at Farmers Union is we held Farm Bill listening sessions around the country. We held over 30 in about a 5-week period. The purpose was to get the input from the real people who farm and ranch and live in those rural communities for a living. I've often felt that one of the best quotes by any public official was by former President Dwight Eisenhower when he said "farming is mighty easy is when your plough is a pencil and your a thousand miles from the nearest cornfield."

There are a lot of people in Washington, there are a lot of experts around the country who think that they know they answers. I've always felt that the real answers and the real solutions lie in the people that have to live, work, and raise their families in rural America. As a result of that, what we found out overwhelmingly was that farmers and ranchers felt that the 2002 Farm Bill was a big improvement over the 1996 Farm Bill.

It offered an opportunity to provide an adequate safety net, but times have changed since 2005. Reality is that we have less money to write a farm program going into this drafting process than we did back in 2002. Actually probably in real terms, it's back at the level of 1996, which did not prove to be a successful Farm Bill.

So how do we protect the needs of rural American with less resources? We felt that we had to get creative, so we kind of broke things down in two components. One are the opportunities that are out there today, and the second are the challenges. The opportunities in rural America, and I know Mr. English has spent a lot of time out there, but I've never witnessed the optimism that exists today in rural America. It is primarily because of two issues.

One is renewable energy. The boon in ethanol has been fantastic, not just for farmers and higher commodity prices for the products, but also for those rural communities. The only towns in rural America where you see the boards coming off the storefronts instead of going back up are those communities where an ethanol plant or a biodiesel plant has been built. I don't think any of us in the 30-some years of advocating use of renewable energy ever expected that kind of boon to the rural economy.

We often talked about our energy security, we talked about higher commodity prices. But again, if you go to those communities you see not only jobs created by those ethanol plants, but you also see spin-off industries, small businesses to help service it. That helps the tax base. It helps fund the schools, it helps fund the hospitals. Certainly because most of the ethanol plants and biodiesel plants have been built are owned by farmers themselves. They are a cooperative. That money, those profits stay in those communities and get reinvested in those communities. That's a very, very positive development that needs to be continued.

The other bright spot that we see in American agriculture, and this one kind of came as a surprise to me. I have farmed for 20 years and have been out here in farm advocacy for another 20. But when I went across the country, all the innovative and creative processes that are going on, and these are small businesses that are doing it, they're taking the initiative to promote local food, fresh food, direct to the consumer. From selling to school districts their fresh meat, having not just farmer's markets but working with institutions, and that trend sort of started at the upper end of the income level, where people with a lot of expendable income could afford to pay higher prices for fresh, organic, natural products. Now our challenge is how to keep continuing that and get it to people of all means of income. Because the product is fresh, anyone who has had fresh food out of the garden knows that it tastes a lot different than our current distribution system, which I refer to as sort of the McDonaldization approach where everything looks the same, tastes the same, costs the same, and at the end of the day probably lasts a lifetime with enough preservatives for shelf-life.

Well, people want change and I think those are two positives we can build on. Specifics on the Farm Bill, I think everyone's goal is the same. There is a lot of differences on how we get there. If we get the current Farm Bill structure on the commodity title, which tends to get the most publicity, we have—we don't have enough dollars to provide an adequate safety net. We currently have three programs—the direct payments, the loan rates, and the counter-cyclical.

What I think needs to be done and what we have recommended is you shift money out of direct payments into a counter-cyclical safety net. That way, when farmers, when they get the price from the market, it doesn't cost the federal government any money. If you witness what has happened in the last couple of years, our federal expenditures have gone down because we did have higher prices. The number one goal of this Farm Bill ought to be to encourage that, so farmers get their money from the marketplace. I've never met a farmer or a rancher that wanted to get their money from the government first. They want to get a profitable price.

So we recommended a counter-cyclical safety net, reducing the direct payments. If we did that, we could save enough money to also have approximately three billion dollars for other farm bill priorities—conservation, nutrition, permanent disaster program. I know each of you have to vote several times a year probably on disaster programs. We get as tired of having to promote disaster programs as you probably do on having to vote for them.

We might as well be realistic. Weather-related disasters are going to occur. The crop insurance program helps, but it doesn't fully protect the interests of farmers and Congress has to step in. We ought to have a permanent disaster program. You can stop the abuses, you can make sure that it goes directly to those people who suffer losses.

I see I am probably out of time. Let me mention two other things real quick. On the renewable energy, we have this tremendous opportunity. It's not just corn ethanol. It's not just biodiesel. It's also wind energy, it's cellulosic ethanol, and I think if we move in that direction we'll all be better off.

And finally, broadband coverage in rural America. Rural America is under served in that capacity. We need an effort not unlike what they did when Franklin Roosevelt proposed helping electricity for every American. We need it in the broadband sector. Thank you.

[The prepared statement of Tom Buis may be found on page 47 of the Appendix.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Buis. You will have more time during the question and answer period.

Mr.BUIS. Sorry, that Farm Bill is a big document.

ChairwomanVELÁZQUEZ. I know. Our next witness is Mr. Mike Noonan. Mr. Noonan is representing the National Association of Wheat Growers. The National Association of Wheat Growers represents various state wheat organizations, alerting them of possible programs that may affect the wheat industry in a particular state.

Mr. Noonan is president of the Oregon Wheat Growers League and farms in Klamath County in Oregon. Sir, you are most welcome.

STATEMENT OF MIKE NOONAN, PRESIDENT, OREGON WHEAT GROWERS LEAGUE ON BEHALF OF NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr.NOONAN. Is this on already? Yes. Madam Chair, Committee Members, first of all thanks for the opportunity to speak today. It's a great opportunity to come out here to Washington and take part in this Committee discussion. I'm Mike Noonan. I farm over 10,000 acres in the Klamath Falls area. I started as a young farmer. I got out of college and started with less than—started with 100 acres. So a lot of the things that I talk about is going to be about rural infrastructure and how to get a young farmer the basics it takes to get young farmers into farming and how it is all affected.

It's a bright time for agriculture. High commodity prices, things are looking very good. Six dollar wheat. But as a farmer, you look at the good times and you look back to a lot of years where we were looking at $80 ton barley or less than $100 wheat, which is less than $3 a bushel. With that being said, one of our biggest concerns as wheat producers is the counter-cyclical payments, or the LDPs have never triggered for wheat growers in the last six to seven years. We've actually been left out of that by having a low-target price.

We're not after a target price. One of the biggest things that we need is to continue our direct payment, which is 52 cents, or raise it. To raise it right now is probably not what is going to happen. At least to maintain the direct payments is very important for rural infrastructure for a couple of reasons. It is bankable. It is a thing that a young farmer can take and it's going to be something that is for sure. It's 52 cents every year or whatever the number is, and it is something that is bankable. Well, the LDPs and counter-cyclical, it changes and it's just not a sure thing.

The other thing is it also helps us compete globally in the sense that with all the increased environmental and also labor issues that we have, it causes us to be able to compete with lower cost of production. Our production costs are higher. The other thing that we would like to see is full funding of the CSP program and other conservation programs, including ECIP. But the conservation security program gives us, rewards us as farmers for what we have done and encourages us to move forward with new conservation practices on our farm.

I am currently moving to almost a third no-till farming now, incorporating carbon into the soil and it's really working for us in certain areas. So looking at that and full funding of the CSP and all watersheds, so that everybody can take part is definitely a priority.

To technology, one of the big things that we see is switchgrass. We can see switchgrass growing with the right type of research, so that we can get the most biomass production. We can see it actually out on wheat acres, helping out with our renewable energy that we need within the nation. We could also look at high sugar wheat in the sense that it could be used. One of the things that is our concern, especially out in Oregon, is the fact that you have a situation that corn is going to be hauled all the way to Oregon to be made into ethanol. We've got a 25 by 25 resolution going on there, and you know we as Oregon farmers are looking through Oregon state and as a state looking how we can keep that more of a regional thing. So if we could take wheat into ethanol production or cellulose type switchgrass, I mean, that would be a great thing for us.

Lastly, transportation. One of the things that my farm did to be successful was to add value. So adding value, we do transportation plus I also have a packing shed to pack my vegetables and we also have a trucking company. But one of the biggest things that we're under served in is in rail transportation. With that being said, the 100 car unit trains generally come out, but to the countryside, when you get out to really rural America where you need four or five railcars, most of the time we will wait to ship our crop until it is an off-demand time.

So if it is September or August type of harvest conditions, we'll wait and I will have to wait to ship grain until generally because the premium on rail cars is so high, I really can't ship it until—and that happen everywhere—until getting into November, December, into January when it is not demand time.

Lastly, when it comes to work shortage, there's definitely a worker shortage in the countryside. I don't know what the answer is, but one of the things that I can see personally from my farm and within the people that work or the employers, farm employers in Oregon, is there needs to be a way for documentation of workers so you can be sure exactly of what is going on. One of the big concerns that I have is that when I hire somebody, they have a driver's license and a card, and great people by the way and a very big part of what we do. It's very hard to tell—it would be nice to have one national standard that would say when they come up, my secretary and my brother can take a look or I can take a look and we know that they're documented and also, we're an advocate for more workers so we can have—so they can take part in our businesses.

[The prepared statement of Mike Noonan may be found on page 56 of the Appendix.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Noonan.

Our next witness is Mr. Mark Schwiebert.

Mr.SCHWIEBERT. Schwiebert. Pretty close.

ChairwomanVELÁZQUEZ. Thank you. He serves on the National Corn Growers Association Corn Board. The National Corn Growers Association is a producer-directed trade association headquarters in St. Louis that represents the interests of more than 30,000 farmers. Mr. Schwiebert is a partner in a farm operation that grows corn, popcorn, soybeans, and soft red winter wheat in Harmon, Ohio.

Sir, you are most welcome

STATEMENT OF MARK SCHWIEBERT, CHAIRMAN, PUBLIC POLICY ACTION TEAM, NATIONAL CORN GROWERS ASSOCIATION

Mr.SCHWIEBERT. Thank you, Madam Chairman, and also Ranking Member Chabot. The Members of the Committee, on behalf of NCGA National Corn Growers, I certainly appreciate this opportunity to share with you what our priorities are for the 2007 Farm Bill and the potential impact on the family owned farms and also rural businesses. As the Chairwoman just said my name is Mark Schwiebert. I am from northwest Ohio and I am a partner in a diversified cash grain operation.

She also said the National Corn Growers Association does have about 32,000 dues paying members across the U.S., and over 300,000 members contribute to corn check off programs across the United States, likewise. Over the past ten years we've had some relatively stable production, particularly from corn. That's been made possible by innovations in production practices and also technological advances. And that's helped ensure really ample supplies for feed for livestock, certainly for the expanding ethanol industry, new bio-based products, plastics, and others and a host of other uses in the corn industry.

Moreover, investments made by American taxpayers in our nation's agriculture programs have helped produce a more stable financial environment for production ag. and a brighter future for our rural communities. I must emphasize that the farm safety net provided in the current Farm Bill is considered a critical component of most producers' risk management plans. It's important to note that NCGS supported the 2002 Farm Bill for the improvements that it made to our nation's agriculture policy. 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 that are underway in U.S. ag. NCGA has developed a proposal to reform our commodity support programs, changes that would help ensure better protection against volatile commodity prices and significant crop losses. And what's really important is it provides those benefits when farmers truly need it the most and if we have questions after a while, we can delve into more details on that.

Shift gears over to rural development. NCGA also views commodities support programs to be strongly linked to revitalizing our rural communities. We urge Congress to carefully evaluate those programs administered by the USDA and Small Business Administration that are better leveraging farm support dollars that facilitate investments and locally-owned enterprises.

For many years, USDA rural development funds have been made available for much needed improvements in public infrastructure. Rural broadband, rural electric co-ops are certainly good examples of those. These investments to enhance the quality of life in rural America coupled with recent initiatives to bring more jobs to communities might be better described as rural economic development. While our members' experience indicates that direct value-added producer grants and loan guarantees for renewable fuel projects do indeed stimulate economic development generating a wide range of benefits that have been outlined by some of the other speakers this morning.

If we are to continue building a more prosperous economy and a better quality of life for rural communities, NCGA believes the next Farm Bill can serve as an engine of growth for new businesses. Unfortunately we have seen these cost-effective programs and other important rural development initiatives in the 2002 Farm Bill impacted by reduced funding and in a number of cases no funding at all.

One of the most significant success stories for new value-added businesses and employment opportunities is the ethanol industry. It started in a cottage industry size in 1980, about 175 million gallons and in 2006 it has grown to an excess of 5 billion gallons. And what's really interesting and important about that, this is with more than 1.8 billion gallons of that production coming from farmer-owned plants. I think that's a very significant point.

For the U.S. economy, the ethanol industry in 2005 spent in excess of $5 billion for raw materials, inputs, goods and services, a lot of those coming from rural areas. It was 1.4 billion bushels of corn in that same year. That's a $2.9 billion value directly into the checkbooks of producers.

And according to the Renewable Fuels Association, the remainder of spending by the industry for inputs such as—includes chemicals, electricity, natural gas, water, labor, services, and we certainly don't want to forget does contribute tax revenue from those communities as well.

While we now have the opportunity to advance the growth of domestically-produced renewable fuels and bio-based products with forward-looking farm policy, in addition to our proposed reforms of the farm safety net, NCGA supports rural development policies that encourage farmers to move towards ownership in higher-value markets and greater profits beyond the farm gate.

NCGA's second task force report on grain belt agriculture concluded that and I quote, "rural incomes in farm communities will benefit if national priorities begin to encourage self-reliance and marketplace solutions."

Last, but not least, is conservation and stewardship. And that's priority for NCGA as well as agriculture policy promotes the best available practices to further improve the environment. Corn growers are certainly concerned with the health and well-being of American citizens and mindful of the need to balance environmental concerns with necessity for long-term profitability.

We certainly support the use of sound science to set environmental policy and use of voluntary programs to assist farmers in meeting and achieving those environmental goals.

During the last 70 years, there's actually been fewer acres of corn under cultivation than there was 70 plus years ago, but we have had almost and 8 to 10 fold increase in the amount of corn produced during that same time. It's not just about growing more corn though. It's about how we grow it and we're making important environmental gains. We're able to reduce soil erosion. We're able to improve water quality and increase wildlife habitat and still produce that size of a crop. Well, we certainly do need to have continuation and a greater emphasis on working lands conservation programs that allows us to produce and still take good care of that.

Madam Chairman, on behalf of NCGA, thank you very much for yours and your Committee's interest in this. I certainly appreciate the opportunity to discuss these goals with all of you this morning.

[The prepared statement of Mark Schwiebert may be found on page 65 of the Appendix.]

ChairwomanVELÁZQUEZ. Thank you.

Mr. English, I would like to address my first question to you.

This Committee and the Congress have been looking at different ways to see how can we bring down overall energy prices. And it is an issue that reigns as a top priority for small businesses. And we know that the Farm Bill has a number of programs that affect the ability of new members to keep electricity rates down.

Can you talk to us about the different programs that have been successful in helping reduce prices for your members and any of these programs that need to be revised or any changes that should be made to these programs so that they do accomplish the mission that they were intended?

Mr.ENGLISH. Well, thank you very much, Madam Chair. Let me just say I think this Committee is making significant contribution just giving us this opportunity to talk about it today and I appreciate that very, very much.

One thing that I think that we've got to understand and keep in mind is that at some point we've got to come up with a plan. Now we've got several different agendas, I think that this Congress wants to address in a bipartisan manner. One is to reduce carbon emissions in this country and deal with climate change. That's a big issue. At the same time, we want to also make sure that we keep the lights on, as far as electric power is concerned. And that's no longer a given. And we also want to try to do our best to hold down the cost of power and what rates. We also want energy independence. All these things have got to come together and somehow we've got to resolve this out so that we've got a plan. We know where we're moving toward.

