# REVIEW OF FEDERAL FARM POLICY

## HEARINGS

BEFORE THE

SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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## MARCH 28, 2006, VALDOSTA, GA



## MAY 1, 2006, COOLIDGE, AZ

# REVIEW OF FEDERAL FARM POLICY

**TUESDAY, MARCH 28, 2006**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
*Valdosta, GA.*

The subcommittee met, pursuant to call, at 9:00 a.m., in the Pound Hall Auditorium, Valdosta State University, Valdosta, GA, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Neugebauer, Conaway, Etheridge, Marshall, Barrow, Larsen, and Scott.

Representatives Kingston and Bishop.

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

Mr. MORAN. Good morning. The Subcommittee on General Farm Commodities and Risk Management will come to order.

We are here to review the Federal commodity programs, particularly as it relates to what we are calling the 2007 farm bill. We are delighted to be in Valdosta, Georgia, we are delighted to be at Valdosta State University and I know that the president of the University, Dr. Ronald Zaccari is here. Let me acknowledge him and thank him for his hospitality.

Dr. Zaccar, thank you, sir.

I have already volunteered to move to Valdosta, Georgia if the weather is like this 365 days a year. And the Southerners are too honest to tell me that that is the case. So I guess I will remain a Kansan.

We are delighted to be in the district of Mr. Kingston and it is a real pleasure to have 10 Members of Congress here for this hearing.

The Agriculture Committee and this subcommittee will conduct between 10 and 20 field hearings across the country as we try to determine what farm policy should be in this Nation for the benefit of agriculture producers across the country, and as we look to 2007 when we sit down to actually write the next farm bill. Our purpose for being here today is to make certain that we have a perspective of what producers in south Georgia and this region of the country would have in regard to how farm policy is working to their benefit or to their detriment, and how it might be improved as we try to remain competitive in the world, feed not only our fellow citizens of the United States, but around the world, and also the make sure that our producers and their families have an opportunity for another generation to do what we do on today's farms.

The jurisdiction of our subcommittee is over all farm programs and so I expect the testimony will be very broad. Generally, there has been comments from producers across the country about their support for the current farm bill, but people recognize that with today's budget constraints and the political environment in our Nation's Capitol, the farm bill may look somewhat different. And so we want to hear how it could be improved and what suggestions you have, what works and what does not work.

We also recognize that the 2002 farm bill was written at a time, from at least a Kansas perspective and I think this is a nationwide perspective, in which input costs were significantly different than they are today, with fuel, fertilizer and natural gas costs, that safety net that we are trying to produce in farm policy, becomes all the more important.

Let me recognize my colleague and friend from North Carolina, Mr. Etheridge is the Ranking Democrat Member of this subcommittee, and we will work very hard to make sure that what we do in farm policy is to the benefit not only of all regions of the country, but also that Republicans and Democrats come together for the good of American agriculture. Mr. Etheridge, my friend, is recognized.

**OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA**

Mr. ETHERIDGE. Thank you, Mr. Chairman. And let me thank you particularly for bringing this hearing to south Georgia. Beautiful place, your hospitality is overwhelming. We had a chance to have dinner and meet with some folks last evening, so thank you for that.

I also want to thank you for your contribution of sending three outstanding Members of your delegation who sit on the House Agriculture Committee—Mr. Scott, Mr. Marshall and Mr. Barrow. And you also have the Senator who is chairman of the Senate Agriculture Committee. So you have pretty good input into agricultural issues. The point is that these Members understand the importance of agriculture. We talk about our national defense and how important it is, and it certainly is important and you in this community know because of the presence of the military installation here. But if we are going to maintain a strong national defense, I happen to believe that agriculture is equally important to the defense of this country, as we are able to feed ourselves and feed the rest of the world. So the Agriculture Committee is about that.

As the chairman has indicated, this hearing is part of a very public year long conversation and listening tour with people across America, particularly those who provide the food and fiber for all of us. We will be listening to crop farmers and livestock producers, and you can imagine as broad as this country is, yes, we will listen to hunters and conservationists, crop insurers, banks and farm credit institutions, because farmers understand that you need credit to make it work and everybody is in this thing together—agriculture researchers, extension services and others who really just live in rural areas. We are in this thing together and we need to remember, all of us who deal in agriculture, it is more than just the people who till the soil, all of us are linked in one way or another, as we prepare to chart the future of America's farm policy over the next several years.

Agriculture is very diverse in this country, from where the chairman sits in Kansas to where we are in North Carolina to Georgia to Florida to the far northwest. Much of the testimony we are going to hear today and at future hearings, and what we have already heard, as the chairman has indicated, folks are saying we like the farm bill in 2002, just fine tune it. We do not need any major surgery. With budget constraints, we are going to have a challenge, so we look forward to hearing from you. As we do this, it will allow our producers and those who have an impact to provide us with their expertise and their experience on the bill that is now and, hopefully, give us suggestions as to how you would like to see changes to make it better, to provide the food and fiber for this country.

Again, Mr. Chairman, let me thank you for bringing the hearing here and we look forward to the testimony today.

Mr. MORAN. I thank the gentleman. Ten Members of Congress is a pretty exceptional group for us to get together. We are delighted to be joined by Mr. Scott from your State of Georgia; Mr. Larsen is from the State of Washington; Mr. Barrow is again one of your own; Mr. Marshall also from the State of Georgia; Mr. Etheridge from North Carolina; I am a Kansan; Mr. Neugebauer is seated next to me, he is a gentleman from west Texas; the gentleman seated a little bit south of Mr. Neugebauer is Mr. Conaway; and we are especially delighted to be in Mr. Kingston's district. And I would ask unanimous consent of this subcommittee to allow Mr. Kingston, who is not a member of this committee, to join us at the dais, to ask questions and to participate. Without objection, so ordered.

Mr. Kingston is a former member of the House Agriculture Committee but has gone on to greener pastures as a member of the Appropriations Committee and its Agriculture Appropriations Subcommittee. So all of us may come up with policy, but we go hat in hand to Mr. Kingston asking for the greener pastures to be funded.

Mr. Kingston, let me recognize you and thank you for the hospitality that you, your staff and your constituents have provided this subcommittee as we visit Valdosta, Georgia.

## OPENING STATEMENT OF HON. JACK KINGSTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. KINGSTON. Well, Mr. Chairman, I thank you for those kind words, and I thank you on behalf of the other Georgia Members.

Mr. Bishop and I actually split Lowndes County in which we are located. Lowndes County, along with Valdosta State University—you recognized Dr. Zaccari earlier—is well known for football. And I find it ironic that I am sitting next to Mike Conaway, who played football in Odessa, Texas, which many of you know was the city where they wrote that little silly thing called "Friday Night Lights". The people in Valdosta would only ask you, Mr. Conaway, why do they only play football one night a week? Are they just a bunch of wimps, or what? [Laughter.]

Having given you that greeting, we will expect you to vote the right way on pecans and peanuts.

It is a great honor to have this committee here and to have so many Georgians serving on this committee. There was a time in 1996 during a farm bill debate, when there was a motion to strike the Peanut Program. During the debate, at one point, I looked up and realized that everybody on the floor was from Georgia at that moment, fighting for peanuts and the importance of it as a crop. So we work together on a good bipartisan basis when it comes to looking after Georgia agriculture.

I am proud that so many people showed up today, Mr. Chairman. Thank you and Mr. Etheridge, for bringing the hearing here.

Mr. MORAN. Mr. Kingston, thank you. We may be joined by Mr. Bishop later in our proceedings and we will be glad to recognize him at that time. He also is a member of the Appropriations Committee and we go hat in hand to those folks, as I said earlier, but we are also in Valdosta, Georgia in hopes that we satisfy the chairman of the Senate Agriculture Committee in paying attention to Georgia issues. Mr. Chambliss was the chairman of this subcommittee prior to my opportunity to serve, and so Mr. Chambliss, Saxby and I have a long history of sitting next to each other in the House Agriculture Committee.

Let us proceed with today's hearing and the panel that I would call to the table is already there. That panel consists of Mr. Donald Chase, peanut, corn and poultry producer of Oglethorpe, Georgia; Mr. Wavell Robinson, a cotton producer from Pavo, Georgia; Mr. Bill Brim, fruit and vegetable producer of Tifton, Georgia; Mr. Mike Newberry, cotton, corn, peanut and cattle producer of Arlington, Georgia; Mr. Lee Webster, cotton, corn, soybean and wheat producer of Waynesboro, Georgia; and Mr. Ralph Cavender, onion, peanut, corn and soybean producer of Claxton, Georgia.

Mr. Chase, let us begin with you. At your convenience, we will be glad to hear from you.

## STATEMENT OF DONALD CHASE, PEANUT, CORN AND POULTRY PRODUCER, OGLETHORPE, GA

Mr. CHASE. Thank you. Good morning, Chairman Moran; good morning, members of the committee. My name is Donald Chase, I am a peanut producer from Macon County, Georgia. I am also a board member of the Georgia Peanut Commission as well as the Georgia Peanut Producers Association and Chairman of the Agricultural Commodity Commission for Corn.

Our farm is a family farm producing peanuts, corn, sweet corn and poultry. My father, my mother and myself farm 1100 acres and produce about 1.5 million broilers a year. My wife of 20 years and I have three children aged 18, 15 and 11. I am a graduate of Vanderbilt University with an M.B.A. in finance and operations management. Returning to the farm was a lifelong dream of mine and it has been both challenging and rewarding. In my opinion, agriculture is one of the basic building blocks of American society.

Mr. Chairman, I remember driving through western Kansas and the two things that stand out in my mind in western Kansas is when you come upon a town, the two things that you see in the town—because there are no trees—are the church steeples and the elevators. And I think that speaks volumes about agriculture and its place in American society. I appreciate where we have been in the past and I have great expectations for what the future holds.