I had a reporter about six weeks ago, Madam Chair, and his solution to dealing with climate change was to simply jack the rates up so high that people couldn't afford to buy power. Now I made the response to that, I said any elected official I know of that votes for that is going to be committing hari-kiri. That's basically what he's doing. I can't imagine going back to a constituent and saying by golly we're going to reduce carbon emissions in this country by making this power so expensive you can't use it and therefore we don't need any more electric power. That puts us right back to the dark.

What I would suggest to you is this, I think we've already got many programs in place that make a lot of sense and we're moving in the right direction. As a Steering Committee Member of 25 by 25, they've laid out an implementation plan I think that makes a lot of sense as to how we can start moving toward relying on domestic fuel produced in rural America, renewable fuel.

On our side, what we're looking at right now, in fact, there's going to be a meeting take place among many of our members about three weeks from now in talking about how we might be able to take all 47 states that we have electric cooperatives, figure out where we can be most productive, most effective as far as producing renewable energy and in effect, collectively do that. Let regions of the country that may not be suitable for renewables, make contributions and help invest and help bring this about so that in effect we're developing a new industry and we're able to move that power out of those regions into the areas of the country, urban areas that need renewable power and where it makes sense and helps us depend more on renewable power.

At the same time, we've got to be focused on efficiency and there are many steps being taken by many of the utilities and I think Congress can certainly do more in this area. Primarily from our standpoint the Rural Utility Service is important. The Rural Utility Service and the loans that they make cost the federal government budget-wise about $25 million a year, $25 million a year for a $4 billion program. And this is something that is vital as far as dealing with this infrastructure cost that I spoke of earlier where we've got 42 percent of the infrastructure we've got to maintain. We need to build transmission. We're going to have to produce more power and certainly the Rural Utility Service, if Congress sees fit to continue, can reduce those interest rate costs about 2 percentage points.

ChairwomanVELÁZQUEZ. Thank you, Mr. English.

Mr.ENGLISH. Yes, ma'am.

ChairwomanVELÁZQUEZ. Mr. Buis, I know that the USDA, that they have a lot of programs to help farmers farm but none to help farmers on the business side. I just would like to ask you would you find it helpful for the Small Business Administration to provide counseling and technical assistance to your industry to develop strategies to better manage the natural risks inherent to farmers?

Mr.BUIS. Absolutely. I think we would welcome that. You know, oftentimes in agriculture we kind of get like everyone else kind of wed to one program or wed to one piece of legislation or one department. If you look at what has been happening recently in agriculture, it's not the Farm Bill issues that are really driving it. It was more the energy and tax provisions that provided for renewable energy. I think we need to look at a lot of different ways, because they are small businesses.

ChairwomanVELÁZQUEZ. Mr. Noonan, obviously the commodity title in the Farm Bill will have the biggest impact on wheat growers. Depending on a producer's needs, some commodity programs are a better fit than others. For farmers who grow wheat, it's direct payments. Are there any modifications that your organization is seeking in regards to this direct payment?

Mr.NOONAN. Thanks, Madam Chair. You know, we were running around the Hill yesterday trying to get a read on this Farm Bill, and there's a lot going on. It's very important and a lot of good ideas and then again, a lot of new ideas. All of them are probably good, but one of the basics like I hit on in my brief discussion there was a—there's some talk about cutting the direct payment. We're definitely not in favor of that. We need to at least maintain the 52 cent direct payment. Like I said before, it's got bankability and it creates a sure safety net every year.

Loan deficiency programs and counter-cyclical payments, when they kick in, loan deficiency program for us, if the loan deficiency is raised, we wouldn't be against it, but at the same time it encourages us to carry a lot of wheat within storage in low-price years. Then we've seen in the past that we will have a couple million bushels in the State of Oregon carry-over, and then you just get into this LDP cycle that is not good for the free market.

So with that being said, we're very cautious about LDPs and then what we really need—we're in favor of the direct payments.

ChairwomanVELÁZQUEZ. Mr. Schwiebert, you mentioned importance of commodity programs as a safety net for farmers. It seems that this farm bill will be limited in expanding the various incomes of work programs due to budget constraints. If there are little if any changes made to the commodity title, what impact will this have on corn growers?

Mr.SCHWIEBERT. Certainly we've seen a significant change in the price structure, but what also brings along with it is increasing input costs. Certainly, that has raised and enhanced the risks of that. So as to begin to make modifications to what we have experienced in the 2002 Farm Bill, it adds some additional inherent risk to that. What we've been looking at and proposing - it's kind of the gist of our proposal - is what we call a revenue counter-cyclical program.

So what it's doing is it's targeting revenue at the farm level as opposed to just price alone. We think provides some benefits because it protects the producer from a variety of things. It could be a wild swing in prices. It could be a swing in production or a combination thereof. Because ultimately, it's revenue that pays the bills on the farm. We think that's a better approach and it also tends to be responsible recognizing there are constraints to the federal budget and how many dollars can float agriculture.

An additional benefit of that you would bring along with that a built-in disaster aid program so we've been running each year about $1.8 billion spent annually on ad hoc disaster aid. Why not incorporate that so it would be reliable and so we could plan on that looking forward in the future. We think that provides a safety net with much smaller holes in the past.

ChairwomanVELÁZQUEZ. Does Congress need to consider other changes to the title, other titles of the Farm Bill to offset new commodity programs?

Mr.SCHWIEBERT. Well, certainly the PAYGO rules are going to have a pretty strong impact on that.

We recognize the need for budget constraints is there. We're certainly not averse to taking a look and examining those. It's cases where you know the devil really is in the details and to say yes, we certainly agree with that, but not knowing the details is pretty tough to go out on the limb and make that promise.

ChairwomanVELÁZQUEZ. Thank you. I now recognize Mr. Chabot.

Mr.CHABOT. Thank you, Madam Chair, and Congressman English, I'll probably start with you first here. You had mentioned I think by 2030 that we're going to need to have an additional 40 percent increase in our access in energy production, etcetera. And you also mentioned that some folks have suggested that one of our ways of dealing with our need for energy is to dramatically raise taxes and I think Tom Friedman of the New York Times and I believe Al Gore as well and some others have sort of in the past advocated that point of view, that we need to just tax it so that it makes it even more painful than it is now to buy gas or whatever our needs are.

Would you tell us why that's not a good idea?

Mr.ENGLISH. Well, what I was struck by was the fact that I thought it was rather noncontroversial to say that you're trying to keep the lights on, and you're trying to keep the rates down. Now that, to me, I didn't see a whole lot that folks could object to that, but I found from this one reporter that it was in fact the case. He wasn't talking about raising taxes. He was just talking about raising rates. And one of his objections was to the Rural Utility Service and under the Farm Bill was the fact that it helped us in rural America keeping the rates down. Now he ignored completely the fact that about 60 percent of all the co-ops have rates already higher than the neighboring investor-owned utility. He didn't care about that. He ignored the fact that we've got about half of all the electric cooperatives out there in this country serving three quarters of the land mass of this nation, that in fact, today have more than the national average as far as people living under the poverty line. So you've got some of the poorest people in this country. His deal is the only solution, the only way to deal with the whole question of greenhouse gases and carbon emissions is to raise rates. Now I don't think that's right and I'd be very surprised if the Congress decided to go down that path.

Instead, what it's going to take, it's going to take every tool that we have at hand. It's going to take renewables. It's going to take more efficiency. It's going to take technology with regard to coal, because we're going to have to continue to use coal. That's the reality. MIT is even saying that, that you're going to have to have coal to meet that 40 percent increase we've got. We're going to have to have carbon capture and storage and that's expected to be commercially available where we can incorporate in our power plants by the year 2020 and we need to do that.

We need to also build more nuclear plants. We're going to have to do that. That's one way we can get at that. In fact, we need about three times the number of nuclear plants that we have on hand today. We need in plug-in automobiles to help reduce this, but you've got to have the power for those plug-ins. So we've got to have more power to do all this and we need distributive generation. We need all this stuff. And I think that's what I was saying that we need a plan here. We've got some conflicting objectives that we want to get. We want to reduce carbon emissions. We want to move toward energy independence. We want to make sure small businesses out there that are going to give us that hope of reducing our dependence on foreign energy, namely, we've got what, 112 ethanol plants out there and about 30 some odd biodiesel plants. Those are small businesses. Our rates go through the roof, a big bunch of those biodiesel plants and ethanol plants are going under. There's just no way they can make it.

So somewhere here we've got to reject this simplicity that the only answer is to raise rates. I guarantee you our rates are going to be going up and up to take care of any desires about anybody because this is going to be the most expensive power that we have to add that we've ever had in the history of not only electric co-ops, but the entire country and the entire industry. So that's where I think all this stuff comes down to. We rely on technology and developing technology and making our investment there, or do we go over here and say well, we'll take a simple rate and then we'll just jack the rates up so high that people have to conserve and they'll have to be more efficient. Now what that does to the economy and this nation is it drives into the tank. It destroys rural America. It destroys small business and it doesn't make any sense at all. But there are people, believe it or not, that are out there advocating that.

Mr.CHABOT. Thank you. Mr. Buis, and I think I used a lot of my time. If I could go to you next. You had mentioned about the very positive impact that ethanol has had in the rural community, agriculture, etcetera. Now there's also the other side to some degree that being number one, it takes a lot of energy in order to produce ethanol is my understanding as well. And so that's something that has to be dealt with to some degree and in addition to that, obviously, it drives up the price of feeding cattle, for example, and the consumers at the store when they're purchasing the food for their families, etcetera, it drives those up. So all of this has two sides.

If you could sort of address that issue, as well?

Mr.BUIS. I'd be glad to, Congressman. Thank you. Number one, on the energy efficiency of ethanol, when this began some 30 some years ago, I was working for a United States Senator in Indiana who actually chaired the first Alcohol Fuels Commission. And very frankly, it was called gasohol. It wasn't energy efficient. It wasn't economically efficient and truth be known, our real expertise was probably backyard stills along the Ohio River on how to even produce ethanol.

But we've come a long way since then. Part of it has been public policy that's driven it. But it's also that investment and technology that Glenn just referred to into the industry. Now it's energy efficient.

We produce more energy than it takes to produce the ethanol. It's also economically efficient. And I know there's a lot of critics out there. We hear well, this adversely impacts the livestock industry. Well, we're very sensitive to that. We're a general commodity organization, meaning we have farmers that produce all kinds of commodities, and heavy into cattle production. But 105 out of the last 120 months corn has traded and this is USDA statistics, at below the cost of production. And that means that those people who were using corn were basically being subsidized. A lot of people look at the commodity title and say oh, look at all that money going to those farmers. Well, actually, it was a bastard. The subsidy was going to livestock industry. The subsidy was going to consumers. It wasn't necessarily staying in the farmers' pockets. And they weren't making a profit from the marketplace. Now that's changed.

Last year, when ethanol drove prices through the roof, suddenly people said well, you're not—now you're taking food out of people's mouths and that again is not true. We're still exporting almost as much as we're using for ethanol in this country and the other component that has to be looked at is how much percentage of that total food dollar is actually related to the raw commodity? I read where the cereal companies are all raising their prices blaming farmers. There's a penny's worth of corn in a corn flakes box. Other costs, factors out there.

Mr.CHABOT. They were also blaming the high cost of gas in transporting things around too which is clearly—there's many factors, but—

Mr.BUIS. Sure, if I might add though, whenever they raise those prices, when corn comes back down, you won't see corn flakes coming back down. It just doesn't happen. They stay up. So that direct relationship and if you look over, of course, the last 20 years, the farmers' share of that food dollar continues to shrink. We're paying as consumers the best deal of anyone in the world, less than 10 percent of our expendable income for food.

Mr.CHABOT. Thank you very much, Madam Chair, in the interest of the others on the panel, I will yield back.

ChairwomanVELÁZQUEZ. Mr. Braley.

Mr.BRAYLEY. Thank you, Madam Chairwoman and Ranking Member Chabot. I think this is a very important hearing. The Farm Bill used to be the FFA, the Food and Fiber for America Bill.

And now it's more realistically called the FFFA, Food, Fiber, and Fuels for America. And I think that's a very significant change because a lot of us really saw the food and fiber as part of the benign things that showed up on our tables every day. We didn't really give it a lot of thought, but now that we've injected the fuel component, we've got a lot more volatility and a lot of enthusiasm for small business owners.

I want to focus more on something that doesn't get as much attention as the fuel component and that's the ag. based chemical and industrial products component of where we go when next generation innovation from some of the things we've been talking about.

And Mr. Schwiebert, I grew up in the small town of Brooklyn. I think you've got some distance relatives living there.

Mr.SCHWIEBERT. There are Schwieberts transplanted.

Mr.BRAYLEY. I'm familiar with the name. Congressman English, I may—I think I can say in fairly good confidence, I am the only Member sitting up here who is a member of a rural electric cooperative. My brother worked for an REC and during the ice storms of this spring when we had 350,000 people in Iowa without power, your members and the people who work for those cooperatives did outstanding work.

But to give you some sense of what I'd like the panel to talk about, I spent the last week on the renewable energy tour of my District. I went to the U.S. Bioenergy ethanol plant that's being built right now near Dyersville, Iowa. I toured the Hawkeye Renewables ethanol plant near Fairbank which has been up and running and doing great things. And then I got a much different perspective by touring the ADM facility in Clinton, Iowa and that's where they are building the first PHA plant in the country that's going to use wet starch from a wet corn mill to make natural plastics that are biodegradable, environmentally sound, and also will give rise to a whole new generation of small business opportunity to compete with petroleum-based plastics.

I also have a small utility in my District that came up with an innovation to replace lubricants in electric generators that used to be contaminated with PCBs with a soy-based biodiesel type of lubricant. So there's a lot of exciting things going on that don't get the attention that renewable fuels do and I'd like all of you to comment on what you see your members doing in the next five years to benefit us?

Mr.ENGLISH. Well, I think that's exactly right and what you're talking about is using that in the transformers with the oil from soybeans. That's something that's certainly being supported and looked at now. I know the Rural Utility Service is giving that a look as well as to whether we get in there. I think there are a few technical issues that still remain to be dealt with on that, but that makes a lot of sense and moving in that direction.

And that's exactly what I'm talking about. If we can start laying this thing out and get a plan as to where we're going instead of this kind of skipping around haphazardly a little here and a little there and focus our resources and our attention, and that's what I find so exciting about the fact that we've got so many of our members who want to come together and invest in one great bit national entity to produce renewable electricity for not just for the local area, but for the country. And to really go into this on the basis that it is an effort to, in fact, provide that kind of renewable power that this country needs. And it fits right in. I know with what many of the farmer organizations have been trying to do, many of our farmers trying to do, and every one of them as you well know, those are all local folks that own those electric cooperatives. If they have the chance to do that, that it also has an opportunity to bring some revenue to the people back home, if the Congress will give us that chance.

We've got to tweak the laws, make a few adjustments here, to make that kind of a plan and to move that forward, but it's also a way in which we can minimize those rate increases. They're going to go up, but we want to minimize that and have as little impact on this economy and certainly on small business and people in rural—living in rural America as we can.

Mr.BUIS. Thank you, Congressman, for that question because I think it sort of defines rural America. There's a lot of innovation and creativity out there. It's often having the programs and the funding and the incentives to take part in it. As we do this Farm Bill, one of the titles and I know Mr. English is very familiar with in his days in the House Ag. Committee, it often gets overlooked and shortchanged, it's research. Research and the technology and development. You know, corn deicer, for example, you can use on the roads. You can use it in the airport runways. Those type of products don't just happen. It takes some serious research. And federal research dollars usually are the first cut.

You can look at any budget reconciliation package that's gone through this Congress and those are easier because the constituency often is in the future, not in the present and I think we really have to focus on that in this Farm Bill, especially with the limited dollars.

Mr.NOONAN. Well, in Oregon, one of the things we've got going right is now the Treasure Valley Renewable Energy and what it's doing, basically, is taking barley and what and it's just under process right now, and the byproducts are actually worth more than the ethanol that's produced. Using byproduct as an edible for like these food bars and stuff, so that's a perfect opportunity where the byproducts actually is what you're after.

Another thing that's been happening is with use of canola meal and organic production of canola and using the canola oil as organic canola oil for edible uses. So there's a lot of things being stemmed here with all this discussion going on.

The other thing that I'd like to hit on is you know a molecule is a molecule and with that being said anything that's oil based can also come from a plant. So we just hit the tip of the iceberg in what can really happen and with the ingenuity out in the countryside and the work ethic that's out there, I think you'll see a lot of the things that you're seeing at your home and we've only just touched the tip. It's going to be a lot about ethanol, but it's going to be a lot about the things we're going to make from the byproducts. So I've got to agree with you.

Mr.SCHWIEBERT. Thank you for that question as well. Some examples you can see right in front of us is you can take polylactic acid which is derived from corn starch and make drinking glasses as clear as this, use those, put those in a compost pile. They degrade to carbon dioxide and return to the soil to grow corn again. You can use it to make the carpet on this floor, even the clothes that you and I wear.

What we're seeing today with fuel grade alcohol is the first generation of uses of renewable products, in this case corn, wheat, soybeans, other products as well, to launch us down a road of replacing our complete dependence on petroleum-based industrial building components to those from bio-based products. Kind of going from a petroleum to a carbohydrate-based economy for perhaps that stated as well.

So we're on the first generation of that. The technological advances, the advances in biotechnology are certainly driving us down that road rather quickly. Sometimes it's almost surprising me how rapidly that's happening. But don't see today as we've reached the goal and we can set back and rest on those laurels. It's just barely begun. So I think the future is very bright. I think it positions rural American agriculture to certainly be not just a contributor of food and fiber, but also a strategic national advantage in providing energy and also the basic components for our industrial processes.

ChairwomanVELÁZQUEZ. Time has expired. And now I'll recognize Ms. Fallin.

Ms.FALLIN. Thank you, Madam Chairman, it's a pleasure to be here with you today and it's always good to see my fellow Oklahoman, Congressman English. Good to have you here and appreciate you coming and appreciate the good job you're doing and it's good to see you other gentlemen too.

I'm just sitting here thinking about the current Farm Bill that we're getting ready to take up and listening to the debate and I came in a little bit late, but and thinking about the issues that you've been talking about at hand. Can you tell me and just reflecting back on the past, on the last Farm Bill that we had, I think it's always helpful for us to look at the good parts of the bill that we passed, maybe some challenges that were there and some opportunities that we might have in the upcoming bill. But what are some things that you saw in the last Farm Bill that you might think we should definitely not do, some things that were not helpful or some issues that became a challenge to your various industries?

No one wants to answer that one.

Mr.BUIS. Well, there are a couple of things that I think we have to take a look at and one thing that we've recommended is shifting the direct payments to the counter-cyclical payments. We have high corn prices right now. We have high wheat prices. We have higher—I learned a long time ago, never say they're high. They're never high enough to a farmer, but it's tough to justify to Congress and anyone else paying a farmer when they've got a high price. And conversely, we all know prices don't stay high forever and they will come down and when they come down having that safety net that really kicks in when you need it.

So we have suggested a shift in how you fund that. And base it on cost of production and the reason we say cost of production because if you really are talking about a safety net, the one gaping hole in the whole last Farm Bill is every farmer got caught with rising input costs that went through the roof. Agriculture is very dependent upon energy, not just the fuel, but the fertilizer, even the equipment is very energy intensive to produce.

And the safety net when chosen by a price, whether it's a direct payment or a loan rate, doesn't move with that. And we were fortunate that last summer commodity prices went up because the rising input costs for farmers because energy was really hurting, we can't pass on those costs. We're price takers, not price makers. And you know, the old line is you buy retail, sell wholesale and pay freight both ways. Well, we also pay a fuel surcharge both ways and that's tough to pass on.

Mr.ENGLISH. One that I raise with you that it's not something that the Congress has allowed, but is happening, we had back—I'm going way back now. This is ancient history to all you all. Back in 1987, the Agriculture Committee was faced with a situation as far as rural development was concerned we had no money. There was no money that was available. We had very tight budgets and it was very difficult during that time and one of the areas that got cut back substantially was in rural development. So the question is well, what do you do about rural development? How do you help in rural development?

And one of the ways that we did this was that we started quite frankly tasking some of the electric cooperatives to get involved in this to help out in this and finally developed a program which is now known as the REDLEG program in which electric cooperatives would, in fact, pay back their loans early and that would go into a fund and then the local electric cooperatives could make that available for local business loans to help small businesses, small industries come into those areas. And that's been a very productive program, not a big program. It isn't massive, but it is a way in which we could achieve that and that's kind of the back door way of trying to come up with the money to be able to do something out there.

Well, what's happened here in the last couple of years is that the Department of Agriculture has started reaching into that fund and taking that money and using it for other purposes, using it for other purposes. $200 million has been taken out of that fund and used for other purposes. And that's wrong.

And we're hopeful that Congress will speak out on that and put a stop to that kind of practice to allowing that sort of thing to happen. But that's not something that the Farm Bill allowed last time. I guess this is another one of those things and I know the frustration that each of you have is that seems like folks always figure out some way to do something different than what we intended when we passed the legislation. You get that kind of frustration. You leave any little inch there, there's always somebody who is going to figure out an angle to get after it and this is one of those cases and it's unfortunate.

Mr.NOONAN. Well, I keep going back to direct payments and they're very important to us. One thing was that we were pretty much left out of the LDP program in the counter-cyclical in the 2002. Our target price was set so low and partially that was because we didn't want an oversupply. Storing grain doesn't create a free market. And when the target price gets too high what happens is and you drop, you get LDPs and a lot of time you're storing up grain to sell later. And we're just—we're of the mindset if we have moving our grain crop every year it's going to create opportunity in the free market.

With that being said, you start talking about a safety net. And if we want to talk about cost of production, a real direct payment for recourse that would be equal with our low target price right now would be a $1.19 direct payment for the cost of production that you can look and that's exactly what we should have. Instead, we're getting 52 cents.

So we're kind of left out in some of the Farm Bill. I think one thing that I urge you guys, all Congress to do, is to make sure we get a fair shake this time, because we really were left out a lot of it. We keep going back to the direct payment because it's something again that's bankable in rural America that counts. Yes, you pay it every year, but you know when you're budgeting, you know what it's going to cost. It isn't going to be like a counter-cyclical or an LDP. It's going to be differing depending on market years. You can set a straight line that you can both budget and count on our end.

And then the other last thing is full funding of the Conservation Security Program.

ChairwomanVELÁZQUEZ. Okay, time has expired. IF you want to add, to answer a question, please do it in a short answer.

Mr.SCHWIEBERT. I'll be as brief as possible. One conflicting issue is you've got disaster aid, ad hoc disaster aid kicks in about every year. You've also got a pretty significant heavily subsidized crop insurance industry as it pertains to corn growers, sometimes that's that cross-purposes. To do both kind of undermines, one undermines the other. We've had some pretty good corn crops in the last number of years, some excellent production. Had some low prices with that. A lot of farmers, even though they had, you know, pretty good income levels from that, we're still able to receive a pretty large loan deficiency payment because of the low prices.

Well, you know, you received generous benefits, and we're not complaining about that one bit, but it was times such as in a year where it wasn't a crucial need. What we're proposing in our plan really targets that to be delivered when crops are short, you know, yields are down and prices lower, or a combination thereof. So I think it would be a more efficient use of taxpayer dollars.

ChairwomanVELÁZQUEZ. Thank you. Ms. Clarke?

Ms.CLARKE. Thank you very much, Madam Chairwoman, Ranking Member Chabot, for holding this hearing on the Farm Bill. We're moving from Brooklyn, Iowa to Brooklyn, New York, so I just want to put that in perspective for you. As you know, Madam Chair, New York City has made great strides in maximizing sensibility to federal food stamp programs for eligible New Yorkers. But many potentially eligible people have not yet enrolled.

I believe that Congress must take the next logical step to maximize the participation of small farmers in the program by modifying some of the guidelines that will bridge the gap between family farmers and low-income families. We need policies that promote a food system that is more sympathetic to the health needs of under-served communities around America, including support for market incentives and institutional procurement policies that favor healthy food, a seamless flow, if you will, of produce from small farms to urban consumers with the real meaningful, sustainable, expansion of the marketplace.

The 2007 Farm Bill should support an increase in food stamp benefits to help more poor and low-income families to buy healthy foods, improve outreach and efficiency in the food stamp delivery as well as nutritional education.

We must expand the scope and size of the USDA Community Food Projects Competitive Grants Program, to about $60.5 million annually mandatory spending and add specific uses of fund in the flowing new program area into funding new program areas to meet the urgent need to supply healthy local foods to under-served markets. We must also expand farmers' market nutrition programs to 2002 authorized funding level of $25 million and authorize these farmers' markets to be certified for WIC fruit and vegetable vendor status to give greater opportunities for seniors, nutritionally at risk women, and children to buy fresh, local, healthy produced foods.

Having said all of that, I would like to raise a question with you, gentlemen. Over the past 15 years, most states have switched from pay-for-coupons for food stamps to debit cards, thereby removing the stigma of redemption at the checkout counter. As of last year, there were nine farmers markets in New York City that used EBT. The WIC program, which still uses paper, will mostly do the same. Most small farmers, of course, don't take plastic and have seen their sales plummet with the switch from paper.

Without the expansion of the EBT card readers in rural and urban areas, small farmers fear that they will lose the bulk of Farm Bill that they get now and be shut out of those hundreds of millions of dollars. How can Congress help both small farmers and people struggling to feed themselves and their families?

Mr.ENGLISH. Well, I understand where you are coming from, but of course a lot of those folks that you are talking about through the food stamp program that we have had in the past, WIC programs, and others, live in rural America. The point that I was making earlier, an awful lot of folks living below the poverty are living it in rural America and have those kind of challenges and difficulties, no question about it. As far as making those improvements, I know that the Agriculture Committee historically has been very mindful of that, and believe it or not we've had Members of Congress from Brooklyn on the Agriculture Committee. I was thinking of Fred Richmond back years ago who was very active about that and Shirley Chisholm as well. They were very active and very vocal about that and I think certainly helped to keep that as a major part of the Farm Bill and did a great job.

I can't help but given a little bit of an opportunity here, go back to this point. There are some real problems out there, and that's the reason why I keep harping on this rate thing. It's going to be so important for so many of those folks that are certainly living in our areas, but you're going to have the same thing in New York City, is this rate issue and if it gets out of hand, it's going to do great damage.

I had one of the directors, who is a manager of an local electric co-op in Arkansas last month who was telling about the fact he had this lady who called him up, an elderly lady, and she was talking about the fact that she thought she had finally figured out how she was going to be able to pay her electric bill. She was having a real difficulty in paying her electric bill. As I've mentioned, a lot of electric co-ops, their rates are higher just because we don't have many people living out there to bear that burden on the infrastructure.

It came down to the way that she finally figured out how to do this was she was only going to take her medication every other day. Now, that's with today's rates. That's what scares the daylights out of me, quite frankly, is that if we don't get a plan together to figure out how we're going to deal with energy independence, climate change, and recognizing the fact that we've got to use all the tools, and if these folks—and we've got them in this town, who see this as just simply well, we'll just jack it up. It's a supply and demand thing. That could do great damage. So I'm hopefully we can help you on that.

ChairwomanVELÁZQUEZ. Time is expired. We're going to be having votes soon, so I would like to recognize Mr. Sestak.

Mr.SESTAK. Thanks, Madam Chair. I just have one question, Mr. Buis, and maybe one comment to what you've said, Congressman English. You had mentioned briefly and had spoken about to build upon the Congresswoman's comments. It seems to be more desire in suburban and urban areas for access to fresh foods. Could you comment upon the potential economic impact that this might attend for the future. But also, what is it in the Farm Bill—you've mentioned in your written testimony, country of origin. But is there more that needs to be done? I mean, I can remember—of course, in Philadelphia, always going down to the wholesale market there—Ruben Amer, or Carmen Zirisky. I can still remember my pop saying we're going into Ruben. So it was always to my mind this desire to have this type of access. Is there more that can be done in the Farm Bill to open that part up?

Mr.BUIS. Absolutely, Congressman. You know, we sort of stumbled on this. Traditionally, fresh local food was the way that our food was distributed. We got beyond that, and now how do we get back to it? I think you're going to have to see some serious investment in both federal dollars to help people with the delivery and the marketing structure. You know, that's an obstacle for small farmers. They literally have to haul that product up there. There is no ready-made distribution program.

I also think we need to adopt the type of policies as the Congresswoman just mentioned to make that food accessible to all federal nutrition programs, whether it is school lunches and school breakfasts or the WIC program or any of those. Federal policy will help drive it. Right now it has been a consumer thing on the high end. They are willing to open their check books to pay for quality, and you know people of all means ought to have access to that quality. It helps our producers.

Mr.SESTAK. Growing up, because we were eight kids, and my father worked the Philadelphia Shipyard, so this was the wholesale and we used to go in the back gate. But we did it because it was low prices, but there's now this desire on the higher end. I just was curious if there was any follow-on and what tools might help that market, because it seems to just—you see these more and more. Because of time, also, one comment, Mr. Congressman.

I think your comments are so spot on, and yet I think they actually undersell the challenge. I mean, I remember sitting down with an investor one time a few months ago who has done a lot of research, and if we want to bring China, and China does want to come up to the Ozzie and Harriet level of 1965—a car in the driveway, a dishwasher, a decent home. All the energy that we produced this year in this world would be needed times ten just to get into the 1965 standard of living of the United States. They want to go there.

I think back in the military, you know, the Internet really did come from somewhere. It came from the DARPA program, the defense over there in the Pentagon. So whomever made the comment that we really do need the S&T and the R&D to get us out there. But there is also another element missing. We truly have to, as you so well said, the environment and the energy approach, strategically, which Congress doesn't do well. But the transportation, if that is imbedded in also, and we're patch working a broken system that we built after World War II.

You just take what we're doing on our airports. All planes into Philadelphia come from 500—50 percent of all planes come from 500 miles away. Thirty percent of them come from 200 miles away. Well, why are we trying to expand that airport? Why don't we just put a bullet train? There is so much to be done in this area. We are nibbling at the edges. I am just very taken by your comments. I'm sorry to go on that. Thank you.

Mr.ENGLISH. I'll just say amen.

(Laughter.)

Mr.ENGLISH. You're right on and the one question I think we've got as we take on these challenges is the question of whether Congress was going to sit on the fence and play Monday morning quarterback as to what ought to be done or whether Congress is going to join in and we get a partnership on this thing and deal and engage in these programs. We desperately need the Congress to get down with us and to form a partnership and move forward and solve these problems and take care of all these needs.

Thank you.

ChairwomanVELÁZQUEZ. Any other? Yes.

Mr.NOONAN. I'd just like to add one thing to the Congresswoman from Brooklyn. You hit something right on the head. Young farmers trying to enter the market right now, there's so many dollars it takes to get into it. One way of helping would be the Farm Service Agency, they've got a low cap on entry for farmers. I think it's a $220,000. Well, with land values and just the cost of production, it would be nice to see that raised up for the opportunities so you have the infrastructure. They can go get the financing they need to get started.