First, I would like to make some general comments on southeastern agriculture, followed by some comments specifically about peanuts. It is my opinion that most farmers would like to produce crops and sell them at prices which offer profitability without the need for farm subsidies. Unfortunately, this is not possible. The reality is that we operate in a world where we cannot compete in an increasingly global economy. Farm subsidies offer a way to level the playing field. We must have a level playing field if I am to continue farming and offer my children the opportunity to pursue the same wonderful way of life that I have been blessed with. What does the American taxpayer get from their investment in agriculture? Well, here are a few of the benefits, as I see them:

We get a safe, affordable, reliable and secure food supply.

There are numerous environmental and aesthetic benefits from farms existing.

They provide a tax base for local government, particularly in the rural communities, which most of us come from.

And lately, we have grown to be a part of the solution to our reliance on foreign oil.

I am sure that this committee is well informed about all these benefits. I just want to applaud your efforts in the past and encourage you to continue your strong leadership in the future.

Next, I want to thank the House Agriculture Committee for its leadership in moving the U.S. Peanut Program from a supply-management program to a more market-oriented program in the 2002 farm bill. Your leadership protected those U.S. quota holders who had invested their money in peanut quota for many years. Yet, you allowed our industry to move into the future with a program designed to make U.S. peanut producers competitive in both the domestic and export marketplaces.

At our 2002 Southern Peanut Farmers Federation meeting in Panama City, Florida, Congressman Terry Everett told peanut producers that this program should be changed. He encouraged our producers to work with the Congress to create the best market-oriented program possible. We took Congressman Everett's advice.

The new Peanut Program has encouraged peanut product manufacturers to develop new products and spend more money on marketing these products. Domestic demand has increased for peanut products. The new program has also allowed producers to more readily enter peanut production. In Georgia alone, peanut acres have expanded significantly with some of the greatest growth in non-traditional peanut areas.

The Georgia Peanut Commission has met with other segments of the industry including buying points, shellers and manufacturers and each have indicated they were pleased with the 2002 farm bill. Each segment of the industry supported the peanut title of the 2002 farm bill.

One of the problems that we face today is in the implementation of how the loan repayment works. Despite language to the contrary in the 2002 farm bill, the Department has relied far too much on data unrelated to the price other export nations are marketing peanuts for in the world marketplace. U.S. peanut producers have lost a significant portion of their export markets, despite the changes invoked in the 2002 farm bill. Our present export situation is directly related to the high loan repayment rate set by the USDA. Although Peanut State Members of Congress have tried to assist producers in meeting with USDA, letters and inquiries and formal hearings since the 2002 farm bill, the rate has remained artificially high.

In summary, I would like to also point out that our peanut producers in the southeast are also very concerned about the U.S. Trade Representative's recent DOHA Round proposal for less developed countries. To allow less developed countries access to markets import and duty free could severely impact U.S. peanut producers. The list of countries involved in this sector produce over twice as many peanuts as U.S. producers. We appreciate Chairmen Goodlatte and Chambliss conveying their concerns about the DOHA Round negotiations to the administration.

I appreciate the opportunity to be here today representing Georgia peanut growers.

Thank you.

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

Mr. MORAN. Thank you, Mr. Chase.

Mr. Robinson, you are recognized.

**STATEMENT OF WAVELL ROBINSON, COTTON PRODUCER, PAVO, GA**

Mr. ROBINSON. My name is Wavell Robinson, I have operated a diversified farming operation since 1964 and have produced cotton each year. I also produce peanuts, tobacco and a variety of vegetables. I am pleased to have my son as a partner in the operation.

I am honored to join others in welcoming you and the members of the subcommittee to Georgia.

Mr. Chairman, the cotton industry in Georgia has experienced resurgence. In 2005, we planted 1.2 million acres and produced over 2.1 million bales, making Georgia the second largest cotton producing State. Unfortunately, we have lost a significant portion of our domestic textile manufacturing base to a flood of cheap apparel imports. This year, China will actually purchase more U.S. cotton than the entire U.S. textile industry. China will also supply over 25 percent of U.S. textile and apparel imports, and the share is growing rapidly. We must find an export market for up to three-quarters of our annual production. We also want to do everything possible to preserve what remains of our domestic textile manufacturing industry.

The principal reasons for Georgia's resurgence in cotton production are the successful of the boll weevil and an effective farm program. That is why Georgia cotton producers strongly support the current farm bill. It is imperative that current law be allowed to operate without major modification through its scheduled expiration with the 2007 crop. This will ensure that producers continue to make responsible market-driven decisions regarding investment, cropping and marketing. We appreciate your support for this position.

Mr. Chairman, we believe it is critical to preserve adequate budget authority in order to craft effective farm policy. We understand that the budget situation you face today is very different than during the last farm bill debate, but we urge you to work to protect the budget base line for all titles of the farm bill.

We also understand that current DOHA trade negotiations will likely impact the makeup of our next farm bill. If negotiations in the DOHA Round have not been completed to the point that the implications for future farm policy are clear by late summer, we would support continuation of the current farm bill for at least one additional crop year. Given our significant financial investment in land and equipment and our cropping alternatives, we need to know what policy will be in place well in advance of planting a crop.

The cotton industry is concerned about the attempts by some to single out cotton for treatment that is different from other crops in the WTO negotiations. We continue to urge U.S. negotiators to insist that the discussions regarding levels of domestic support be conducted as a single undertaking for all programs. And there should not be any significant reductions in domestic support unless accompanied by meaningful increases in market access for all U.S. products.

We also believe that countries, including Brazil, China, India and Pakistan, which are highly competitive in world markets, should not avoid increasing access to their markets by classifying themselves as less developed.

As you begin debate on the new policy, we recommend that the current structure serve as a blueprint for the new farm bill. The existing law is balanced between titles and has provided stable and effective farm policy for this country. The combination of direct and counter-cyclical payments provide an effective means of income support without distorting planting decisions, especially in periods of low prices. We strongly support the continuation of the marketing loan without limitation so U.S. commodities can be competitive in the international markets. The current law also contains sufficient planting flexibility provisions which allows producers to react to market signals.

In addition to sound farm program provisions, commercial-size operations must be eligible for program benefits. Limitations are particularly unfair to irrigated operations and to operations with certain high value cropping combinations. At a minimum, we urge Congress to maintain current payment limits and eligibility requirements.

Conservation programs should be operated on a volunteer cost-share basis and can be a valuable complement to commodity programs. However, they are not an effective substitute for the safety net provided by commodity programs.

Export markets are increasingly vital to Georgia farmers. We support continuation of successful export promotion programs, including the Market Access Program and the Foreign Market Development Program. We also support continuation of a WTO-compliant export credit guarantee program.

In conclusion, Mr. Chairman, I will briefly mention specialty crops. Recently some groups have made it clear that they want specialty crops to be a significant part of the next farm bill through increased earmarked funding for conservation, nutrition, research and block grants. The challenge is to identify the funding for these new or enhanced programs without substantially reducing current levels of support for other programs. We look forward to working with the specialty crop interests and Congress in addressing their concerns.

Mr. Chairman, the cotton industry looks forward to working closely with you and your colleagues to craft an effective national farm policy.

Thank you again for the opportunity to present these remarks.

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

Mr. MORAN. Mr. Robinson, thank you and a great segue to Mr. Brim, who is a specialty crop producer.

Mr. Brim.

**STATEMENT OF BILL BRIM, FRUIT AND VEGETABLE PRODUCER, TIFTON, GA**

Mr. BRIM. Good morning, Chairman Moran and members of the subcommittee. My name is Bill Brim, I am a vegetable grower from Tift County, Georgia. Lewis Taylor Farms is my business, it is a diversified transplant and vegetable production farm operation. We have 352,000 square feet of greenhouse production space, we grow 4000 acres of vegetable production. Our greenhouse operation produces over 85 million vegetable transplants a year and over 15 million pine tree seedlings. I also serve as first vice president of the Georgia Fruit and Vegetable Growers Association.

The fruit and vegetable industry is growing at a rapid pace in the State of Georgia. We are adding jobs and dollars to the rural economies throughout the State. But this growth is not limited to our State. Specialty crop growers produce approximately 50 percent of the farmgate value of total plant agricultural production in the United States.

Despite the impact to the U.S. economy, specialty crop growers receive a very small percentage of Federal resources aimed at promoting and sustaining efficient agricultural production. I hope this committee will take a hard look at a balanced farm bill that includes an increased emphasis on specialty crop production.

This morning, I would like to focus my remarks on several key areas of the farm bill that we hope the committee will consider during your deliberations in the coming months. A number of the fruit and vegetable grower organizations have been meeting to discuss common interests for this farm bill and the results of these discussions will be shared with the committee in the near future.

I am not here today to tell you that our southeastern vegetable industry believes we need a new farm program for vegetables. Although I do believe there are areas of the farm bill that should address issues of concern in our industry.

Of specific interest to me and other southeastern producers are issues related to:

Restrictions on planting flexibility

Unique attributes of specialty crop producers
State block grants
Research
Nutritional programs
Crop insurance.

Restrictions on planting flexibility—this long-standing provision is a fundamental matter of equality among farmers. As long as some farmers receive direct payments from the government, they should not be allowed to plant crops on subsidized land that competes with unsubsidized farmers.

Unique attributes of specialty crop producers—due to the nature of high-value specialty crop production, many current farm bill programs and disaster programs are of limited benefit to specialty producers due to payment caps, limits on adjusted gross income, limits on off-farm income even if integrated into farm operations, et cetera. We support a thorough review of all the programs to ensure that specialty crop producers have access to benefits comparable to other farmers, rather than being excluded and limited simply due to the higher cost of production.