ChairwomanVELÁZQUEZ. Okay, well, this has been a fascinating hearing and I want to thank all the witnesses. The only thing I would like to add is I have five farmer markets in my District and one of them is in a housing development project and you have to see the experience that these young kids are having, cultivating and even going into upstate farms and gaining from that experience. Crime activity has been going down. These young kids are unbelievable. They are so fascinated to see the interconnection that exists between access to quality foods and obesity issue that we have been dealing with.

So I do believe that there is a great opportunity here to bridge the gap between rural and urban America and I hope that in a comprehensive way it's addressed in this Farm Bill.

I will recognize Mr. Gohmert.

Mr.GOHMERT. Thank you, Madam Chair and I really appreciate that. I'll be very quick, very brief here, but we've got an on-going problem right now in my District. Meetings are going on this week in some of the rural areas of East Texas. I think there are maybe 200 FSA offices in Texas over that, and anyway, we've got a whole slew of offices being closed in East Texas where I am. And I would just like very quickly to ask what's the role of the Farm Service Administration within your organization and what role do you see them playing? Very, very briefly, if I could get a response.

Mr.BUIS. Well, Congressman, the role of the Farm Service Agency is really important to rural America because that's the people that deliver whatever federal farm program Congress comes up with. It's also the people that administer disaster assistance. The folks live and work locally. They understand farmers. They know who's doing the right things and who is doing the wrong things. And it's a good system. I'm really concerned and we're very much opposed to these attempts that pop up about every four or five years to reduce the number of Farm Service Agency offices in states. Number one, besides delivering the service, it's oftentimes the biggest economic attraction in that local community. It draws people to town that helps the other businesses in town. But they do a good job and they do a great job at delivery of federal farm programs and we're opposed to their closing.

Mr.GOHMERT. Thank you and I couldn't agree with you more. That's my understanding. And in fact, one of my counties, Shelby County, they tell me produces more chicken fryers than any other county in the country and although what I was presented shows that they may have the second highest rate, they're very, very rural, they may have the second highest farm loan rate through FSA. All that the Texas FSA director and president or the chairman wanted to talk about is how it has one of the lowest commodity program rates. And anyway, so they're closing the office and saying we're going to consolidate it. But they also—it said they had tried to advertise and nobody was interested. I thought we had an agreement they would readvertise because I was told there was somebody that would take that, who would be perfect. And I thought we had an agreement and then instead, we find out they're closing three more offices in my District. And these are people that are feeding America with chickens and without the assistance, they're not going to be in business. And so anyway, I would appreciate any help I could get from you and I will give you any help I can to help make sure that America keeps eating good food and we help those get it to us who are really doing the work.

Thank you very much, Madam Chairman.

ChairwomanVELÁZQUEZ. Sure. And with that I ask unanimous consent that Members have five legislative days to enter statements into the record without objection. So ordered. This hearing is now adjourned.

[Whereupon, at 11:30 a.m., the hearing was concluded.]

STATEMENT
of the
Honorable Nydia M. Velázquez, Chairwoman
House Committee on Small Business
Hearing on Family Farmer and Rural Small Business Priorities for the 2007 Farm Bill
June 7, 2007

I now call this hearing to order to discuss the 2007 Farm Bill priorities of family farmers and rural small businesses.

Given that 90 percent of rural businesses are small, the committee has a vested interest in agricultural and rural development issues. Today, we will hear from key agriculture industry representatives as they outline their small business priorities for the upcoming Congress.

This is a timely hearing as the House Agriculture Subcommittees continue marking up various titles of the 2007 Farm Bill this week. The committee will look at what can be done to assist these farmers and related industries with competing and surviving in a global economy.

The goal is to ensure small businesses in rural areas have the tools necessary to succeed. This includes an examination of the challenges facing the nearly 2 million family farmers, but it also goes beyond that. Countless other small businesses are indirectly impacted by the agriculture economy, including most rural businesses, grocery stores, food export companies, food processing plants, and restaurants.

It is clear that small businesses in agriculture and rural America are facing many obstacles. Their bottom lines are affected every time livestock and commodity markets fluctuate, there is a lack of rain, or energy prices rise. In spite of these barriers, the family farmer has been able to respond and continue to grow.

Our rural economy has shown an ability to adapt and change with the development of new technologies. They have created opportunities by adding different uses for their products. From investing in renewable energy to identifying foreign markets for their products, family farmers have been resilient and local economies have benefited from it.

Continued success depends not only on the existence of various farm support programs, but also on furthering rural development. Many rural areas continue to lack the basic infrastructure to market and sell their products. For example, we need to provide better access to broadband and ensure there are affordable transportation options, such as rail. And, if there are changes to our immigration policies, they must address worker shortages in the agriculture industry.

While tackling these problems can come with a cost, having a vibrant agricultural community is sound economic policy. Whether it be creating new and improved programs or maintaining existing ones, we must do what it takes to ensure family farmers and small businesses in these areas are thriving.

Agriculture related issues affect every member's district. While it may seem that there is no connection between feed prices in Illinois and the price of beef in New York, the economics show otherwise. American agriculture and farmers have an impact on those in urban districts and rural districts alike.

The priorities presented today will be used by the committee as it formulates ways to improve the economic environment for rural small businesses. I look forward to hearing about what policies have been successful and if there are additional reforms needed to ensure future growth. The success of small companies in this sector can serve as a model for other industries.

I appreciate the witnesses coming here today.

I yield to the Ranking Member Mr. Chabot for his opening statement.

Opening Statement

Hearing Name	Family Farmer and Rural Small Business Priorities for the 2007 Farm Bill
Committee	Full Committee
Date	6/7/2007

Opening Statement of Ranking Member Chabot

I would like to thank the Chairwoman for holding this important hearing on one of the largest reauthorizations that Congress will undertake this year – the farm bill. It is appropriate that this Committee consider issues of the farm bill because the vast majority of farmers and businesses located in rural America are small.

The significance of the farmer reaches back across the mystic chords of memory in the American consciousness. President Jefferson noted the importance of the yeoman or small farmer as the backbone of the American democracy. President Lincoln, when signing the legislation creating the Department of Agriculture, called it the "People's Department." Anyone who has read the novels of Laura Ingalls Wilder or Willa Cather knows that life on the farm is not easy. Nor can one deny that rural America faces significant economic challenges.

At the same time, it is important to remember that rural Americans are not the only ones facing economic difficulty. Urban areas throughout Ohio have long faced problems of the so-called "Rust Belt." My district has lost many jobs as a result of factories closing. The need for economic development and revitalization are as important to the residents of the factory towns adjacent to the great Midwestern waterways such as the Ohio River and Great Lakes as it is for the small towns scattered among the fruited plains.

Today the Committee will receive testimony from representatives of farm groups and those involved in rural economic development. Farmers and livestock producers play a critical role in maintaining the health of the rural economy. Therefore, it makes sense that these groups offer their suggestions on the path that Congress should take in promoting the health of the farm economy and rural America for the next five years.

Despite increased revenues stemming from Republican-supported tax cuts, the monies available to fund all the discretionary programs, including those policies suggested by the witnesses, are severely limited. This reality constrains the options that this Committee and this Congress have in meeting the needs of the small business communities in urban and rural areas. In our deliberations, we will have to adopt those policies that are most cost-effective providing the greatest opportunities to the largest number of Americans.

Testimony of

Honorable Glenn English
Chief Executive Officer
National Rural Electric Cooperative Association

Family Farmer and Rural Small Business Priorities
for the 2007 Farm Bill

before the

Committee on Small Business
U.S. House of Representatives

June 7, 2007

Introduction

Madam Chairwoman and Members of the Committee:

My name is Glenn English, and I am the Chief Executive Officer of the National Rural Electric Cooperative Association (NRECA). As a former member of the House Agriculture Committee, I fully appreciate your responsibility to oversee the programs of the Small Business Administration and also ensure that federal programs and agencies work with and benefit America's thousands of small businesses. In today's era of utility mergers and international purchases of domestic utilities, electric cooperatives are the small businesses of the electricity sector. I am honored to be invited here today to offer electric cooperative perspectives on the pending 2007 Farm Bill and other legislation in the 110th Congress that will impact small business in rural America.

Background on Electric Cooperatives

NRECA is the national service organization representing the interests of cooperative electric utilities and their consumers. In addition to advocating consensus views on legislative and regulatory issues, NRECA provides health care, pension, financial investment and many other programs for its members.

Electric cooperatives are not-for-profit, private businesses governed by their consumers (known as "member-owners"). Today, 930 electric cooperatives serve 40 million consumers in 47 states. In addition to our small business status, cooperatives are a unique sector of the electric utility industry. Our revenue base comes from serving an average of only 7 consumers per mile compared with the 35 customers per mile served by investor-owned utilities (IOUs) and 47 customers per mile served by municipal utilities. To put this in greater perspective, electric cooperatives serve only 12 percent of the population -- but maintain 42 percent of the nation's electricity distribution lines covering three quarters of the land mass. Cooperative revenue per mile averages only $10,565, while it is more than six times higher for investor-owned utilities, at $62,665 and higher still for municipal utilities, at $86,302 per mile. As a result, cooperatives have far less dollars than the other electricity sectors to support much more of the distribution infrastructure. In addition, electric cooperative households generally have less income than the rest of the nation. And, our business customer base is more energy intensive.

Electricity Policy: Getting it Right for Small Businesses

Seventy years ago, Congress realized that a robust electricity infrastructure and the universal availability of reliable, affordable electricity was the key to economic growth for rural small businesses and consumers. Congress has continued to ensure, through the Agriculture Committees and a series of Farm Bills, that rural America's electricity needs are answered. In the 2007 Farm Bill, Congress will expand this focus by including an energy title. While it focuses largely on alternative transportation fuels, there are also provisions that seek to boost the role of America's farmers, ranchers and entrepreneurs in providing renewable energy and electricity.

As Congress grapples with the next generation of energy policy, economic concerns must be considered along with national security and environmental sustainability. So far, Congress has focused largely on transportation fuel issues and alternative electricity fuels such as wind, solar and distributed generation. It has paid much less attention to the policy shifts needed in order to transform these alternative electricity fuels into electricity that is useful, affordable and available to consumers and small businesses. This electricity infrastructure transformation is underway but its complete realization will take many decades and much research and development funding.

As Congress expands its policy focus to include electricity infrastructure issues, it must find the right balance between short-term and long-term goals. The wrong short-term decisions, such as over-incentivizing technologies that may not be able to deliver useful, affordable electricity or banning baseload generation fuels such as coal, will force electricity costs to rise sharply for many small businesses and consumers. And, the wrong short-term decisions will further complicate progress toward achieving energy independence and carbon reduction long-term goals.

In the short-term, the next 10 to 15 years, electric cooperatives face a dilemma -- how to continue providing reliable electricity at affordable rates as electricity demands increase and energy policies evolve. The electric utility industry has an obligation to meet the future needs of our consumers; as cooperatives we take that responsibility very seriously. We need Congress to help us achieve these short-term goals while together, Congress and the electricity industry plan for the long-term.

In the long-term, the next 30 to 50 years, we know that the electricity infrastructure will change and grow. Transmission capacity is not adequate to meet anticipated economic growth. Population estimates are causing utilities, which all have an obligation to serve, to plan for accelerated electricity demand. With adequate investment, we foresee new technologies to help curb demand, increase efficiency and provide cleaner power.

With so many variables in play, we don't know enough, between energy experts, utilities and the Congress to say with absolute confidence what the electricity infrastructure will look like in 2020, 2030 or beyond. The Electric Power Research Institute (EPRI), which provides technological research to the electric utility sector, has identified the need to bring all potential energy resources, efficiency measures and technologies to bear as they each hold only a part of the potential needed to reduce U.S. carbon emission intensity.

Congress has two choices. It can work closely with industry experts to design policies that will allow use of the best current electricity technologies and commit significant research and development funds to finding new technologies. Or, Congress can make overly quick, reflexive decisions to adopt mandates before technologies are available to meet them and raise electricity rates to incentivize alternative generation that doesn't meet consumer needs. The second choice is a back-door, regressive tax on consumers, which will disproportionately impact small businesses, particularly those in rural America. Members of Congress who represent rural districts and small businesses must be fully engaged in this debate. Without your involvement, well-intended but misguided electricity policies will place sharply increased economic burdens on your constituents and jeopardize the country's long-term energy goals.

NRECA Policy Recommendations

Following are NRECA's recommendations for provisions in energy, environment and tax legislation and the 2007 Farm Bill that will ensure rural America's consumers and small businesses can continue to prosper while contributing to national goals of energy security and environmental stewardship.

I. Financing the Electricity Infrastructure for the Short-Term and the Future

We estimate that electric cooperatives need to invest $42 billion in infrastructure upgrades, transmission and generation capacity to meet the increasing electricity demand over the next 10 years. Over the past five years, approximately 60 percent of electric cooperative financing has come from private sources, while the other 40 percent is provided through the Rural Utilities Service loan program.

A. The Importance of the Rural Utilities Service

The Rural Utilities Service (RUS), a division of the U.S. Department of Agriculture, provides interest bearing loans to electric cooperatives for electric facility infrastructure at very low costs to the federal government. This program is fuel-neutral; however, RUS does not lend for technologies such as Integrated Gasification Combined Cycle (IGCC) or high-risk nuclear plants. The President's FY08 budget recommended 1) ceasing RUS lending for baseload generation and 2) enacting strict rurality tests for RUS loan eligibility. All electric utility sectors receive government incentives. But the Administration only targeted electric cooperative generation incentives. Taken together, these misguided proposals would result in higher rates and decreased electric reliability for the consumers and small businesses served by cooperatives.

Reps. Allen Boyd (D-FL) and Frank Lucas (R-OK) and over 130 other Members of Congress have asked the House Appropriations Agriculture Subcommittee to maintain $4 billion in loan levels for the RUS electric financing programs. Their letter has also asked the Committee to resist Administration policy proposals that dramatically alter the RUS mission or impose strict new eligibility requirements. NRECA thanks the many members of the Small Business Committee who have signed this letter.

B. Private Sector Financing for Electric Cooperatives

The National Rural Utilities Cooperative Finance Corporation (CFC) is a private sector-lender, created by electric cooperatives, and dedicated to providing affordable capital for electric cooperative infrastructure. CFC is partnering with Farmer Mac in some rural areas to further this important mission. In keeping with its public policy mission, Farmer Mac is providing a secondary market for qualified electric cooperative loans through the purchase of securities backed by electric cooperative loans made by CFC. This public-private partnership has increased availability of competitively priced private capital to electric cooperatives, which the electric cooperatives will pass along to small businesses and farmers in rural America in the form of lower electricity rates.

However, rural communities are not realizing the full economic benefits that Farmer Mac can provide. NRECA has asked the House Agriculture Committee to strengthen this partnership by authorizing Farmer Mac to treat the collateral backing up loans to electric cooperatives as a "program purpose" in the same manner as other rural and agricultural loans. This "program purpose treatment" would lower the cost of capital for our electric cooperative members, thereby lowering electric rates for consumers and small businesses, and helping ensure that rural families will have reliable electric service well into the future.

II. Stimulating the Growth of Affordable, Reliable Renewable Energy and Electricity

This Committee's pending bill providing Small Business Administration loans for energy efficiency has the potential to help many small businesses served by electric cooperatives take a more active role in managing energy usage. Since 2004, electric cooperatives have provided numerous commercial energy audit workshops to teach small business owners how to reduce the effects of rate volatility by implementing energy efficiency practices. Cooperatives have also distributed over 75,000 Commercial Energy Savings Guides. Online, cooperatives offer business customers energy efficiency training with information on lighting, HVAC and water heating systems.