We support an expansion of the State block grants for specialty crops program originally authorized in the Specialty Crop Competitiveness Act of 2004 and funded through appropriations in the fiscal year 2006 Agricultural Appropriations bill. Due to the wide diversity and localized needs in specialty crop production, State departments of agriculture are uniquely able to assist local growers with the specific investments they need to increase competitiveness.

Research—significant new investment in research for specialty crops is desperately needed, through both the NRI programs and CSREES and ARS programs.

We support a strong new focus within the 2007 farm bill on increasing the access and availability of fruits and vegetables, particularly in children. We support expansion of the school fruit and vegetable snack program, increased commodity purchases, higher allocations to the Department of Defense fresh program for schools, development of new nutrition promotion programs to assist producers in enhancing their markets, and a general requirement that USDA feeding programs and commodity purchasing comply with the 2005 Dietary Guidelines.

Most fruits and vegetables are not covered by crop insurance programs. We would like to see an increase in pilot projects and studies to determine the feasibility of minor crop coverage.

I would like to thank the committee for giving me this opportunity to testify. I sincerely hope that the next farm bill will address the issues of concern to specialty crop producers and reflect the value of their production to the U.S. economy, as well as the dietary needs of all Americans.

I would be remiss if I did not encourage the Congress to continue to work toward a solution to the guest worker issue for American producers. I realize it is not an issue of jurisdiction for this subcommittee; however, it is one of the single most important concerns of my business being considered as part of immigration reform in this U.S. Congress.

My farm is just north of here and I just want to tell you how much I appreciate, and the farmers of this State appreciate, your interest in Georgia agriculture. To have this many Members of Congress from around the country in the heart of our State's Farm Belt means a great deal to our producers.

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

Mr. MORAN. Mr. Brim, thank you, you are very welcome.

Mr. Newberry is recognized.

**STATEMENT OF MIKE NEWBERRY, COTTON, CORN, PEANUT, AND CATTLE PRODUCER, ARLINGTON, GA**

Mr. NEWBERRY. Mr. Chairman, thank you for the opportunity to provide remarks on the next farm bill. My name is Mike Newberry and I operate a diversified farming operation in Early County, producing corn, cotton, peanuts, wheat and soybeans. We also have a beef cattle operation and I am a fourth-generation family farmer.

I am honored to add my welcome to Georgia to you and the members of the subcommittee and special guests. I am a constituent of Congressman Bishop and want to thank him and Congressman Kingston for bringing this hearing to Georgia.

Georgia producers have been well served by the current farm bill, and we strongly support its balanced approach to commodity, conservation, nutrition and rural development.

We believe it provides a stable and effective farm policy for this country. As you know though, it constituted a significant change for the peanut industry, and we are still making adjustments. An effective marketing loan provision allows U.S. cotton and other commodities to be price competitive in the global market. I believe that the peanut loan repayment rate has been set too high. This mistake has caused a loss of a portion of our export market that is important to our livelihood. Current law also contains sufficient planting flexibility provisions to allow producers to react to market signals.

For many years, farmers in the U.S. have been known as food and fiber producers. But it is now a fact that we also produce energy. The fledgling ethanol industry must be encouraged in every practical manner to ensure its growth, which will in turn result in increased needs for grain in this country.

It is critical that the current law be allowed to operate through the 2007 crop year, as has already been mentioned.

Mr. Chairman, as your committee begins consideration of the next farm bill, we believe that it is imperative that adequate budget authority be given so that a bill can be crafted that will be effective.

Also, the outcome of the current round of trade negotiations will impact our next farm bill. Peanut producers are especially concerned about the effect of granting market access to less developed countries.

In addition to sound farm program provisions, it is critical to ensure that farming operations, which are commercially viable and designed to achieve an economy of scale, be eligible for farm program benefits. We believe Congress should at the very least maintain current payment limits, including a separate limit for peanuts.

Conservation programs are an important component of farm policy. The Conservation Reserve Program, the Conservation Security Program and the Environmental Quality Incentives Program are proven, valuable ways to promote sound conservation and environmental practices through cost-share, incentive-based approaches. And they have worked in this present farm bill that we are in.

Mr. Chairman, we recognize that your committee and Congress face numerous challenges crafting new farm legislation. I would emphasize that adequate spending authority, effective trade policy and current farm programs will form a solid foundation for the next legislation.

Thank you again for the opportunity to present these remarks.

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

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

Mr. Webster.

**STATEMENT OF R. LEE WEBSTER, JR., COTTON, CORN, SOYBEAN, AND WHEAT PRODUCER, WAYNESBORO, GA**

Mr. WEBSTER. Mr. Chairman and committee members, I would like to also welcome you to Georgia and thank you for this opportunity. My name is Lee Webster and I am a third generation farmer in Burke County, Georgia. I have operated my farm continuously since 1977, growing cotton, corn, soybeans, small grains and hay. I farm the land that was owned by my grandfather and my father, and my wife and I look forward to the future as our daughter and son are raised on our family farm.

I am proud to be represented by Congressman John Barrow and appreciate his interest and concerns with agriculture in the 12th district of Georgia.

As long as I can remember, I have farmed under a national farm bill. The most crucial decisions in farming result from this legislation. It is imperative that each farm bill be prepared in advance of its predecessor's ending, so that decisions can be made in an informed, timely and effective manner. These decisions can affect the very existence of our family farms. Farmers have to meet with bankers, equipment dealers and agricultural suppliers to meet the needs to produce a crop. Unknowns in the farm bill make decisions of this nature a constant best guess rather than a knowledgeable and educated decision.

Analysis of USDA data shows that large and small farms are growing in numbers while midsize commercial farms are steadily declining. I would submit to you today that these midsize farms represent the majority of family farms. It is my firm belief that continuity of transition between farm bills is critical to decision making among these farmers. In 2000 and 2001, leading up to implementation of the 2002 farm bill, I faced such a dilemma. At that time, I farmed some 6,000 acres of mostly cash leased land. I employed five full time and three to four part time workers during any crop year. I had farmed most of this land for over 20 years, and through previous farm bills had good planting history, built good bases and good yield averages. Leading up to 2002, it was clear that our farm programs were in for radical changes. Just what these radical changes would be or what they might encompass was not so clear. Drought and floods which had deeply affected production during much of the 1990's clouded the picture even further. After much thought and deliberation with others, the decision was made to cut my operation back to 1000 acres, which was mostly owned by myself and some of my family members. This resulted in cutting labor to only two full time workers and liquidation of excess equipment.

As we moved into 2002 and 2003, low farm prices and general frustration with uncertainty prompted other family members to entertain offers and eventual sales of part of our farm. To bring this in perspective, what I have just described is the slow but methodical breakup of my family's farm. Those nine people who lived and worked on my farm all work in non-farm jobs today and no longer live on the farm. The excess acreage was consumed by much larger farms or developers who subdivided the land for country estates. And this scenario is playing out thousands of times across our country and has effectuated the demise of our family farms.

Many people fail to see how important saving the family farm is. We currently rely on other countries to support our oil production, thus giving them a pricing monopoly on our fuel.

As time has proven, the 2002 farm bill has turned out to be one of the greatest pieces of farm legislation. It has created some of the greatest stability while offering the greatest amount of flexibility in planting ever offered to agriculture. At last accounting, it has come in some $11 billion under budget. To my recollection, this is unprecedented among any other farm bill. This is not to say that the money has been over-budgeted, but it is evidence that intelligent, forward-thinking people have not only created something that works, but works very well.

The family farm not only benefits from a healthy farm bill, but it relies on it to exist. The current DOHA trade negotiations seek to level trade within a world market. Our commodity exports to other countries are not equal to our imports. To finalize a farm bill prior to completion of the DOHA negotiations would only place our farmers at an extreme disadvantage by making any new strategies for farm legislation obsolete. We cannot afford to do this. Our current farm bill needs to be extended until these negotiations are complete. Then we will have the knowledge and information to make educated decisions.

And I thank you again for this opportunity.

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

Mr. MORAN. I thank you, Mr. Webster.

Mr. Cavender.

**STATEMENT OF RALPH CAVENDER, ONION, PEANUT, CORN, AND SOYBEAN PRODUCER, CLAXTON, GA**

Mr. CAVENDER. Good morning, Mr. Chairman, members of the committee. I also would like to join in welcoming you to Georgia and thanking you for coming and taking time to hear from our concerns.

My name is Ralph Cavender, I am from Claxton, Georgia. I am a multi-crop farmer who farms approximately 300 acres, mostly Vidalia onions, organic Vidalia onions and Asian pears.

I have farmed larger acreage in the past, growing peanuts, green peanuts, carrots, watermelons, cantaloupes. I have been down many roads farming.

I am concerned about farm profitability for myself and my neighbors. Using the cost and returns from our University of Georgia projections for row crops, there is not one single crop that you can plant and sell at market price and make money on. That includes corn, soybeans, peanuts, wheat and cotton. The only thing we are farming for right now is for the Federal subsidy. And I encourage you that you would continue to look at this and consider our current situation. In Evans County, which is one of the smallest counties in the State, we currently right now have approximately 15 or 16 row crop farmers. The others have branched out into more specialized areas so they can supplement their income with other enterprises. Some of which are poultry, cattle, swine, pecans and other specialty products. Many are living on the appreciation of their land values. Many like myself also have wives who work.

I am also concerned with our budget cuts to our support groups, our land grant universities where our basic research is done, and also includes the network of our extension agents. We are in need of more cost-efficient ways of production. We are also in need to diversify our operations. Our local Farm Service Agency, where we go to sign up for all the Federal programs and receive our supplemental checks, is now open in my county only one day each week.

I would also like to expand on the price of the farm products, which I touched on a minute ago. I have a neighbor and a friend who 2 years ago upgraded all of his peanut equipment, he was a big peanut farmer. That was a substantial investment for him, which is now worth much less because of the price of peanuts and the peanut situation in our area. This year, we will have less peanuts grown in our area than probably any time I can remember. And he is not planting any peanuts at all this year.

I would argue that reauthorizing the farm bill is a national security issue, as Congressman Etheridge touched on earlier. We need to ensure that our food products are grown locally and domestically rather than abroad. Otherwise, we are subject to uncertainties of the marketplace and consumers that cannot purchase the certain crops they want.

I thank you this morning for considering the things that you have heard us all say and consider in your new farm bill that we are looking at and thank you for listening to my testimony today.

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

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

Before we turn to the panel to have a dialog and conversation with you, let me recognize the gentleman from Georgia, Mr. Bishop. We appreciate very much him joining us and we appreciate the hospitality that has been extended by you, your staff and your constituents, and I wanted to give you a moment to speak to those folks as well, Mr. Bishop. We have already talked about you in your absence and how powerful important you are in the agricultural world as a member of the House Appropriations Committee.

**OPENING STATEMENT OF HON. SANFORD D. BISHOP, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA**

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

I want to welcome the members of the House Agriculture Committee to south Georgia, I want to thank the Subcommittee on General Farm Commodities and Risk Management, Mr. Moran, Ranking Member Mr. Etheridge, for holding this field hearing here in Valdosta. I would like to also welcome and thank the panelists for coming and bringing very, very valuable testimony.

According to the Georgia farmgate value report that was published by the University of Georgia Center for Agri-Business and Economic Development, the total 2004 farmgate value for Georgia was over $10.2 billion. Traditionally, Georgia has been a leader in the production of cotton, peanuts, poultry and timber. But our State agriculture industry is definitely changing.

During the summer, south Georgia is bustling with the harvest of sweet corn, tomatoes, watermelons and other fruits and vegetables. South Georgia has seen changes in the way that crops are produced. For example, our farmers are using various conservation tillage practices and variable rate irrigation systems to reduce the impact of farming on the environment. The changes in farm practices are a result of provisions of the 2002 bill and clearly, agriculture has adapted to this change, as a result of the stability and flexibility provided in the current farm bill.

At the center of the discussion of the farm bill, however, is the local farmer. But surrounding the farm are communities that depend on the success of the local agriculture industry. Communities like Moultrie, Georgia continue to expand their agricultural significance. A new poultry processing facility has brought additional jobs and along with that, a demand for additional chickens for processing.

Local farmers and businesses in Camilla are exploring the possibility of constructing an ethanol plant. Along with the addition of local jobs, an increase in the demand for corn will be created.

The progressive nature of agribusiness in south Georgia continues to improve the quality of life for these local communities. So it is important when we discuss changes to the farm bill that we understand how important the local farmer is to the success of the local rural community.

During the debate on the 2002 farm bill, I was a member of this committee and farmers and agribusiness leaders from across the Nation visited with me to discuss the possible options. Every person that I spoke with had the same final goal for the farm bill, but with different ways of getting there. In the end, we passed a bill that was acceptable to the commodity groups, the conservation groups and the nutrition groups. In the last 4 years, and I think we have heard from the testimony today, farmers have been pleased with the outcome of the 2002 farm bill. There have been a few problems, but on the whole, the bill seems to be working well.

There are some challenges though that lie ahead with the World Trade Organization and I think it is our duty to work with the

Trade Representatives to ensure that agriculture is not sacrificed at the negotiating table.

There are some environmental concerns that need to be addressed. In Georgia, droughts and rain shortages cause water supply concerns. The ability to easily irrigate our crops during rain shortages is a regional advantage that has helped our farmers to become successful. And it is my belief that farmers are the stewards of the land and want to ensure that the land that they cultivate, and the natural resources, will be there for future generations.

Finally, the budget constraints we know will put pressure on the committee to reduce the commodity payment levels and to change payment limit structures. It is my intention to ensure that these provisions remain in the next farm bill and that changes will not be made that will jeopardize the ability of Georgia farmers to be successful.

I would like to provide you with the reason I think the farm bill is really important. It is simple. The farm bill should ensure that the agrarian way of life that our country was founded upon can still be realized in rural America and that American farmers can continue to produce the highest quality, the safest, most economical food and fiber in the industrialized world.

And I am grateful that all of these panelists have come and have brought these remarks and I appreciate the opportunity to share my remarks with you. Thank you very much.

Mr. MORAN. Mr. Bishop, you summarized the goals very well. We are delighted to be with you. You and Mr. Kingston give us an inferiority complex. As former members of the House Agriculture Committee, both moving on, makes us wonder why we are left behind I guess. We appreciate the role you play and delighted to be here with you and Mr. Kingston.

I would ask unanimous consent of the subcommittee that Mr. Bishop be allowed to join us on the dais, that he be allowed to ask questions of the panel. Without objection, so ordered.

Let us take an opportunity now to have some questions. We appreciate very much the testimony.

Mr. Robinson, let me start with you. Your comment about China catches my attention. The question I have is what is it that we can do in this country for agriculture to remain competitive? How do we compete in a world in which other countries may have lower land values, lower labor costs, less environmental restrictions? And you talk about what is happening in China and the percentage of cotton they will supply to the United States. That is a very troubling fact to me. Are there thoughts about how we can remain or become more competitive, beyond the farm bill?

Mr. Cavender talks about the percentage of income that comes from the farm bill. And absent the farm bill, there would be no income. What do we do beyond the things that create a payment to farmers, to allow us to better compete in the world?

Mr. ROBINSON. Thank you, Mr. Chairman. Indeed, China is a big part of the world today, and I believe that the world is shrinking because of our better communications, our better transportation. Language continues to be an obstacle, but I think we are getting and eventually we will have this language thing so we can communicate better between languages.

China has a tremendous amount of people, and they have turned what could be a liability into a big asset. They are using their people to produce the things that they need to export to other countries.

Now how do we compete with that? I do not think we can compete head on with that. I think if you look at—and I mentioned in my speech about the textile industry. I do not think that the textile industry can compete with China, because of the fact that there are so many people over there.

But first of all, I think we have got to have a strong agricultural sector in this country. And I think that the farmers in this country look to Congress and look to our President to help understand our situation and to help provide that.

Now I do not have all the answers to that, obviously. But I think we have got to recognize that we are participants in a world economy, and it is becoming more and more evident every day, and we have got to learn new ways to operate in that environment.

Mr. MORAN. Thank you, Mr. Robinson.

Mr. Brim, specialty crops is probably the segment of the agricultural world that is interested in changes in the farm bill. And it was pointed out earlier, I think by Mr. Robinson, about our challenges to try to be helpful to the specialty crops with the resources that we have, that does not damage the farmers who produce program crops.

Is there an opportunity that you see that the specialty crop producers from across the country will be united? You talked about meetings taking place and what you are discussing, what recommendations will be made for the farm bill. Will that bring the specialty crop producers from across the country in a united position as to what direction we are going; or is it that far along?

Mr. BRIM. Yes, sir, I think so. We are meeting as we speak right now, different committees and structures going on to talk about the new farm bill and what we want for specialty crops.

Mr. MORAN. My guess is that you are familiar with the block grants that were provided to States in the past. How was the block grant used on behalf of specialty crop producers in Georgia?

Mr. BRIM. Well, I will just take myself for instance. When we got the specialty crops, our association and, of course, our Commissioner of Agriculture, set up a new program through our Crop Improvement Association to help develop a GMP, which is good management practices, for agricultural products and, of course, the Food Safety Program. I was the first one in our State to get certified for food safety. And we took that money, and we have also taken money from the Specialty Crop Block Grants to develop more research in food safety as well.

Mr. MORAN. Mr. Chase, in regard to peanuts, is there now pretty much uniformity across the country from peanut producers about the desirability of the changes that occurred? It was controversial in different sectors of the country. Your testimony is in support of what Congress did in the 2002 farm bill, but would that be the testimony we would hear across peanut producing areas of the country?

Mr. CHASE. It is my opinion that there are small geographic areas that might have difficulty with that, but by and large, the peanut areas of particularly west Texas, the Carolinas would probably agree that the program has worked, with the exceptions that we have all noted.

Mr. MORAN. Mr. Newberry, in regard to peanuts, something you said in your testimony caught my attention, particularly—and in fact, to my knowledge, you are the first person who has suggested that the current payment limitations need to be raised. Usually we hear the defense of at least do not lower them and I guess that is your testimony, is that at a minimum keep them where they are. But you are pointing out that there are problems even at the current level of payment limitations. And then your sentence in regard to peanuts, a separate limit for peanuts. And that is something I am not familiar with. Could you expand upon that?

Mr. NEWBERRY. Well, there are several commodities that we consider certainly high value—cotton, rice and peanuts being three of those. And with the changes that were made in the current farm bill to peanuts, the major changes made in the program, pretty much required in that was a separate payment limitation for peanuts. And we feel like that is going to need to be continued in the upcoming farm bill to remain a viable commodity for us here, because there are so many peanuts and so much cotton in the given area. It is primarily because of the irrigation in those areas.

Mr. MORAN. I need to understand that more and I will pursue that, because I have often wondered why payment limitations are often crop specific and geographically oriented, and I have wondered if there is not an opportunity for us to develop payment limitations based upon commodities grown. And perhaps the peanut program provided in the changes in the 2002 farm bill may give us the guidance on how that may or may not be done.

My time has expired, let me recognize the gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Mr. Robinson, for you first, I share your concerns about what our trade negotiators agreed to at the last World Trade Organization meeting in Hong Kong with respect to cotton. Unfortunately, we are where we are.