As the nation adapts the electricity infrastructure, electric cooperatives will play an important role by providing safe, reliable electric power at the lowest possible cost to the fledgling rural businesses that will supply significant amounts of our nation's energy. Electric cooperatives provide electricity to a large portion of the country's alternative fuel plants -- approximately 122 current or planned ethanol plants and 38 current or planned biodiesel plants.

A. Cooperative Innovation Examples

Electric cooperatives are actively participating in research and development efforts to discover which technologies will become significant components of the electricity infrastructure. In New York, the Delaware County Electric Cooperative, serving parts of four counties between I-88 and the Pennsylvania border, has a goal of maintaining its record of providing power to a largely rural agriculture economy at rates 40% below local investor-owned and municipal suppliers and innovating at the same time. In the near-term, the cooperative is seeking to add local distributed generation from three sources: 1) a wood biomass plant using local forestry residuals; 2) a landfill gas project and 3) a commercial-scale wind project. To meet longer-term goals, the cooperative is partnering with the state power authority and technology firms to investigate the feasibility of residential fuel cells and substation energy storage.

Dairyland Power Cooperative (DPC), in La Crosse, Wisconsin, also serves part of Iowa. DPC is expanding its Evergreen Renewable Energy Program^{SM} and is on track to reach 10 percent renewable generation by 2015. Dairyland has 17 MW of wind generation, 10.4 MW of landfill gas-to-energy plant, and 22 MW of hydroelectric power. In addition, Dairyland's animal waste-to-energy program utilizes manure from dairy and swine farms within the DPC system in anaerobic digesters to produce methane for conversion to electricity. Currently 3 MW of "cow power" are online and DPC has plans to bring up to 25 MW of digester plants online over five years.

Buckeye Power, the Generation and Transmission cooperative serving Ohio has developed an "EnviroWatts" program so its consumers can purchase renewable electricity generated from collected landfill methane gas. Buckeye has taken the additional step of making its program "Green-E" certified, assuring consumers that the power is actually generated. In Georgia, where renewable resources are not plentiful, twenty-eight cooperatives have come together to form Green Power EMC-an entity that exists to provide renewable energy to its member cooperatives for sale to approximately 1.2 million cooperative households in Georgia.

B. The Clean Renewable Energy Bond Program

Electric cooperatives are playing an important role in increasing renewable electricity production. In fact, electric cooperatives distribute, either from their own facilities or through contracts, over 600 MW of wind capacity. This represents about 5% of the nation's wind energy. Since cooperatives generate about 5% of the nation's traditional-source electricity, this statistic shows that cooperatives are keeping pace with the electricity sector in incorporating wind. Still, capital costs for renewable generation remain much higher – two to ten times more expensive – than conventional resources.

Without tax incentives comparable to those provided to for-profit electricity generators, renewable generation is unaffordable for most electric cooperatives' member-owners. As not-for-profits without federal income tax liability, electric cooperatives cannot use the Production Tax Credit (PTC). However, electric cooperatives have proven that, given the necessary incentives, they will build renewable power supply. The Energy Policy Act of 2005 established the Clean Renewable Energy Bond (CREB), a ground-breaking incentive tailored for electric cooperatives and municipal utilities. In essence, a clean renewable energy bond provides electric cooperatives and public power systems with interest-free loans for financing renewable energy generation.

The CREB program has succeeded in getting new renewable resources in the ground, including wind, biomass, landfill gas, hydropower and solar. The CREB program will expire January 1, 2009, along with the PTC. Electric cooperatives are urging Congress to extend and expand the CREB program. Reps. Ron Lewis (R-KY) and Earl Pomeroy (D-ND) have introduced H.R. 1965 to make the program annual and provide an increase to $1 billion in funding each year with a $375 million electric cooperative set aside.

C. Transmission: Key to Expanding Affordable, Reliable Renewable Electricity

The successful CREB program is a model Congress should adapt to create transmission needed for renewable generation. A significant challenge facing renewable energy is transmission adequacy. Most renewable generation resources are located far from population centers where there is little demand for electricity and little transmission infrastructure. If large quantities of wind generation are to be built in those regions, it will be necessary to also site, fund and construct large amounts of additional transmission capacity to move the power to urban centers.

Where transmission is required to facilitate the interconnection of renewable generation to the grid and/or the delivery of renewable resources to consumers, the federal Government should 1) authorize the issuance of tax-exempt bonds to fund the construction of transmission facilities or expansion of existing transmission facilities and 2) remove current restrictions on the ability of private entities to benefit from tax-exempt financed transmission infrastructure.

D. REDLG: A Partnership for Rural America and a Boost to Renewable Energy

NRECA has joined with several other leading trade associations, including the National Association of Counties, the National Association of Development Organizations, the National Conference of State Legislatures and the Council of State Governments to ask the House Agriculture Committee to include a strong rural development title in the 2007 Farm Bill. Rural development funds have created countless opportunities for rural small businesses and helped keep agriculture communities intact.

Rural development funds bring much needed infrastructure – the building blocks of enterprise – to rural communities. Prime examples are water and waste water infrastructure and broadband technology. USDA Rural Development state staff are probably the most important element. These critical personnel work with small businesses, communities, cooperatives and others to make sure rural development funds are invested wisely.

Electric cooperatives meet community needs other than electrification through their economic and community development efforts, facilitated largely through USDA's Rural Economic Development Loan and Grant (REDLG) program. This program, funded by electric cooperatives and administered by USDA, has helped cooperatives across the country foster the development of many small businesses. Going forward, this highly successful program should be expanded to help cooperatives also bring affordable, reliable renewable resources to the communities we serve.

Through REDLG, electric cooperatives work in partnership with businesses and local leaders to provide zero-interest loans for many types of community and economic development projects. According to USDA, the REDLG program has provided more than $350 million in zero-interest loans or grants to help finance these projects, and has leveraged well over $2 billion in private funds to invest in rural communities while creating or retaining nearly 37,000 jobs.

But our members face a major challenge in fully utilizing this program. Electric cooperatives fund the REDLG program by making advance payments on their RUS loans, and through fees paid by CFC. Nonetheless, these funds, over $244 million in the last two years, are being redirected to other USDA programs. It is critical that Congress stop this redirection of REDLG funds away from community and economic development projects.

REDLG can also play a key role in advancing our nation's energy security and climate change goals. Electric cooperatives already have several biomass projects on line, producing renewable power and providing a positive solution to our farmers' environmental and water quality issues. However, these projects are costly and difficult to finance. Whereas REDLG has been used to help finance both ethanol and soy-diesel projects, biomass projects owned by electric cooperatives are presently not eligible for funding. NRECA has asked the House Agriculture Committee to authorize USDA to provide REDLG financing – with an emphasis on grants – to reduce the costs for these biomass projects owned by not-for-profit electric cooperatives.

E. The Importance of Rural Telecommunications

As cooperatives work to achieve many of the goals I've discussed with you today, we realize that technology will be the key to success in many areas. Advanced telecommunications will be integral to energy systems of the future. Already, cooperatives are industry leaders in demand response and automated meter reading. These applications enhance metering and load management systems with telecommunications capabilities. Cooperatives can see load fluctuations and manage outages in real time. Cooperatives use this information to make short and long-term decisions about load growth and generation planning. The system efficiencies will only grow in the future as advanced or "smart metering" systems become more commonplace and expand to include the consumer's home and appliances.

With another partner organization, the National Rural Telecommunications Cooperative (NRTC), we work to make sure that rural consumers have access to advanced telecommunication services in their homes and businesses. Satellite technology provides an alternative where cable modem and DSL providers do not serve. Many rural electric providers offer WildBlue Communications' service which has helped stimulate economic development and provide vital services.

In Wisconsin, Richland Electric Cooperative helped a Madison-based publisher of board games relocate to a rural town where he could operate his company using WildBlue. Ouachita Electric Cooperative in Camden, Arkansas rushed WildBlue equipment to the Gulf region following Hurricane Katrina. Linemen used it to set up a communications center and for a time, satellite broadband was their only link to the world. When a tornado ripped through Dumas, Arkansas earlier this year, Ouachita again offered WildBlue equipment to set up a mobile communications center for local and state police.

WildBlue now has two satellites in service, making it possible to deliver service to as many as 750,000 homes and businesses in rural America. NRECA has asked the House Agriculture Committee to maintain the RUS satellite broadband program, ensure that it is technology neutral and that its regulations allow satellite broadband to serve rural areas.

III. Carbon Emissions Policies and Rural America

Developing and commercializing new technologies (including advanced generation technologies and carbon capture and storage technologies) will be critical for the utility sector to reduce greenhouse gas emissions. Congress should focus on legislation that ties any reduction requirements and associated timeline to the commercial availability of cost-effective technology to achieve any reductions. Additionally, adequate funding must be provided for the research, development, demonstration, and commercialization of these new technologies.

Congress must also provide incentives to deploy those new, riskier technologies. Appropriate incentives for not-for-profit cooperative utilities help protect cooperative member-consumers from the higher cost and risk from new technologies. Cooperatives are least capable of financing newer, riskier technologies, and appropriate incentives will allow us to play a more substantial role under any climate change program. Appropriate incentives will help protect rural electric member-consumers, where households are 16 percent below the national household income, from the higher costs of these new technologies.

And, as Congress develops cap-and-trade legislation, there are several critical design elements to that policy. One of the most critical is how to allocate emissions allowances. We believe that allowances must be allocated, not auctioned, to utilities, and they must be allocated to fossil-fuel based units. Non-emitting units should not be allocated emissions allowances. Cooperatives say this as owners both fossil-fuel based generation units and non-emitting nuclear power. Providing allowances to only emitting units will help minimize electric generation costs and reduce higher prices placed on the nation's electric consumers. Providing allowances to non-emitting sources would only drive up the cost of electricity for consumers without providing any additional environmental benefit.

Conclusion

We appreciate the Small Business Committee and all its members for your continuing concern for the economic health of rural America. Electric cooperatives have worked with Congress for many years to anticipate and meet the needs of our rural citizens. We ask the members of this Committee to use all the tools at their disposal to protect and promote small businesses as energy policies are developed in the 110th Congress. I would like to thank the Committee for the opportunity to testify here today. I look forward to answering any questions you may have.

National Farmers Union

Testimony of Tom Buis

Before the

U.S. House Committee on Small Business

Family Farmer and Rural Small Business Priorities

for the 2007 Farm Bill

Thursday, June 7, 2007
Washington, D.C.

STATEMENT OF TOM BUIS
PRESIDENT, NATIONAL FARMERS UNION
U.S. HOUSE COMMITTEE ON SMALL BUSINESS
FAMILY FARMER AND RURAL SMALL BUSINESS PRIORITIES
FOR THE 2007 FARM BILL
JUNE 7, 2007

Chairwoman Velazquez, Congressman Chabot and members of the committee, thank you for the opportunity to testify regarding family farmer priorities for the 2007 Farm Bill. My name is Tom Buis, and I am the President of the National Farmers Union (NFU). I commend you for holding this hearing and look forward to working with you to build support for an efficient and effective 2007 Farm Bill.

NFU is proud to be an organization whose policy positions truly come from producers. Polices are written on local, regional, state and ultimately 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 at our convention, state that independent family farmer and rancher owned and operated food, fuel and fiber production is the most economically, socially and environmentally beneficial way to meet the needs of our nation. We recognize that the economy of rural America continues to face the challenges of increasing input expenses, weather-related disasters and inadequate market competition. We are concerned that the 2002 Farm Bill suffered disproportionate budget reductions during the 2006 budget reconciliation process and additional cuts through 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 authorized programs, as intended by Congress. The title should include full funding for the Conservation Security Program (CSP), 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 rural citizens develop new and better economic opportunities to support and build the economic base of rural America.
- New resources and other efforts to add differentiated value to family farms for the sustainability and competitiveness of specialty crops, livestock and seafood; and
- Budget scoring that is not based upon World Trade Organization (WTO) methodology.

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

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

Since Congress is faced with crafting a new farm bill with significantly diminished resources, it appears that we will not have the money to keep the current safety net. When it became apparent that the budget baseline for commodity programs would be less, NFU began exploring 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 by providing federal assistance only when commodity prices are low, thus eliminating the difficult to defend direct, de-coupled, guaranteed payments of the current program. Direct payments are challenging to justify when prices are high; yet when prices are low, direct payments do not provide 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 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 assistance legislation becomes a thing of the past. Producers need some certainty. Again, under the suggested proposal, 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.

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 no such information was available to the public. NFU continues to fund the research, which serves as a platform for the historical analysis of concentration in agricultural markets. The study was conducted by Drs. Mary Hendrickson and William Heffernan from the University of Missouri Department of Rural Sociology. Results reveal that since our last study in 2005 the top four firms in most agricultural sectors have continued to increase their stronghold on the marketplace.

To date, 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 is an area of agriculture 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 directly related to the high number of farmer-owned ethanol cooperatives across the country. Farmer-owned ethanol plants account for 39 percent of total capacity. Competitiveness in the ethanol arena serves as an excellent example of the impact on and potential for public policies that encourage diversification and discourage monopolization in our food system. Independent producers cannot be successful in the absence of protection from unfair and anti-competitive practices.

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. We believe a comprehensive Competition Title should accomplish the following:

- Immediately implement 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.

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 movement is being led by ethanol, but also includes wind, cellulosic and biodiesel efforts. The endeavor 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.

As previously stated, this did not happen overnight. It took decades to combine public policy with farmers' initiative and risk taking. In earlier days for example, ethanol was neither energy-efficient nor economically viable. However, the current climate is different, due in great part to the tireless work and investment of family farmers. In my opinion, we have the greatest economic opportunity for farmers and rural communities in my lifetime. Not only is the demand for biofuels driving higher prices for corn, but it is also realizing better prices for soybeans, wheat, milo, oats and rye.

We shouldn't let anything get in the way of using fuels from the farm and becoming a more energy independent nation. As we do so, I respectfully urge you to ensure that ownership remains in the hands of local farmers and rural residents. When money stays in rural communities, it makes a real difference in the lives of rural citizens. All too often we see large conglomerates invest in rural areas, but all of the profits leave without being re-invested in the local economy. I encourage the committee to work with their colleagues in the agriculture sector 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.

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 producer's 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. Moreover, 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. More importantly, 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.

Madame Chairwoman, 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 in decades to come.

Expanding Broadband Access in Rural America

The future of rural America, particularly family farmers and ranchers, depends on high-speed access to the internet. In 2005, the National Agricultural Statistics Service (NASS) conducted a study on farm computer usage and ownership. While the results showed that 51 percent of U.S. farms had internet access, further investigation uncovered that dial-up was the most common method of accessing the internet with 69 percent of U.S. farms. It is encouraging that more farmers and ranchers gain computer accessibility each year, either through ownership or leasing of computers or through community programs. However, it is alarming that the vast majority of them must do so at the slowest connection speed possible.

NFU supports efforts to provide competitively priced, high-speed broadband internet access for rural America. We urge collaborative efforts and public-private initiatives that leverage internet based technologies and use the internet to improve communications, reduce costs, increase access and grow farm businesses for producers and their cooperatives. Illinois based NOW Wireless, LLC, and the Missouri Farmers Union, in response to the demand for affordable, modern telecommunications access for farmers and residents living in remote areas, helped establish USA Broadband, LLC (USAB). USAB has partnered with subscriber based cooperatives and developed successful networks that are making this access possible. To date, USAB is the premier provider of high-speed wireless broadband internet, voice communication and video services to rural communities. The company maintains its focus on providing a superior broadband product backed with exceptional customer care.

The internet is a necessary tool for farmers and ranchers, who will be at an economic and competitive disadvantage if unable to use the same high-speed internet connections that are available to other small businesses around the country. Farmers and ranchers rely on the internet to check weather, market and crop reports and search for suppliers of feed and equipment. Furthermore, family owned farming businesses need real-time access to online banking, accounting, order fulfillment and freight forwarding. Given the current economic climate, it is imperative that producers devote as much time as possible to marketing their products and exploring new markets. The ability to conduct financial transactions online would save individual producers hours of administrative work and translate into tremendous financial incentives at the farm level.

Access to broadband is imperative if we are to renew the rural landscape. Retaining and attracting aspiring young farmers and rural entrepreneurs is essential to securing a sustainable rural economy. NFU has developed local, community based cooperatives that produce and process food with the wholesomeness and integrity that consumers demand. Broadband services provide the link between these collective entrepreneurial businesses in rural areas to consumers throughout the country.

NFU's www.e-cooperatives.com is the world's first innovative portal to directly locate and buy quality food products, plus other goods and services, online from hundreds of U.S. agricultural producers and their co-ops in rural America. Both producers and consumers are able to access the www.e-cooperatives.com database via searchable categories for American family farms, ranches, cooperatives and rural businesses according to location, type of business, growing practices, available products, specialty goods and niche items. The E-Commerce Timeline Learning Model guides producers through every step of the process, from planning to web development and product design to marketing. This site originated as a technical assistance project of NFU and was initially funded in part by grants from USDA's Rural Development agency. By eliminating the digital divide and providing more rural areas with high-speed internet access, we can help producers market and sell their high quality products and educate consumers about the value of family farms and ranches.

Internet Service Providers do not deny that there is a need for expansion into less urban areas, but investing in rural America needs to be attractive to investors and providers. Technical assistance is important. Broadband access cannot be expanded without providing the support infrastructure necessary to make it successful. High-speed access is a wonderful tool, but significant administrative challenges of getting into the homes of agricultural producers must be addressed. A single broadband company with a monopoly would have no incentive to maintain the same level of service offered to subscribers in heavily populated areas or to provide any service to sparsely populated areas; mergers and consolidations that remove or limit competition in rural markets should not be permitted.

It is important to get an accurate portrayal of where the neediest areas are and how to provide broadband technology in those areas. Investigation into broadband access in rural areas reveals that most beneficiaries reside in larger towns.

Service providers tend to exercise great selectivity in the sectors of rural America in which they invest. As producers, we face great obstacles in attracting adequate financing and equity investment for broadband buildout in under-served areas. One solution is to establish federal incentives or tax credits to investors who supply equity to rural broadband initiatives in under-serviced areas. Similarly, federal loan guarantees or a reduction of the required equity match of the USDA Rural Utilities Service (RUS) program from 20 percent to one percent could make expansion projects more attractive and viable. I encourage you to evaluate these respective funding commitments and give consideration to decreasing the amount of money from state resources and mandate the federal government provide the maximum amount of funding possible.

Similar to the first days of electricity, rural America is being left behind. It should be a national priority to include rural areas of the country in broadband buildout. Rural access to advanced telecommunications provides tools for enhanced medicine and education. The slow pace of rural broadband expands the educational divide in our country. Reliable access opens the door for distance learning opportunities in rural schools. As a family farmer, I am greatly concerned that lack of high speed access is driving the younger generation out of rural America and into more urban environments. Better broadband means a better place to live, increased entrepreneurship and retention of young people. High-speed internet connections make it more appealing for other businesses to enter rural areas that would otherwise refrain from establishing commercial outlets.

We applaud the efforts of the farmers and ranchers who have taken the initiative to work toward a reliable and affordable expansion of broadband technology. In fact, the genesis for the most successful cooperative efforts can be found on the farms and ranches of rural America, not in the bustling urban areas of the nation.

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 the buy fresh buy local effort. We urge Congress to develop and fund critical research and rural development programs to ensure that these important initiatives move forward.

Madame Chairwoman, 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.

National Association of Wheat Growers

Testimony of Mike Noonan
National Association of Wheat Growers' Board of Directors
President of Oregon Wheat Growers League
before
the House Committee on Small Business
"Family Farmer and Rural Small Business Priorities for the 2007 Farm Bill"
June7, 2007

Mr. Chairman and members of the Committee, my name is Mike Noonan. I am a wheat grower from Klamath Falls, Ore., and serve on the National Association of Wheat Growers Board of Directors and as president of Oregon Wheat Growers League. Thank you for the opportunity to be here today to discuss the 2007 Farm Bill and how it impacts our nation's rural communities.

As you are aware, the policies enacted as part of the 2007 Farm Bill will not only affect the wheat industry, but inevitably will trickle down affecting the development of our nation's rural economies. Farm programs provide for an abundance of food and fiber products that replenish the American people in safe and affordable ways. Our country also relies on these programs to pave the path of biofuel technology, conserve our environment and strengthen state land values. Agriculture, an industry that contributes to about 20 percent to our country's gross domestic product, ensures the creation and sustainment of healthy rural economies.

Being a representative of and advocate for the National Association of Wheat Growers, the 2007 Farm Bill directly pertains to my operation and those of the other growers I represent. NAWG members are ready to work with Congress and the Administration to produce legislation that serves all producers and all Americans.

The Food Security and Rural Investment Act of 2002, as farm legislation has strong points, and the membership of the National Association of Wheat Growers believes that the next Farm Bill should build on these strengths. But, while wheat growers generally support current policy, much of the "safety net" provided by the 2002 bill has not been effective for wheat farmers. The 2007 Farm Bill needs to correct these imbalances.

The 2007 Farm Bill is also a chance to ensure conservation programs are appropriately funded, to create incentive programs and provisions for the development of a renewable fuel sector and to provide for a wide variety of other important measures to wheat growers. Since my time here today is limited, I have attached NAWG's full recommendations to my written testimony for your review and consideration.

I often compare a healthy rural economy to a gear. There are many teeth needed to support one another in order to work together. Communities internally develop interlocking support that allows their visions to become reality. Industries in rural communities tend to prosper when they work together, do business together and support one another. Since a majority of citizens in rural areas work in the agriculture industry, when a producers' returns are not profitable, neither are the businesses in their communities. Purchases of farm inputs and equipment, as well as the consumer spending from farm households, fall when an adequate safety net is not in place, resulting in declining sales for rural businesses and financial institutions that may not receive sufficient mortgage or loan payments.

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 seriously effect family farms leading to loss of operating credit and profitability and, ultimately, the loss of farm infrastructure in rural America.

Agriculture is increasingly providing Americans the opportunity to get their fuel from the Midwest rather than the Mideast. The federal government can help make this goal a reality in a variety of ways but, for the infant cellulosic biofuels market to grow to maturity, it is essential for growers to stay on the land. Cellulosic ethanol and other renewable fuels that could revolutionize our energy economy cannot be commercialized if farmers are not on the ground to produce the necessary crops.

The Farm Bill will not only affect the prosperity of rural businesses, and the possibilities of fuel production in the United States, but will also impact our environment. 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. Rural areas need to be provided adequate funds and equipment to be maintained. Without these resources a healthy rural economy will not be sustained. Not only do farmers need clean water, productive land, and vegetation but so does the whole society. Community habitats, recreation and tourism need these resources in order to be considered desirable.

Finally, the 2007 Farm Bill correlates with the land values in our rural economies. Since the 1930s, government farm program payments have boosted the land value in 39 states. In 2005, Kansas State University conducted a study researching statewide land value and what percentage of that value comes from agriculture alone. In North Dakota, 80 percent of the land value is from agriculture; in Oregon, 68 percent; in Kansas, 67 percent and in Texas, 33 percent.

To break these numbers down more, Kansas State University also found the percentage of value the cropland percentage received from government payments. For instance, in North Dakota 54 percent of the cropland value was due to government payments; in Oregon, 23 percent; in Kansas 33 percent and in Texas, 100 percent. These statistics show that Texas crop land had no worth in 2005 without farm payments. Since real estate is rural America's most important asset, strong land values are often viewed as an indicator of a healthy rural economy. Without government assistance, many rural communities will struggle to sustain their farm operation.[1]

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[1] Kastens, T. & Dhuyvetter, K.; Government Program Payments and Non-agricultural Returns Affect Land Values, September 2005.

To help you comprehend the immense impact the wheat industry alone has on the economy in certain states, a recent study reported that between the years 2003 and 2006, the average yearly total impact of wheat production in your state Colorado, Congresswoman Musgrave was $301 million; in Indiana, Congressman Ellsworth, $130 million; in Oklahoma, Congresswoman Fallin, $795 million; and in Texas, Congressman Gohmert and Congressman Gonzalez, $658 million. During 2003 to 2006, among these four states, yearly averages of 30,000 people were employed in the wheat industry. During these four years, the wheat industry provided 206,000 jobs across the United States.[2]

Conclusion

Agriculture and our economy go hand and hand. Since the United States was formed, farming has been an important industry to our nation, now responsible for about 20 percent of this country's GDP and providing more than 22 million jobs.[3] Our rural economies can only continue to thrive and move forward in business, technology and infrastructure if the agriculture industry is also flourishing.

President Franklin D. Roosevelt nobly stated, "Prosperous farmers mean more employment, more prosperity for the workers and the business men of ... every industrial area in the whole country." Your leadership in the Small Business Committee must start with the producers of America to ensure the 2007 Farm Bill sufficiently meets the needs of the agriculture industry so that rural economies may prosper.

Thank you again for the opportunity to be here today. I hope you have the opportunity to review the attached 2007 NAWG Farm Bill proposal. I am ready to answer any questions you may have.

[2] Richardson, J. W., Outlaw, J. L., Raulston, J. M., *Impact of the Wheat Industry on the U.S Economy*, Agricultural and Food Policy Center. Department of Agricultural Economics at Texas A&M University. December 12, 2006.

[3] Agricultural Council of America: http://www.agday.org/media/agday_media_kit.php

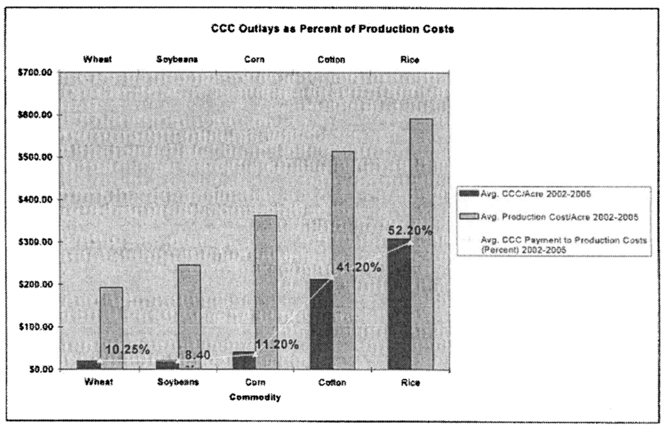
NAWG FARM BILL PROPOSAL

COMMODITY PROGRAMS

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.

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 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 very little 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

We, therefore, recommend to the Committee that the direct payment for wheat be increased to $1.19 per bushel and that the target price be increased to $5.29 per bushel, while maintaining the marketing loan program as currently structured.

While we are aware that other agriculture organizations have expressed concern about the effects that 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.

The decision of the NAWG Board of Directors to support the above 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.[1] The average yield, on the other hand, has stayed around 38 to 42 bushels.[2] 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).[3]

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.

This proposal also took into 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.

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?"

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[1] *Cost of production forecasts for U.S. major field crops, 2005-2006f*, Economic Research Service.
[2] *U.S. & All States Data - Wheat All, 1995-2006*, USDA-NASS Quick Stats, National Agricultural Statistics Service, USDA.
[3] *U.S. & All States Data – Wheat All, 2002-2006*, USDA-NASS Quick Stats, National Agricultural Statistics Service, USDA.

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 the farm bill, 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.

In addition to these changes in the Farm Bill's Title I:

- 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 bill proposals and options as early at 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 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. Wheat growers have continued to state that the current target price is far below what market conditions indicated was necessary for a reliable safety net, so 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 safety net from the Department's proposal.

Testimony

Of

Mark Schwiebert
National Corn Growers Association

Before the
U.S. House Committee on Small Business

Rayburn House Office Building
Room 2360
Washington, DC

June 7, 2007

Madam Chairwoman, Ranking Member Chabot and members of the Committee, on behalf the National Corn Growers Association (NCGA), I appreciate this opportunity to present our priorities for the 2007 Farm Bill and their potential impact on family owned farms and rural businesses.

My name is Mark Schwiebert, a member of NCGA's Board of Directors. I am from Hamler, Ohio and a partner in a diversified cash grain farm operation that produces corn, soybeans, wheat, popcorn and green beans. In addition, I operate a drainage contracting business and have investments in ethanol plants.

The National Corn Growers Association represents more than 32,000 corn farmers from 48 states. NCGA also represents more than 300,000 farmers who contribute to corn check off programs and 26 affiliated state corn organizations across our country, working together to create new opportunities and markets for corn growers.

America's corn producers continue to make a significant and important contribution to our nation's economy. Last year, the nation's corn production exceeded 10 billion bushels for the fourth consecutive year resulting in a total crop value of $33.7 billion. The relatively stable production over the past ten years, made possible by innovation in production practices and technological advances, has helped to ensure ample supplies of corn for livestock, an expanding ethanol industry, new bio-based products, and a host of other uses in the corn industry. Moreover, investments by the American taxpayer in our nation's agriculture programs have helped to produce a more stable financial environment for production agriculture and a brighter future for our rural communities. In our view, reliable, abundant, affordable and safe supplies of grain for the food on our tables to the fuel in our cars are generating benefits many times over for our national economy.

I must emphasize that the farm safety net provided in the current farm bill and its predecessors is considered a critical component of most producers' risk management plans. It is important to note that NCGA has supported the 2002 Farm Bill for the improvements it made to our nation's agricultural policy. In short, the 2002 Farm Bill implemented the right policy for that time.

The development of the 2007 Farm Bill has serious consequences for myself and my farm counterparts nationwide.

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 U.S. agriculture. Too many farmers have learned the hard way that today's farm supports may be effective when market prices are low, but when yields are low, the income protection has been less than adequate, especially for large crop losses or repetitive years of shallow losses.

NCGA has developed a proposal to reform our commodity support programs; changes that would help ensure better protection against volatile commodity prices, significant crop losses, and would provide permanent disaster assistance. Earlier this year, 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..." Our proposal reflects the view that the time has arrived to adopt fundamental changes in our programs. The Congress has a unique 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.

NCGA proposes replacing the current price triggered programs with more cost effective risk management tools. Rather than target low prices, the new Revenue Counter Cyclical Program or RCCP would make payments when a county's actual crop revenue is less than the expected revenue. In most years, RCCP payments would be triggered by the same crop losses that lead to the great majority of crop insurance indemnity payments. The RCCP would be integrated with federal crop insurance to minimize overlapping coverage and to ensure a more effective, cost efficient farm safety net. NCGA's proposed changes would provide the economic stability that my off-farm businesses rely on for their future viability.

With insurance companies only paying for losses not covered by the RCCP, the indemnities paid to farmers would be reduced enabling them to provide higher coverage levels of revenue protection at reduced premiums. Another advantage is that the RCCP would provide a standing disaster program by automatically providing payments to farmers in counties that suffer low crop revenue thus saving almost $1.8 billion now spent annually on ad-hoc disaster aid. NCGA's proposal, if adopted, would be a positive step toward providing support to farmers when it is most needed.

Rural Development

As important as an adequate safety net is to family farms, NCGA also views commodity support programs to be strongly linked to revitalizing our rural communities. We urge the Congress to carefully evaluate those programs administered by the U.S. Department of Agriculture that are better leveraging our farm support resources that facilitate investments in locally owned agriculture based enterprises. For many years, USDA rural development funds have been made available to rural areas for the purpose of much needed improvements in public infrastructure. Examples include rural development loans, grants and other programs to help finance more affordable housing; community facilities; water and wastewater treatment systems; technical assistance for business development, including in the areas of alternative energy; power generation, transmission, and distribution of electricity; conversion of telephone exchanges into high speed internet services, research to study how agricultural products can be processed and developed for new uses, including the production of alternative energy sources. Some have suggested, though, that these investments to enhance the quality of life in Rural America coupled with the more recent initiatives to bring more jobs to communities can be better described as rural economic development.