If an agreement is reached in the WTO, our negotiators have promised and committed that we will see steeper cuts and implemented more quickly than in other commodities. My question is, has any one in the cotton industry thought about how significant, how meaningful any improvements in market access for cotton exports would be for cotton growers to support a WTO agreement that requires reduced support for cotton disproportionately with other commodities? I guess would such a sacrifice be worth it. I would be interested in your thoughts on that.

Mr. ROBINSON. Well, certainly, Congressman, I think that expanded trade is one of the things that we should strive for. I think we have got to sell more cotton to other countries. I think that is crucial. So yes, they are partners with us, we have got to operate within the WTO and I think the cotton industry understands that and wants to play the game, so to speak. But yet, it has got to be equitable. And I think that we have got to look after the American agricultural segment first, because it is through a strong agricultural production background that we will be able to compete on the world market. So we have got to remain healthy to be able to sell the cotton and to be able to participate in the World Trade Organization. So all that I think the American cotton farmer asks is that he be treated fairly, that he be treated equally with farmers in other countries and that if we are going to give access to our markets so China can sell us all this expanded imports that we are taking, then we should be given access to their markets. And I think that is nothing but fair. And I think we should strive to work along those goals.

Mr. ETHERIDGE. Thank you. I think as you reduce the payment to the farmers, it is going to be more difficult I think to produce cotton.

Mr. ROBINSON. It will make it more difficult. And as everyone knows, diesel fuel, for example, which is a prime expense for cotton farmers, is up 17 percent just from last year.

Mr. ETHERIDGE. Yes, I want to pursue that a little further.

Mr. Chase, what is USDA's response to peanut farmers' continued request for the Department to lower the loan repayment rate and what is their justification, as you understand it, for keeping it so high? Do you think those reasons are adequate and warranted?

Mr. CHASE. This is a particularly sore subject with peanut farmers, because what it has done is basically dried up our export market. And this program was designed to expand our marketing possibilities and make it market oriented. I have got to be honest with you, I do not think there is a consensus about what they are doing. It is not transparent, we do not have a real good idea of how that price is calculated, and we have asked the questions but we have not gotten really good answers.

And so we really need to push this, we think.

Mr. ETHERIDGE. For transparency.

Mr. CHASE. Yes, sir.

Mr. ETHERIDGE. All right. Let me ask each one of you to respond if you can quickly, other than Mr. Webster, because this came out of his testimony I read. He has called for some mechanism to help farmers when they experience dramatic increases in input costs. And let me just take energy as one of those issues which farmers have had absolutely zero control over thus far. We have heard calls for assistance of this kind from other parts of the country, so this is not unique.

What do you think about this idea and give us your thoughts. Do you think this is an issue that is not unique to agriculture all across America. And I will start again with you, Mr. Chase and we will just go down the line if we have time.

Mr. CHASE. There is a lot of discussion about this. When we all purchase goods or services, today a lot of those goods and services have fuel surcharges on them. And the problem is, we are not able to pass those on to our customers. And I wish I had a good answer for how we can solve that. I guess the best answer I have is to continue a strong farm program that recognizes that costs have increased, and therefore, we might have to make changes in our loan rates and these type of changes. That is not a good solution, but it is about the only one that I see as effective.

Mr. ROBINSON. Congressman, I think it is going to be a challenge to all farmers, this energy crisis that we are in. And as Mr. Chase alluded to, the spinoffs from that. I mean, because of the energy crisis, we are paying more for fertilizer, we are paying more for chemicals. So it is something that we are going to have to work through. Eventually, the laws of supply and demand will take care of it, but who will get hurt in the interim, I think that is my biggest concern.

Mr. BRIM. In the specialty crop industry, we are not privy to have anything other than the open market. So it is hard for us to adjust for these inflationary fuel prices that we are getting right now. I do not know what is going to happen to all of us, because in the produce business, it is all supply and demand. And if there is too much produce grown, then we are going to have a cheap market. Well, we have still got the high fuel prices. I would like to tell you how I would do it, but I will be honest with you, I am going to leave that to you, Mr. Etheridge.

Mr. ETHERIDGE. Thank you. [Laughter.]

Mr. ETHERIDGE. Thanks a lot.

Mr. Newberry.

Mr. NEWBERRY. Mr. Etheridge, I cannot imagine many solutions to this other than one, and that is somehow to change the target price according to some energy benchmark. That is the only thing I could see that could react as quickly as we would need a reaction.

Mr. ETHERIDGE. We will go to Mr. Cavender.

Mr. CAVENDER. My opinion is sort of like Bill Brim's. With the Vidalia onion being a specialty crop and on a supply and demand, we have got nearly 100 growers that are producing one crop and all trying to market it, we have got no control over how we price it dealing with chain store buyers. It is just going to be something that is going to have to work itself out.

Mr. ETHERIDGE. Mr. Chairman, my time has expired, but when we come back, I want to follow this up with some more on this same area.

Mr. MORAN. I recognize the gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Brim, I think you are one of the folks that brought up the issue of crop insurance. I have been a big proponent that in the 2007 farm bill if we do not do some things as far as crop insurance, I do not think we have really done our job to bring a complete farm bill. One of the things that I hear from a lot of producers in my area is that there is inadequate coverage. In other words, today a lot of the farming operations have gotten larger, they have had to get larger to be more productive and to avail themselves of the technology that is available today. And of course, you were talking particularly about I guess specialty crops not having those.

What kind of crop insurance program would the specialty crop group like to see, the fruits and vegetables particularly?

Mr. BRIM. Basically what we need is some kind of a management program where we just can recover our cost of production. We have looked at it through RMA over the last 3 or 4 years, we just have not been able to develop that program where everybody can agree to what we need. Each individual wants each individual crop based off the production levels and base for each one—but there are so many different vegetables grown on the individual farm, like in my particular operation I have probably 25 different vegetables that I grow. And RMA says it is just too risky to be able to individually tie each one of those crops back to a field. So we asked them to at least give us some kind of program where we could base what we have on our cost of production back to what our crop is. We are not asking for anything as far as to make a profit, we just want to recover our cost. Most people do not realize how much our cost is in the production of specialty crops. Where cotton and peanuts are expensive to grow, ours are probably 100 times more cost per acre than peanuts or cotton, with all the labor cost and our production cost with plastic and drip irrigation. So if there was some way that we could come back in with a limited production cost coverage to where we could cover at least so we would not—they always say that a produce farmer is 1 year away from being broke. So we would just like to cover that year where we would not be broke.

Mr. NEUGEBAUER. So some kind of a percentage of history of gross revenue, are you thinking more of a gross revenue type product for you rather than a yield product?

Mr. BRIM. That is right.

Mr. NEUGEBAUER. Because if you have got multiple vegetables on a particular piece of land, the yields would be hard to track. But just look at historical revenues on a per acre basis?

Mr. BRIM. We could track them on an individual farm, but I think that RMA said it would just be too complicated for them to track it back to each individual farm. We have had so much corruption in the insurance and disaster payments with specialty crops of people claiming that they grew squash that did not grow squash or so forth. But if you could base it back to something like resources where we would not at least lose everything we have got. And the payment limitations just will not cover specialty crops.

Back in 2004, I probably lost $3 million that year when the hurricanes came in. Well, my payment limitation was $80,000 because I have one entity. So that did not help us much. So we would like something better.

Mr. NEUGEBAUER. Mr. Chase, I noticed that you are involved in peanuts, do most of the peanut folks participate in the crop insurance program, is it your experience in that area?

Mr. CHASE. Yes, there is sort of a dichotomy here. The irrigated producers find it very difficult to file a claim. We may have a reduction in yield or an increase in cost, so an irrigated producer has a little bit different situation. A dry land producer; yes, absolutely participates and it is a lot easier to have a claim in a dry land situation. And there are farmers who are both, so there is participation.

Mr. NEUGEBAUER. Mr. Robinson, how about the cotton farmers around, are they participating currently, most of them, in the crop insurance?

Mr. ROBINSON. Most farmers do, at different levels. Our farm I think is on 50 percent level. A few are catastrophic and they just take out catastrophic.

Mr. NEUGEBAUER. CAT policy. I see my time has expired, Mr. Chairman, I will explore that a little bit more when we come back.

Mr. MORAN. Thank you, Mr. Neugebauer.

The Chair recognizes the gentleman from Georgia, Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman. I appreciate you all being here and it is a real pleasure to have this hearing in south Georgia, and I appreciate the chairman and ranking member bringing this hearing here.

I am worried about sort of cart-horse issues with regard to the farm bill versus the DOHA Round. Mr. Webster in his testimony says that we ought not to do the new farm bill until we have finished with the DOHA Round because the DOHA Round could screw up everything that we put into the new farm bill.

I am a little worried that our negotiator is going to go out there and do something in negotiating in the DOHA Round that is going to make it practically impossible to put together a decent farm bill. And one of the things that we are hearing is that our negotiators are going to flat out concede direct subsidies are not going to work. Their argument is two-fold. One, it is not going to get accepted by the rest of the world. Two, if we maintain the current subsidies, we are going to have the same thing happen that happened with cotton with our other products. We are going to get sued in the world court. So they are suggesting that that is sort of a hopeless road to head down either way. We either cut the deal or we do not cut the deal. If we do not cut the deal, then we are going to get sued.

This is the thing that we have been hearing—what we need to do is we need to substitute green programs, conservation programs, things like that as the mechanism that would be used to support farming. And yet I cannot remember whose testimony it was, somebody here was saying that is not going to work. So if you could give us some guidance. Do we need to be, as a committee, telling our negotiators here is the range within which we can actually work within this range. Outside this range, we have got a real problem. And should we move forward, at least—I do not know exactly what the concept would be, not a final bill, but at least some guidance to our negotiators that we cannot work outside these ranges, that sort of thing. I would like to hear comments about that from any of you who have a thought.