The experience of our members indicates programs such as direct value-added producer grants, loan guarantees for renewable fuels projects and investments in rural infrastructure stimulate economic development generating a wide range of benefits for rural areas. If we are to continue the progress in building a more prosperous economy and a better quality of life in rural communities, NCGA believes that the next farm bill can serve as an engine of growth for new businesses. By providing new sources of capital and engaging farmers in value-added processing, production and marketing, the Rural Development Title of the farm bill can enhance farm profitability and the creation of new jobs. Unfortunately, we have seen these cost effective programs and other important rural development initiatives in the 2002 Farm Bill impacted by reduced funding and in a number of cases, no funding at all.

In addition to providing more corn for an increasing and reliable domestic market, many farmers have seized the opportunity to benefit from the value added to their commodity by further processing. Since 2002, NCGA has completed work on two reports on the Future Structure of Agriculture and invested in several studies that examined the value of our farm support programs, the rapid changes impacting the family farm and how corn growers can better capture the benefits of new business opportunities. The following recommendations from these in-depth reports continue to be a focus in our efforts to promote agriculture value added businesses:

- Elevate bio-based research and technology to a national priority
- Remove legal barriers that impede development of farmer-owned brands

- o Reform producer-owned business structures to improve tax efficiency, easily raise capital and offer investor liquidity
- o Foster and fund value-added education and rural entrepreneurship

One of the most significant success stories for new value-added agriculture business and employment opportunities is the ethanol industry. From a cottage industry that produced 175 million gallons in 1980, the ethanol industry in the United States has expanded to annual capacity of 5 billion gallons in 2006, with more than 1.8 billion gallons coming from farmer-owned plants. Action by the Congress to adopt a renewable fuel standard that requires a minimum 7.5 million gallons of renewable fuels combined with the escalation of oil prices and a series of record corn harvests have further advanced plant investment and development.

For rural America and the U.S. economy, the ethanol industry in 2005 spent almost $5.1 billion on raw materials, other inputs, goods and services to produce an estimated four billion gallons of ethanol. The lion's share of this spending was for corn and other grains used to make ethanol. In fact, the industry used more than 1.4 billion bushels of corn in 2005, valued at $2.9 billion. Ethanol production now represents the second largest component of corn demand after feed use and accounted for 18 percent utilization in the 2006 marketing season. According to the Renewable Fuels Association, the remainder of spending by the industry is for inputs such as industrial chemicals; electricity, natural gas, water, labor; and services such as maintenance, insurance and general overhead. Spending for these goods and services represents the purchase of output from small businesses and other industries. There is no question that spending on new plant capacity and operations is changing the economic landscape of many rural communities; supporting the creation of new jobs, generating more household income as well as more tax revenue for government at all levels.

The taxpayer expects producers to deliver a safe, affordable supply of food and fiber. And now we have the opportunity to advance the growth of domestically produced renewable fuels and bio-based products with the help of forward looking farm policy. NCGA also recognizes there are a number of uncertainties that cannot be ignored going into the next farm bill debate, including the ongoing trade negotiations in the World Trade Organization, the threat of more litigation against farm support programs by our trading partners and of course, federal budget constraints. In addition to the proposed reforms of the farm safety net, we support rural development policies that encourage farmers to move toward ownership in higher value markets and greater profits beyond the farm gate. As noted in NCGA's second task force report on grain belt agriculture, "rural incomes and farm communities will benefit if national priorities begin to encourage self-reliance and marketplace solutions." Among the programs available today, NCGA is advocating that Rural Economic Community Development Funds be prioritized towards farmer-owned value-added systems as well as full funding for USDA's Value-Added Producer Grant Program at $40 million.

Conservation and Stewardship

Another top priority for NCGA is an agriculture policy that recognizes and promotes the best available practices by farmers to further improve our environment. Corn growers are very concerned with the health and well-being of American citizens and are mindful of the need to balance environmental stewardship with the need for a long-term, dependable food supply and necessity for long-term profitability in farming. We support the use of sound science to set environmental policy and the use of voluntary programs to assist farmers in meeting environmental goals.

Advances in corn production technology over the last 70 years have led to a decrease in acres under cultivation and an increase in the number of bushels produced. In 1936, for example, 101,959,000 acres were under cultivation for corn. The average yield in 1936 was 18.6 bushels/acre and a total corn crop of 1,258,673,000 bushels was produced.

Fast forward to 2006 – corn production eclipsed 10 billion bushels for the fourth consecutive year. Last year corn growers produced the second-highest bushel per acre average in history at 149.1 bushels per acre. This was cultivated on 79,366,000 planted acres. To produce an amount of corn equivalent to the 2006 crop using production practices from the 1930s would require 430 million acres – an area slightly larger than the state of Alaska.

However, it's not just about growing more corn; it's about how we grow it. Because American farmers are dependant upon the integrity of their soil and other natural resources for their livelihood, they have worked tirelessly to protect and improve the land. In the case of corn production, farmers understand that satisfying the demands of a growing world population must not come at the expense of ecological health, human safety or economic viability. Accordingly, for decades corn growers have adhered to a principle of continuous improvement and an incessant pursuit of greater efficiency. Corn growers are committed to leaving our environment in better shape than we found it. As a result, significant benefits to society have been achieved by modern agriculture and improvements in production efficiency will continue to lessen the environmental impacts of food production.

We are making important environmental gains through the use of farm bill conservation programs – reduced soil erosion, improved water quality and increased wildlife habitat. To continue this trend, we need even greater emphasis on working lands conservation programs. We believe the conservation title of the farm bill should adhere to the following criteria:

- Adequate funding
- Environmentally sound based on sound-science
- Implemented nationally at the watershed level
- Performance driven
- Simplified and streamlined to encourage more participation
- Target programs and funding to achieve greatest environmental savings

Farmers are making important environmental gains through the use of farm bill conservation programs – we see that in reduced soil erosion, improved water quality, and increased wildlife habitat. Likewise, we support efforts to measure the real results of the conservation practices we've implemented. We applaud the collaborative work thus far on the Conservation Effects Assessment Project (CEAP) to scientifically assess the environmental outcomes from farm bill conservation programs and determine benefits from conservation practices and programs. The ability to develop understandable and relevant performance measures and communicate them to the public will help shape future public and congressional support for farm programs.

Madam Chairwoman, NCGA greatly appreciates the interest you and your Committee have expressed in supporting small businesses and the family farmers that are working to revitalize our rural communities. I thank you again for this opportunity to discuss our goals and priorities.

AFTC
AGRICULTURAL AND FOOD TRANSPORTERS CONFERENCE
Russell Laird
Executive Director

CONFERENCE OF AMERICAN TRUCKING ASSOCIATIONS
ATA

Representing the agricultural and food transportation industry

June 7, 2007

U.S. House of Representatives
Committee on Small Business
Nydia M. Velázquez, Chairwoman
2361 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairwoman Velázquez:

We appreciate you holding this hearing on "The Impacts of Agriculture Policy on Family Farmers and Small Businesses in Rural America."

As you know, there are many small businesses which support agricultural production and are impacted by changes in agricultural policy and the agricultural economy in general. One of those is the commercial trucking industry. The commercial trucking industry is essential to agriculture as trucks are the primary mode of transport for the movement of all major agricultural commodities.

The Agricultural and Food Transporters Conference (AFTC), founded in 1995, is the national organization representing motor carrier and allied members of the American Trucking Associations (ATA) on critical issues affecting agricultural commodity and food transportation. We appreciate this opportunity to comment on this important issue.

The top priority for the agricultural trucking industry currently is to increase the daily driving distance for the "agricultural hours of service exemption" from the current 100 air mile radius to a 150 air mile radius.

The "agricultural hours of service exemption" was originally enacted in 1995. It provides that "maximum driving and on-duty time for drivers used by motor carriers shall not apply during planting and harvest periods, as determined by each State, to drivers transporting agricultural commodities or farm supplies for agricultural purposes in a State if such transportation is limited to an area within a 100 air mile radius from the source of the commodities or the distribution point for the farm supplies."

Planting and harvest is a busy and critical time during the agricultural production process. Timing is often paramount to ensure that crops are planted at the right time and that crops are harvested to be delivered to the consumer in the case of fresh produce or delivered to a processing facility for further processing.

Since 1995 there has been plenty of change in the agricultural industry. This provision needs to be updated to reflect the realities of today's agriculture industry in which processing facilities have moved further apart due to industry consolidation. Due to this, in rural areas where agricultural commodities are grown often processing centers for agricultural goods fall right outside the current 100 air mile radius but fall within a 150 mile radius.

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Further, railroad abandonment of service to many local communities often means that farmers and ranchers no longer have the local railhead. Like processing plants, railheads too are now more distant than in the past, due to railroad industry consolidation. Delivery of ag commodities to railheads is now a farther haul than it used to be. Today's booming biofuels industry creates increased demand for the trucking capacity to haul agricultural commodities to processing plants.

Several clear precedents exist to support this change. In 1988 the Federal Highway Administration (FHWA) granted waiver authority allowing states to exempt drivers transporting agricultural commodities within a 150 air mile radius of the farm from requirements of commercial drivers license (CDL) regulations.

When the provision was implemented for the agricultural hours of service exemption in 1995 the FHWA proposed to limit it to a 50 mile radius but USDA supported a 150 mile radius. USDA commented to FHWA that, "Most of the major farm production states are rural in nature and sparsely populated. Distances from farms to supply facilities, storage facilities and markets are great. USDA would like to see the waiver increased from the 50 mile radius to a 150 air mile radius of the farm or distribution point. This would coincide with the 150 air mile radius granted to farmers and farm supplies by the FHWA in the CDL proceedings. It would be less complicated and less confusing for Federal and State enforcement agencies to refer to one mileage formula when dealing with farmers or farm supplies in matters relative to with the CDL or hours of service."

Current Federal Motor Carrier Safety Administration (FMCSA) rules allow for an exemption from driver log requirements for "short-haul" drivers which is defined as drivers who daily drive routes within a 150 air mile radius. Driver log requirements is a separate issue and short-haul drivers generically refers to drivers who daily make deliveries and pick ups within a confined area as opposed to long-haul drivers who make multi-day trips often across several states. The point is that the federal agency (FMCSA) recognizes the appropriateness of the 150 air mile daily radius defining a daily driver as opposed to a long haul driver (Section 395.1 (e2) of 49 CFR, Federal Motor Carrier Safety Regulations).

In 2005 an amendment was adopted to apply such a provision to the harvest of grapes in a defined region of the state of New York. The reasons that this provision is needed for the harvest period for grapes in New York are the same as many commodities in many regions of the country.

Safety has proven to not be affected. Since the "agricultural hours of service exemption" has been in place since 1995 the Department of Transportation has not presented any evidence that it has adversely affected safety.

Again, we appreciate your efforts in holding this hearing and we appreciate the opportunity to provide these comments.

Sincerely,

Russell Laird, Executive Director
Agricultural and Food Transporters Conference
American Trucking Associations

AGRICULTURAL RETAILERS ASSOCIATION

WRITTEN STATEMENT OF

JACK EBERSPACHER

PRESIDENT AND CHIEF EXECUTIVE OFFICER

AGRICULTURAL RETAILERS ASSOCIATION

AT A HEARING OF THE

HOUSE COMMITTEE ON SMALL BUSINESS

ON

"The Impacts of Agriculture Policy on Family Farmers and Small Businesses in Rural America""

June 7, 2007

ARA: Suppliers to America's Farmers
1156 15th Street, NW, Suite 302
Washington, D.C. 20005
Phone # (202) 457-0825
Fax # (202) 457-0864
www.aradc.org

INTRODUCTION

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

KEY QUESTIONS FOR CONGRESS TO CONSIDER

This hearing today provides an opportunity to review current federal agricultural policies and ways to make improvements as the 2007 farm bill is being developed this year. There are several key questions that ARA believes Congress needs to consider in order to ascertain the right direction America's future agricultural and rural policy should take.

- Is the current farm bill policy working?
- What improvements should be made to conservation and environmental stewardship policies?
- What policy opportunities are available for Congress to help America's agricultural industry continue to remain the most competitive in the world?

IS THE CURRENT FARM BILL POLICY WORKING?

The commodity title of the farm bill is designed to provide a "safety net" and level of stability for farmers that grow traditional program crops, which are largely used as feed, food grains, fibers, and oilseeds. Generally these commodity payments are tied to the amount of cropland enrolled in the programs and yield histories. As a whole, we believe the current farm bill commodity programs seem to be working well. The economic success of agricultural retailers is directly connected to the profitability and financial well-being of their farmer customers. The U.S. agricultural industry continues to be an efficient producer of food and fiber, consistently meeting the needs of the nation's consumers as well as consumers around the world with the safest, most abundant and affordable food supply in the world. An income safety net for farmers should be maintained but it must be price and production neutral.
A recent example would include the wheat producers in Oklahoma and surrounding states. A drought in 2006 produced the smallest wheat crop in the past 60 plus years in Oklahoma. Low production causes higher prices. Counter-Cyclical and Loan Disaster are triggered by lower average prices. Therefore, these two safety net merchandising did not work. They are not price and production neutral.

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

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

WHAT IMPROVEMENTS SHOULD BE MADE TO CONSERVATION AND ENVIRONMENTAL STEWARDSHIP POLICIES?

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

Environmental Quality Incentive Program (EQIP)

ARA believes there is great value in revising the EQIP language in the 2007 Farm Bill to include agricultural retailers, which are an integral partner with their farm and ranch customers in the agricultural production system. Including retailers in EQIP is a logical fit due to their "hands on" interaction with the producer's selection of seed, crop protection chemicals and fertilizer applications and consulting services. No other group has more contact with producers than retailers and their CCAs.

In addition, agricultural retailers are the "Centers of Influence" in the farm community. They are often the largest employer in many small towns. Retailers can increase awareness of EQIP to producers by providing information on different conservation practices and techniques, which is consistent with USDA's and Congress's mutual goals. Including retailers in EQIP is a win for the entire U.S. agricultural industry, as it will open the door for more producers to become a part of this and other important conservation programs. This initiative will maintain and improve America's environmental quality. Retailers are uniquely positioned to provide program awareness and essential precision agriculture support services for a workable EQIP program.

Technical Service Provider (TSP)
The current Farm Bill allows public/private partnerships in the delivery of technical expertise to farmers and ranchers, including the development of nutrient management plans, the development of conservation plans, and design and certification of conservation practices. Third-party providers may include producers, retailers, certified crop advisers (CCA's), certified professional crop consultants (CPCC's), Professional Crop Advisors (PCA) and other individuals meeting the training and education criteria. Agricultural retailers employ certified crop advisers (CCA's) that have extensive expertise and local knowledge in nutrient management, resource stewardship, and custom application of crop protection products and fertilizers. Retailers have close working relationships with producers and understand their specific needs. Producers turn to their retailer for soil testing, fertilizer, seed, farm inputs, and for resource management advice. ARA believes the new conservation workload can best be met by supplementing traditional delivery methods with agricultural retailers employing CCA's already trained and equipped for the job. Producers should have an option to choose their local agricultural retailer approved as a technical service provider to help develop and implement natural resource conservation plans.