I do have other questions, if that is not——

Mr. NEWBERRY. Mr. Marshall, we recognize that problem, what is going to come first, certainly. But I think most of us have testified that we would like to see the current farm bill be the guideline used to write the new farm bill. So I think we have got to tell our negotiators these are the things that we need and this is the box we have got to play in.

Mr. MARSHALL. As things stand now, I am not hearing that from the negotiators. What I am hearing from the negotiators is well, we are going to get sued, we are going to lose these lawsuits, so we are going to be forced to change in the courts, so we might as well just go ahead and change in negotiations. Now I think they want to do that anyway, they want to dramatically cut direct subsidies to our commodities—they want to do that anyway, for a number of different reasons.

And the suggestion is that we should not worry about it all that much in the farm sector because we are going to get these conservation programs, green programs, those sorts of things that will fill in the gap. Will they fill in the gap?

And Mr. Robinson, if you would ahead instead of just shaking your head, explain why they will not fill in the gap.

Mr. ROBINSON. I alluded to it a little bit in my testimony, that we need a safety net and we just do not feel like the conservation program gives us a safety net. The counter-cyclical payment in the cotton program, the LDP, the loan deficiency payment—we do not qualify if we have a good market, if we have a high price for our cotton, a respectable price for our cotton, we do not qualify for that, it is not there. It is only there if we need it, it is a safety net.

So I hope that Congress will see fit to keep this safety net for our farmers, because we desperately need it. As far as the DOHA Rounds are concerned and as far as our U.S. negotiators are concerned, certainly we have to work within a certain framework and I commend you gentlemen for the task that is before you. But we cannot forget our farmers and we cannot forget that without a safety net, we are vulnerable to increased cost, we are all facing increased cost today for farming, as everyone has talked about. And I just do not think we can let our farmers down in this area.

Mr. CHASE. I would like to comment on that if you do not mind. I think it is a matter of priority, who is important in the discussion. Is it some farmer in Americus, Georgia or is it some farmer in another part of the country. And from where I sit, I think you know how I feel, that the farmers here are important to this country. I do believe that we have to explore new ways of providing some assistance. And I think that is the reason the conservation issue has been brought up, this is a new way to still provide that safety net. We have to look at new and novel ideas, and I think that most farmers are willing to do that.

Mr. MARSHALL. My time is about to expire. I guess for all the farm leaders who are here, and this is a pretty impressive room full of people, we need to be thinking about this issue, and it is like thinking about it right now, so that we know what we can do if DOHA heads in the direction I think they want to head in. That is No. 1. Number 2, I am with you, Mr. Brim, I think specialty crops need to have their place in whatever we do in the next bill, more so than they have got right now. But I worry about once we put a bill together, people arguing with whether or not it is right in this regard or in that regard. We are a minority in Congress, we are a minority in the population. We have got to come to the Congress from the committee with one voice and I think as a group farmers across the country and all the farm groups need to come to all their local representatives with one voice. We got it, it is not necessarily exactly what we would have written, but we want to get this thing passed.

We are in an era right now where people want to have an excuse to vote no on spending money. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Marshall.

The Chair recognizes the other gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. It is good to be here in south Georgia today.

Mr. Brim is the only one that mentioned anything about a worker program or access to labor, and so I would like the panel's experience. What is your current work that you use H–2A visa work folks for? Is that program working? Is it extended enough during the season to make it work for you, and what do you pay people who are working in those regards? Is that in fact an issue that Congress ought to be working on?

Mr. BRIM. Most definitely. I think it is one of the most important issues that we have right now, other than the 2002 farm bill. I am an H–2A employer, I bring in 477 people from different parts of the world and the country too, because we hire anybody.

Mr. CONAWAY. I am from Texas, I do not need a visa to get into Georgia, do I?

Mr. BRIM. We get some from Texas too. [Laughter.]

Right now our adverse effective wage just went up from $8.07 to $8.37 an hour. We provide free transportation, we are under the lawsuit of Ariago that was in the 11th Circuit Court of Appeals, so we have to pay for their passport, their visa fee, their border crossing fee, their subsistence and their transportation while they are here. We provide free housing, no expense to them while they are here on their 10-month contract.

We definitely need a guest worker program. I am not for adjustment of status for all the illegals. I think that Senator Chambliss and Congressman Goodlatte have two bills that are pretty much in line with what we need. Congressman Goodlatte and Senator Chambliss both are very similar. Senator Chambliss' bill also has a blue card provision in there that works as well, and it gives them time for an adjustment or either they are able to go back to H–2A.

Mr. CONAWAY. Is there any shortage of people applying for those visas? Is there a shortage on the other side, a supply shortage of that labor?

Mr. BRIM. No, sir, there are plenty of people that want to come from Mexico to work here. The problem that we have is with our consulates down in Mexico, our embassy down there trying to get the people across right now. If there is a massive guest worker program developed, we have got to have some appropriations from Congressman Kingston to be able to make these people get across faster. Because right now, we are having problems getting our people across. We have got peach growers right now that are having problems in middle Georgia trying to get their workers across the border. We have had several Congressmen call down—Congressman Marshall—to help alleviate some of the problems. They are working 7 days a week down there. We just need more people to be able to process these people in.

We cannot do it without the guest worker program. We hire any individual that comes out to our farm.

Mr. CONAWAY. Mr. Brim, let me ask you this, $8.37 base pay, if you did an analysis of all costs to have an H–2A worker come here, would it be 15 bucks an hour equivalent?

Mr. BRIM. Probably around $13.95 an hour. [Laughter.]

That is pretty close.

Mr. CONAWAY. By professional background, I am a CPA, so I appreciate the general nature of your answer.

Mr. BRIM. Yes, sir.

Mr. CONAWAY. Would you tell the committee—would it be your testimony then that hiring folks who are American citizens at $14, $13.95 an hour, that would be something you would do if you could find people that would work for that?

Mr. BRIM. Yes, sir. If we could find people to work for that, but even at the $8.07—our minimum wage here in the State of Georgia is $5.15. We are paying $8.37 an hour and we will hire any domestic referral that comes out from our Department of Labor, but they will not work, they will not stay. I mean they will come out, we register them, it costs us $25 a head to register these people, make cards for them, because we are on an electronic payroll system where we make sure that we have everything exactly right. And they will stay 15 minutes, might make half a day.

Mr. CONAWAY. OK. Other producers, are you having any issues with that as well?

Mr. ROBINSON. If I could comment on that. We are in the H–2A program also, on a smaller scale than Mr. Brim. But I agree with everything he said, but in defense of domestic workers, it is different on the farm. It is back-breaking, hard work and we are fortunate in this country, if you want to work in this country, you can get a better job than that. That is just the fact of it.

Mr. CONAWAY. It is the American way.

Mr. ROBINSON. So we had some people come out the other day, some homeless people, and there was 1 out of 5 that was able to work. The rest of them—and I sympathize with them, they just was not able to do that kind of work. But the people that we get from some of these other countries, they grow up in it, they are accustomed to it and so they are just more adapted to it. And I do not think that the type of labor that we get through the H–2A program is available in America at any price. And I have seen other farmers say the same thing.

Mr. CONAWAY. Thank you, Mr. Chairman, my time has expired. I appreciate everyone's testimony.

Mr. MORAN. Thank you, Mr. Conaway.

The gentleman from Georgia, Mr. Barrow.

Mr. BARROW. Thank you, Mr. Chairman.

I want to take an opportunity to thank this committee, the chairman and ranking member, not just for coming here but for also being a part of the first meaningful effort to do something about some of the problems that we have heard from all of the witnesses here. And that is the outrageous increases in the cost of energy. Something that farmers know more about perhaps than any other sector of our economy, because what is happening in the natural gas futures market, as you know, has had more of an impact on the cost of doing business as a farmer than anything else. You get your nitrogen from the natural gas and that goes in your fertilizer. So what folks in the city feel when they turn up the thermostat in the winter time, you folks are experiencing in a huge way.

Folks have been complaining about it for years. You would think that the Financial Services Committee or the Resources Committee, the big committees with jurisdiction in this area, would take a move on this, but it is your Agriculture Committee that has taken the first significant step in a bipartisan fashion to do something about bringing the outrageous spikes and manipulation in the natural gas futures market under control with the reauthorization of the Commodity Futures Trading Commission Act. So you should know that we are trying to do something about that, but it is a long way to go.

I do not know what good Enron ever did in this economy. But the good that they did was interred with their bones. The evil that they did lives long after them and the process they set in motion we are still dealing with. And the Agriculture Committee is trying to do something about it.

I want to talk about something that nobody has talked about yet, because from Mr. Webster and from others, I have heard the appeal and I have heard it loud and clear, and I agree with it. Do not mess with it and until we get certain other things, uncertainties, worked out, let us stick with the farm bill we have got, let us extend it if necessary.

The message I hear is first do no harm, because folks rely and invest and make decisions. So do not do anything to rip the rug out from under us. And yet I want to talk about the fact that we have already in a certain way kind of cracked the 2002 farm bill with the reconciliation process. We have shaved, we have carved, we have hacked $4 billion out of the farm bill, a lot of it in commodity support. And that was a breach of contract that was made back in 2002.

Can anyone here help us understand what impact that has had or will have in Georgia? That may be a tough question to ask, but I am concerned that we have already ripped the doormat out from under agriculture, I do not want to rip the rest of the rug out either. But some of that has already been going on in the name of trying to balance the budget, a problem that the farm bill has not contributed to but something that we in agriculture are expected to do something about. Can anybody help us understand what impact that is having in Georgia?

Mr. WEBSTER. I will just comment on that. I think the jury is still out on what ramifications are going to come from this. I know agriculture right now is operating on such a close margin, every cut that is made to the farm bill is going to end up with us. And I think we have all talked this morning about we do not need those cuts. I think people have to understand that the subsidies to agriculture are not just to the farmer. Those subsidies ripple through our economies, through our local economies, our bankers, everybody we deal with. And every time we feel a pinch, it moves downhill from us.

Mr. BARROW. I agree with you, and I want to make sure that we do not do that again.

Lee, you talked about something that is a concern to me, and that is the growth in the number of very large farms and smaller farms and the shrinking of the number of midsize farms. And one of the messages you brought through your testimony was one of the things you can do to try and help midsize farms hang in there is do not destabilize the situation. Again, do no harm. Do not be cracking the farm bill, do not be making a farm bill with uncertainty about what is going on in the DOHA Round negotiations. Try and provide some stability.

I appreciate that do no harm approach. Is there anything we can do of a proactive nature to actually encourage agriculture to midsize farms, which I think is the only way families can actually stay in the business?

Mr. WEBSTER. Well, there are probably a number of ways we could deal with some of these problems and we could probably sit here all day and talk about minute, micro details, but I think it is awfully hard to play a game when you do not know the rules of the game. And we have farmers in our area that are making life altering decisions, people are buying equipment and amortizing those loans over years and years that we already know our farm bill will be over in 2 years. And my testimony is basically that we need to find some continuity in that, give the farmers the information they need to make good decisions. I think it will make the whole sector more healthy.

Mr. BARROW. I agree with you. You have literally got to bet the farm on what your investments are going to be. I think you ought to have a stable picture to do that in.

Mr. Chairman, my time is about to expire, so I will yield back.

Mr. MORAN. Thank you, Mr. Barrow.

The gentleman from Georgia, Mr. Kingston.

Mr. KINGSTON. Thank you, Mr. Chairman.

Mr. Brim, I wanted to ask you a question. Mr. Cavender talked about the need to get into other type commodities, but not all of those commodities are eligible for Federal crop insurance. And I was wondering if you ranked them, which ones would you want to make eligible. And you cannot say tobacco, because we do not want to open up that can of worms right now.

Mr. BRIM. Congressman, I do not know of anything in the specialty crop industry that is more significant, one than the other, because—I mean I grow bell pepper and tomatoes, cantaloupes, cucumbers, squash, eggplant, spinach, cabbage, collards, kale, the works. How I would justify one over the other would be hard to do. Like bell pepper and tomatoes are a lot more expensive crops to grow than the others because some is done on plastic with drip irrigation and others are not. But to be able to just say one crop other than tobacco, which I do not grow, I just could not tell you.

Mr. KINGSTON. OK. Mr. Chase, the $50, the warehouse fee on peanuts this year, in 2007, it will be going off, tell us what that will do to the industry?

Mr. CHASE. Well, when we have a loan rate set at $355, I think the quick answer is you take $60 off of that loan rate and now you are growing peanuts for $295. I have evaluated my own costs and that puts it below the cost of production, especially when you consider an average yield in the State of Georgia of 2,800 pounds. It would really have a terrible impact on the peanut industry.

Mr. KINGSTON. Could they survive until the next farm bill and just hold their breath?

Mr. CHASE. Well, it depends what the next farm bill would look like. I think that perhaps there would be a decrease in production, but I do not know what would happen. I think that some other segments of the industry would have to come up to the plate, if there would continue to be peanuts produced at that price.

Mr. KINGSTON. I wanted to ask kind of all of you, if anybody cares to comment, in terms of forestry, particularly biomass and moving into other areas. When we talk about ethanol, we always think corn, but 40 percent of the cars in Brazil run off ethanol and it is made by sugar. I think we should take the import tax off of that sugar. There is some concern about that domestically in terms of protecting our own business, but I think we should have more access to ethanol, and I think that ethanol cannot just come from corn, but from a lot of other sources. And I was wondering what you would see in terms of farming and farming being the salvation of our transportation energy needs and at the same time our transportation energy needs being the salvation of farming. And getting back to what Mr. Cavender has said, you just have to consistently diversify and look for new opportunities to grow a crop and make a profit.

So would anybody like to comment on that?

Mr. BRIM. Congressman, I think one of the possibilities in the specialty crop industry is there is so much pressure on supply and demand there, we need to generate new research on different crops, on forestry products or sweet potatoes or switchgrass or whatever, develop new products that these farmers can grow that are not in the produce business, to keep them able to survive with the depressed markets in cotton and peanuts the way they are right now.

Mr. KINGSTON. Anybody else?

We need to continue the E 10 by 10, the program that we are making ethanol out of corn, but there is a whole lot of need out there for ethanol, that if all that was working, I would still think other crops need to get into it.

Mr. ROBINSON. Congressman, I agree with you. I am concerned that if Brazil can do it with sugar, why can we not do it. And I think that needs to be explored. I know we have got some questions there and some problems there, but that may be an avenue. Because we can grow sugar cane in this area, we have got a long history of doing that. So there could be some possibilities there.

Mr. KINGSTON. Well, thank you very much. I see my time has expired, Mr. Chairman.

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

The gentleman who came the furthest, the gentleman from Washington, Mr. Larsen, thank you very much.

Mr. LARSEN. Thank you. In the interest of Northwest-Southeast relations, I want to yield my time to my good friend from Georgia, Mr. Scott, in the interest of all you Georgians will come to Washington State when we have a hearing up there.

Mr. MORAN. The gentleman from Georgia, Mr. Scott, is recognized.

Mr. SCOTT. Well, I thank the gentleman from Washington and I certainly will, once I get to Washington, I will certainly replay your kind hospitality and gesture.

I would like to ask questions on two points. The first part of my question will be on the crop subsidy program; the second part on the immigration issue.

Let me start with the crop subsidy program. There is considerable downward pressure on us to visit that issue and make changes within the crop subsidy program. And I think it would be very important to get each of your comments on this, because I gather just from the previous conversations that there is some difference in thought on it. The crop subsidy program is coming under pressure because of inequities in it, especially in the fact that with it being production based it tends to favor your larger, huge farmer. For example, we issued $23 billion last year in crop subsidy payments and 73 percent of that went to only 10 percent of the recipients. That means 90 percent got less than 28 percent. There is an inequity there that skews heavy to the other side. We have an industry, the fruit and vegetable industry, that is completely taken out of that. The World Trade Organization is putting pressure on us.

So the point being, I would like to get your comments on what you think we need to do with this program, because eventually we are going to have to tinker with it or do something, I think, to bring some equity in it. Mr. Brim, could I start with you on that, because I think that there are some inequities within your area and especially—there is another area too in terms of it driving up the price of land. What would be your recommendation that we do with the crop subsidy program, what changes would we make to correct some of these areas?

Mr. BRIM. Well, of course in the specialty crop industry, we do not get crop subsidies. But I am not foolish enough to sit here and say that these other farmers do not deserve it.

Mr. SCOTT. Right.

Mr. BRIM. Because if they did not have the subsidies, they could not make it. And basically, without the subsidies, they would be all in my business.

I am sitting here trying to protect my business and trying to protect them too.

Mr. SCOTT. Right.

Mr. BRIM. But I do not think any of the farmers that grow cotton and peanuts can survive without a subsidy at this point in time unless the world market and the trade system changes dramatically.

Mr. SCOTT. OK. Is that the general consensus of everybody, that we need to keep those programs?

[Nods from panelists.]

Mr. SCOTT. Let me to go immigration, if I may. I do not want to lose this opportunity to get your thoughts on the immigration issue, especially from the standpoint of you all being the demand side. They are here because there is a demand for their labor. An interesting revelation to me is that farmers will say the reason they use and choose illegal immigrants over legal immigrants is because when you move to try to get the legal immigrants, there is just a huge, complex, complicated amount of paperwork.

So my point is whether we come with a guest worker program, whatever we come with, what can we do on our end to facilitate this paperwork, and could you tell us what that amounts to? We are Congress people, we are not the farmers, you all are the ones there. What is it about this that even if the farmer had a choice between the legal and illegal, they choose the illegal because of paperwork. It seems to me, we are missing the boat if we do not address that issue and simplify the paperwork.

Mr. BRIM. Well, the H–2A program, the way it is right now, Congressman, is very cumbersome. I mean it is almost impossible to deal with. We have been in it since 1997, so we have learned to cope with it. We need a streamlined system from the House and the Senate side that can come together in conference that will make it simple for us, with a prevailing wage, with simpler manifestations as far as how many days we have to go prior to when we bring our people in. See, right now, we are at 45 days, 30 days we have to advertise ahead of time. We do not mind the advertising and all, but everything is so complicated and everything has to be documented and regulated because of problems that we will have down the road if everything is not documented and every "I" is not dotted and every "T" is crossed.

We have problems with other people coming in and forcing us with Legal Services or someone like that suing us because we did not do it right. And so you have to make sure that you do everything exactly right in that process. If you do not, they will come in and try to do something to harm you. And you have done nothing wrong other than paperwork.

Mr. SCOTT. Do you feel that in the current bill that we passed in the House and the Senate, of course, they have got their bill—do you feel that we have done enough within the current process to address that issue or do we need to do more as this moves into a conference arrangement, which it will and we will have a chance to apply that. Are you satisfied that we have simplified that procedure?