ARA strongly supports the continuation of the TSP program. However, we believe there should be a greater cooperative effort between USDA and agricultural retailers on program flexibility and payments. Many commodity groups have recently stated to the House Agriculture Committee that environmental challenges are too extensive and detailed and evolving too rapidly for the current TSP program to service all the producers' needs. All crop inputs, such as agronomic data and application and management services, pass through the retailers. The relationship between retailer and producer is essential to successful farming operations. ARA believes provisions must be made in the 2007 Farm Bill to allow USDA to contract directly with retailers as technical service providers to better service producers. Retailers must be able to access the financial assistance of the farm bill conservation programs to acquire state of the art precision agriculture technical support systems. For example:

- Global Position System Towers – for precision planting, fertilizer and chemical applications
- Spray Drift Reduction Technology – Nozzle types, Spray Boom Arraignments, Shields, Variable Rates Systems
- Track and trace programs – including nutrient management, pesticide records and GMO's seed and crop tracking
- Data Management Systems

Producers are continually looking for ways to increase farm efficiency, productivity, profitability and environmental stewardship by using new technology to achieve the latest conservation and environmental protection practices. Due to the close interaction between retailers and their producers, retailers are in the best position to provide technical services which allows the producer to fulfill requirements of his conservation plan. Through the use of precision agricultural technology, retailers can work closely with their farm and ranch customers to maximize the amount of food, fuel or fiber produced per acre. This will help U.S. farmers maintain a competitive advantage in an increasingly global marketplace and help decrease overall production costs, which benefits the nations consumers.

TSP is an essential conservation technical assistance program that needs to involve a greater number of retailers to provide the necessary technical support to producers on sound conservation and nutrient management practices. The cost of providing new precision agriculture technology and support services is growing larger and larger. Retailers are already feeling economic pressure due to the rising cost of fuel and fertilizer as well as the increasing environmental and security regulations, which increases overall operating costs. Enhancing the partnership between USDA, agricultural retailers and their producer customers to better promote the conservation of our natural resources through EQIP or TSP will benefit everyone.

Conservation Reserve Program

The 2002 farm bill authorizes the enrollment of up to 39.2 million acres under the Conservation Reserve Program (CRP). According to USDA, through fiscal year 2005 over 34.9 million acres have been enrolled, providing $1.6 billion in annual rental payments to landowners and operators. CRP has been successful in meeting its primary objective of reducing soil erosion. A recent USDA report states that CRP has reduced soil erosion by 450 million tons per year.[1] However, this is down significantly from the 700 million tons per year in reduced soil erosion or 19 tons per acre on average reported in 1995. ARA believes that this diminishing return is the result of millions of acres of productive farmland that is not environmentally sensitive being enrolled in the CRP only for the guaranteed revenue. Much of the currently enrolled CRP acreage could meet conservation compliance requirements or objectives without costing taxpayers millions of dollars in program payments.

Between 2007 and 2010 there are 26 million CRP acres under contracts expiring, including 16 million acres in 2007. In light of the budgetary pressures and scarce fiscal resources, ARA believes that any future CRP enrollment should be limited only to highly erodible, environmentally sensitive land and the inclusion of land that can be used as filter strips, trees or vegetative cover along streams, rivers or other waterways. Productive land should be allowed to return to crop production or provide grazing areas for livestock. In the July 2006 issue of USDA's *Amber Waves*, it found that "by retiring productive farmland, CRP may have reduced demand for certain farm services, undermining the strength of local economies in farm-dependant areas. And by making it easier for farm operations to retire from farming, CRP may have facilitated population outmigration from farming communities."[2] ARA strongly agrees with this assessment. Agricultural retailers have been directly impacted as a result of the expansion of the CRP from its original purpose to protect highly erodible land. CRP encourages resource idling and land retirement policies that hurt rural economies and help undermine U.S. farm export opportunities, reduce pastureland for livestock, and could undermine the nation's ability to increase renewable energy production.

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

- Significantly reduce the overall authorized acreage allowed to go into CRP;
- Allow for haying and grazing to take place on CRP enrolled land in all participating counties without having to be listed as a level "D3 Drought- Extreme" or suffered at least a 40 percent

[1] USDA's Farm Service Agency's Conservation Reserve Program: Summary and Enrollment Statistics – 2005

[2] USDA's Economic Research Service's July 2006 issue of *Amber Waves*, Farmland Retirement's Impact on Rural Growth

loss of normal moisture and forage for the pre-ceding four-month period. CRP participants after providing notification to their local FSA office should have the flexibility in any given CRP enrollment year to open their lands for haying and grazing. However, doing so would result in a 25 percent reduction in their CRP payment;

- CRP participants should also be allowed to opt out early from part or all of their contracts to produce biomass crops for the production of renewable fuels. 10-year CRP contracts are too long and do not provide the flexibility for landowners to properly take advantage of new market opportunities in the production of corn, soybeans or other biomass crops that can be used in ethanol production, biodiesel or other forms of renewable energy such as solar and wind to help meet the fuel and energy needs of rural communities. In recent congressional testimony, USDA Chief Economist Keith Collins, stated that domestic ethanol production "appears on a path that exceeds USDA's long-term projections" and that "the U.S. will require substantial increases in corn acreage to prevent exports from declining and livestock profitability from falling."[3]

Pesticide Applicator Standards
Agricultural pesticides are applied in a wide array of agricultural lands, including those enrolled in farm bill programs. ARA believes that Congress should establish the same competency standards for both commercial and private pesticide applicators through valid exams, education and training requirements. Unless the pesticides are listed as a "restricted use pesticides" (RUPs), there is no federal requirement for competency by a private applicator. Only commercial applicators of RUPs or non-RUPs are required to take a written exam to demonstrate competency as well as under go extensive training and education. According to the EPA, in 2004 there were over 650,000 certified private applicators (i.e. farmers) and over 422,000 certified commercial applicators. It is common industry knowledge that 25 percent of the new applicator equipment and 80 percent of used applicator equipment is being purchased by farmers. In addition, it is estimated that as much as 30 percent to 40 percent of all pesticide applications are now being conducted by farmers or other private ground applicators. Crop inputs such as pesticides are applied with large application equipment with boom widths of 18.2 to 36.5 meters or larger. An average cost for a new self-propelled, boom sprayer with precision guided equipment can be well over $200,000. To help cover the cost of this equipment, many private pesticide applicators are doing a significant amount of custom farm work on other farming operations. Private applicators tend to use older non-precision equipment and are less experienced and more prone to make errors which lead to higher instances of spray drift and less accuracy in regards to the application of product on the crops.

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

[3] Statement of USDA Chief Economist Keith Collins in testimony before Senate Environment and Public Works Committee, September 6, 2006.

Promote the Increased Production of Home Grown Biofuels

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

USDA's Rural Development Office currently provides financial assistance in the form of grants and loans to improve the economy and quality of life in rural America. Several USDA programs can provide funding as well as technical assistance in the development of ethanol facilities. ARA supports efforts to increase funding for programs such as the Business and Industry (B&I) Guaranteed Loan Program, Rural Business Opportunity Grants, and Rural Business Enterprise Grants to help in the construction of new ethanol production facilities, which can produce more fuel and increase jobs and economic opportunities in rural communities. There is also the Commodity Credit Corporation (CC) Bioenergy Program that has been providing $150 million annually in incentive payments to bioenergy producers in the U.S. that increase their purchase of agricultural commodities over the previous fiscal year and use that product to increase bioenergy production at the facility. ARA is a part of the 25 x '25 Ag Energy Coalition, which supports the goal of 25 percent of our energy be produced from renewable resources such as biofuels, wind and solar by the year 2025 and urges Congress adopt H. Con. Res. 25 and S. Con Res. 3, which supports this new national energy goal.

Develop Private-Public Research on Economic Impact of Changing Transportation Systems

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

Increase Hours of Service Agricultural Exemption from 100 to 150 Miles

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

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

Written Statement
of
National Association of State Departments of Agriculture (NASDA)
for the
House Small Business Committee
Regarding
Competition in Agricultural Markets, Small Business and Interstate Meat Sales
June 7, 2007

The National Association of State Departments of Agriculture (NASDA) represents the commissioners, secretaries and directors of agriculture in the fifty states and four territories. As Congress develops the 2007 Farm Bill, we urge the committee to address an important market competition issue and allow state-inspected meat and poultry to be sold in the national marketplace. Current law restricts fair, competitive, and open markets for small farms and meat processors.

Consumers in the United States enjoy the safest meat and poultry supply in the world. The foundation of this success is our system of food safety laws and inspection programs. Ironically, these same laws also unfairly penalize hard-working small business owners in the U.S. while giving preference to imports of meat products from foreign countries. Meat and poultry products (beef, poultry, pork, lamb and goat) inspected under state inspection programs may only be sold within the borders of the state in which it is inspected. This makes no sense, whatsoever.

Three USDA Advisory Committees have recommended repealing the outdated law because it would create jobs and stimulate rural economic growth. More than 40 national, state and local agricultural organizations have urged Congress to level the economic playing field for small meat processors, and to allow them national market access. Congress needs to finally address this issue in the 2007 Farm Bill.

FAIR COMPETITION AND MARKET ACCESS

Twenty-eight states currently have their own meat and poultry inspection programs. We serve more than 2,000 state-inspected meat processors–mostly small, family-owned businesses–who are prevented from competing in the national marketplace. Consolidation in the meat processing industry continues to leave smaller farmers and ranchers with fewer and fewer buyers for their livestock and poultry. How can this arbitrary marketing restriction be justified, especially when imported foreign meat and poultry products can be freely shipped and sold anywhere in the United States?

The question before Congress is a simple fairness issue. Allowing interstate meat sales will resolve a basic inequity that has existed since 1967. The reasons to act promptly are clear and compelling:

- Meat and poultry products from 34 foreign countries can be freely shipped and sold anywhere in the United States, but domestic small businesses and processors cannot. This is unfair and wrong. *Why are small businesses in the U.S. denied the same market opportunities that are given to companies in foreign countries?*

- The restriction on interstate meat sales does not apply to "non-amenable" products—such as venison, pheasant, quail, rabbit, alligator and a host of others. These products are normally regulated by state inspection programs, yet can be shipped in interstate commerce without restriction. It does not make sense to allow these products across state borders while beef, pork, lamb and goat cannot be shipped interstate. *Where is the logic in this?*

- No other state-inspected food commodities are prohibited from being shipped across state lines. Other state-inspected food products (milk, dairy products, fruit, vegetables, fish and shellfish) are freely marketed across the country. *Why aren't the same market options available for meat and poultry?*

- Our locally-produced, state-inspected meat are some of the best specialty products in the country. Most of these small, state-inspected companies make and sell speciality products such as sausages, bratwurst, jerky and ethnic meat products which are generally not cost-effective product lines for large operations. *It doesn't make sense to say consumers in Iowa can enjoy these products while consumers across the state border in Missouri cannot eat and enjoy the same products.*

ECONOMIC GROWTH FOR RURAL SMALL BUSINESS

Livestock production and processing are the most important agricultural industries in many rural communities. Most state-inpsected meat and poultry plants are owned and operated by small business owners who want to sell their products in the local region. Most of them produce specialty and seasonal meat products. They provide a market for local cattle, hog, goat, and sheep producers. However, the current ban on interstate meat sales prevents these small processors and businesses from serving rural areas which straddle state boundaries.

Market access is critical for small producers and processors who want to market and sell their products to consumers, grocery stores, and other retailers in multi-state regions. Maintaining the interstate sales ban denies these market sales to them. It also prevents them from capitalizing on other sales opportunities such as niche marketing through mail-order gift catalogs and internet sales. Internet sales now offer a huge potential for small rural businesses to sell their specialty products in the global marketplace. This innovation in the marketplace did not exist a few years ago, yet the interstate sales ban prevents these entrepreneurs from using this techology today. Small processors and businesses are denied other economic opportunities as well, including sales to federally-inspected plants for further processing into finished products.

Concentration in the food processing sector continues to trend upward. This reduces market competition, and leaves farmers and ranchers with fewer and fewer buyers for their livestock. In some regions, farmers have to transport animals over long distances. The state-inspected plant is the most likely choice for farmers selling locally because they are generally smaller and more locally available. Allowing more competition in the national marketplace will give farmers and ranchers more local plant options for delivering their livestock.

Increased markets will not only benefit producers, processors and small businesses, but it also gives consumers more choices at the supermarket and convenient stores. It's just common sense and it's the right thing to do. *It is ridiculous that under current law, a restaurant in Minnesota or Virginia can purchase beef from a foreign competitor overseas, but not from a plant in Texas. How can anyone justify this?*

LOCAL ECONOMIC BENEFITS

Interstate markets for state-inspected products will help stimulate rural economies, create jobs and increase local tax bases. Increased markets will not only benefit producers and processors, but related industries such as paper products, printers, seasonings, distributors, and local shops carrying regional products. The Wisconsin Association of Meat Processors conducted a survey of their small business owners in April 2006. In the survey:

33% believed that interstate shipment would increase their total sales by more than 10%.
33% responded that interstate shipment would increase their total sales by 5 to 10%.
29% believed their sales would grow by 1 to 5%.

The Wisconsin survey also asked how this potential, additional sales increase would benefit their business and local economy. The survey showed:

79% would add employees or increase payroll hours.
83% would invest in additional equipment.
64% would expand their existing plant.
42% would open new retail locations.

SUPPORT FROM USDA & ADVISORY COMMITTEES

The debate about interstate meat sales has gone on long enough. Three USDA Advisory Committees have recommended that the ban on interstate shipment be removed because it would create jobs and stimulate rural economic growth:

- USDA's Advisory Committee on Agricultural Concentration (June 1996) issued a report recommending that USDA take "*aggressive action to end the inequities in meat inspection and that appropriate steps be taken to promote the ability of state-inspected packing plants that meet federal standards of inspection to compete by selling meat in interstate commerce.*"

- USDA's National Commission on Small Farms (January 1998) issued a report "*A Time to Act.*" The report outlines a general policy goal to "promote, develop and enforce fair, competitive and open markets for small farms." Specifically, the report "*urges USDA to take aggressive action in a timely manner to end the inequities in meat inspection. With regard to federal and state inspections, the commission recommends that appropriate steps be taken to promote the ability of state-inspected packing plants that meet federal standards of inspection to compete by selling meat in interstate commerce. Provided, however, that such steps do not undermine the integrity of the U.S. position regarding acceptable standards and safeguards for imported meat.*"

- The National Advisory Committee on Meat and Poultry Inspection (NACMPI) endorsed interstate meat sales in two reports (May 1998 and June 2002). NACMPI serves as an advisory committee to the USDA Secretary to consult before issuing product standards and labeling changes and on other matters affecting federal and state inspection programs.

LEGISLATIVE SUPPORT IN CONGRESS

Legislation to allow interstate meat sales has been introduced and debated in Congress for more than a decade. All of the hearings, reports, recommendations, and legislation have supported removing the ban on interstate meat sales.

The 1996 Farm Bill required USDA to submit recommendations to Congress on the steps necessary to achieve interstate meat sales. USDA sought public comment, held public hearings and developed a legislative proposal, which was subsequently introduced in Congress in 1999. At Senate Agriculture Committee hearings in April 2000, USDA Deputy Secretary Richard Rominger testified for USDA and supported removing the ban on interstate meat sales.

The 2002 Farm Bill included language supporting the merits of interstate meat sales and required USDA to conduct a new, comprehensive review of state inspection programs. USDA began this review and further strengthened testing and training requirements in spring 2003, and in January 2007 issued a report which concluded that state inspection programs are "at least equal to" federal inspection. This review data continues to show that state inspection programs are highly effective and provide consumers with a wholesome, unadulterated food product that is properly labeled and safe.

There simply is no longer any valid reason to continue the ban on interstate meat sales. Congress needs to finally address this issue in the 2007 Farm Bill. The state departments of agriculture stand ready to work with the Committee on this effort which will greatly benefit producers, processors, and consumers.