Mr. BRIM. I am real skeptical—you are talking about Congressman Sensenbrenner's bill Enforcement First. I know a lot of you believe Enforcement First is the answer, but I just—with all the illegal immigrants that are here now and all the people that use illegal immigrants, if you do enforcement only and not have a streamlined system with H–2A reform in it, you are going to hurt a lot of farmers in south Georgia. They are going to be damaged beyond repair because the people that are illegally here now, when you start enforcing the laws here in our State, they are going to leave this State. They will go into hiding, they will go back into the shadows. We need a streamlined H–2A reform program to go along with enforcement. I believe in the enforcement part of it; yes, sir, I do. I am very strong in favor of it. But also, I am in favor of having this streamlined H–2A reform program so that we can balance it out. Because you cannot bring all these people down at one time.

Mr. SCOTT. Do you feel that in the Senate bill, that that has been address, or has it not?

Mr. BRIM. No, sir, I do not think so. I think in Senator Chambliss' bill, it has been addressed, but in the other Senator's bill, it has not been addressed.

Mr. SCOTT. And in Senator Chambliss' bill, the way that is addressed, is that the way you would like to see it in the final bill?

Mr. BRIM. Yes, sir.

Mr. SCOTT. OK, very good. Any of you others?

Mr. CHASE. I will make a comment to that. I do not think most farmers know they are hiring illegals when they hire them. They produce documents that appear to be adequate. And it is a concern both from a humanitarian standpoint and from a business standpoint. These people have lived in this community for a number of years and have raised their family here. And if we make them criminals, we have hurt a lot of people, not just employers, but employees and families too.

Mr. SCOTT. So you believe definitely that the felony provision within the Sensenbrenner bill needs to come out.

Mr. CHASE. Absolutely.

Mr. SCOTT. OK, good. Yes, sir?

Mr. BRIM. Back to Senator Chambliss' bill, one way he handles the provision is allowing them to either become H–2A employees or either have a blue card provision in that bill that gives them 2 years to adjust—go back to Mexico, work their 2 years in a blue card provision, pay a $3,000 fine and also be able to go back to Mexico and apply for some kind of adjustment at that point, or either come back H–2A and stay H–2A.

Mr. SCOTT. Thank you very much. Anyone else?

[No response.]

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. MORAN. Thank you.

The gentleman from Georgia, Mr. Bishop, do you have questions for the panel?

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

Coming last, I think I have heard a lot of answers to the questions that I had. I have heard the loan repayment issue discussed, payment limitation issues discussed, the guest worker problem discussed extensively. What I have not heard discussed extensively are the rural development aspects of the farm bill and the agricultural research aspects. And I would like to hear from the panel what it is that you think that we need to do in addition to what we have done, or do you think that we need to level it off in terms of research? Because it is my understanding that the reason that we have been competitive in the global marketplace has been because of our extensive and our exceptional research in agriculture. And of course, since the farm bill is centered around the farmer and the farm communities, I would think that rural economic development, technology, all of those things will be impacted by this bill. And I would like to hear your comments on those aspects, what would you like to see there—research as well as rural economic development.

Mr. CHASE. If you do not mind, I would like to comment about that. When Congressman Kingston asked about alternative fuels, this year, we have approved some money in our budget to study biodiesel from peanuts. These type of things, we do not know the outcome before we do the research, but I think we have to continually look for additional uses and ways to solve this energy problem and ways to solve our own problems. So that seemed to us as a good starting point, and I would think that there are any other number of projects that when we look at our future, something needs to change. And I think that is where we have to be headed.

Mr. BISHOP. Anyone else?

Mr. BRIM. As far as the specialty crop goes, I think the investment in research is beyond reproach. We need all the money that we can have to continually invest in our specialty crops and our other crops as well. If we do not stay on the cutting edge, we are certainly not going to stay above the foreign countries as far as competition goes. So I think with the national research initiatives and the CSREES and ARSs, we certainly need to continue the fund in all of our universities, University of Georgia, to help develop new projects, and with the fuels and all of the other things with specialty crops.

Mr. NEWBERRY. Congressman, I concur with that. I feel like that is the thing that if anything can give us an advantage over the rest of the world, it is our ability to stay on the cutting edge of technology. There are so many aspects of public research that have allowed us to do that, and we must continue to do that. I see that as our unbiased side. It is where we are going to get our best work and I would certainly like to see that continued.

Mr. ROBINSON. Congressman Bishop, thank you so much for your efforts in helping formulate this group and committee coming down. I am a constituent of yours, thank you for your assistance.

Research I think is very important. I think we have got a lot of problems and I think research can answer some of those problems. I particularly appreciated Representative Kingston talking about biomass. We need a lot of research there obviously. For example, what kind of crops can we best grow to produce biomass. I think those are some answers that we need and I think the best way to address those is with research.

Mr. WEBSTER. I would just like to reiterate everything that has been said and I would just like to say that we do need to stay on that cutting edge and we do not need to rely on other players in the world for our research. That has kept us competitive in the past and that is really our future, is for us to remain competitive, with research leading the way.

Mr. BISHOP. Mr. Brim.

Mr. BRIM. I just want to take the opportunity while we are talking about research, to thank you, Congressman and Congressman Kingston, for what you did on the phytophthora issue for us. We certainly appreciate you doing that. We could not have done it without you. That is a terrible disease that we have here in south Georgia and all over the country—Michigan, I even think Kansas has some, Mr. Chairman. But we just wanted to thank you for what you done for us in regard.

Mr. KINGSTON. If you will yield a minute. I appreciate that, I wanted to make sure Emily Watson gets full credit for that. I am still trying to pronounce "phytophthora". [Laughter.]

Mr. KINGSTON. But I do understand the disease and you all did a good presentation to us in Nashville.

Mr. BRIM. Yes, we appreciate it, thank you, Emily, too.

Mr. BISHOP. Did anyone address the rural economic development aspects, or do you consider that intertwined with the research? I am particularly concerned with infrastructure, technology, broadband and that type of stuff that you see that can help you effectively be more effective on the farm that we could include in this next bill.

Mr. WEBSTER. I would just like to bring out that rural development is real important to us, and there are mechanisms in that farm bill for those purposes. One example might be, I have two fiber optic telephone lines that run through my front yard, but I still have dial-up service on my computer. It is quite an effort to maintain telephone communications and operate a computer at the same time at my home. DSL service is within 2 miles of my home and that is something that we need to address.

But also I serve on the Planning Committee in Burke County and we have a lot of issues that we face with growing pains from Augusta and sometimes it is much more advantageous to buy that piece of crop land and divide it up into home sites and that takes that farm out of production. And it affects all the crop land that is located adjacent to it, so that is pretty important to me and the people that live in our area.

Mr. MORAN. Mr. Bishop, thank you.

The gentleman from Washington has had buyer's remorse. [Laughter.]

And although he appeared to be hospitable to you Georgians, he would like his own time and I would ask unanimous consent that we allow Mr. Larsen 5 minutes. Without objection, Mr. Larsen is recognized.

Mr. LARSEN. Thank you, Mr. Chairman. I was trying to be respectful of my friends from Georgia and appreciate a chance to come back at the end and ask a few questions.

Mr. Newberry, I am from Arlington as well, Arlington, WA, one of 25 Arlingtons in the country. So it is always good to meet folks from the other Arlingtons around the country.

You specifically talked about conservation in your testimony, there is a paragraph in it. Talking with farmers in my district, in most cases, the conservation programs have worked well. We do have an incident, however, where in one case, there is a Wetlands Reserve Program and a Conservation Reserve Program operating nearby and something called the Conservation Reserve Enhancement Program as well. And then down the road, there is a Farmland Preservation Program piece of land. None of these particular spots of land were designated in conjunction with the others. As a result, there is now some conflict between specifically the Wetlands Reserve Program land and some of the CRP land and I was wondering if you run across that as well. Do you think there needs to be more coordination among these programs? Is it a big enough problem to look into, or is that isolated?

Mr. NEWBERRY. I cannot say I see any real terribly problems with that, but I will say that as a grower, I do have a hard time understanding exactly what comes under the EQIP program and what comes under something that NRCS does and what comes under some of the other areas too. And I think that is an education process and that is also a time process, it will take us awhile to process all that out. But I do see some of those concerns, very much so.

Mr. LARSEN. So it may be something that we could look into as we move forward.

Mr. Brim, the 2002 farm bill created a very small program called the Technical Assistance for Specialty Crops, TASC, which authorized the use of $2 million of Commodity Credit Corporation resources each year to help growers and organizations provide funding through grants to help address sanitary and phytosanitary and technical barriers that would either prohibit or threaten export of U.S. specialty crops. You are probably familiar with that program. Are your members familiar with that program, is it being used to its fullest potential? Was it worth putting into the farm bill in the first place? If so, does it need to be expanded or is it good the way it works?

Mr. BRIM. Yes, sir, I think the program initially was started and I think it was a very good program. I think it could be expanded because of naturally homeland security and the problems with food safety now and the concerns that we have here in this country, that we need to do everything we possibly can to make sure that our American citizens have food safety right at hand and make sure that they know that our crops are safe and that they are ready to eat. I think with the new technology and all that is coming out and with the monies that we have, we can develop those programs for them.

Mr. LARSEN. I will just make a note about the research questions that have been coming up. I am on the Transportation and Infrastructure Committee as well in Congress and we like to think that roads are the infrastructure upon which our economy is based, we get to move things around, it keeps our economy moving. Research in agriculture is sort of that infrastructure as well upon which the future of agriculture is based, as we move forward on the farm bill, we need to be sure we put in a huge plug for the research programs, not only because of the university work that gets done as a result, but it actually gets on the ground and helps out the farmers.

I will just end with that, Mr. Chairman, but just say that even though I flew all the way across country for this, it is not exactly across the street to get here for me from Washington State, but maybe it is cater-corner and I felt like it has been a very hospitable time here in Georgia and I look forward to returning.

Mr. MORAN. Thank you very much, Mr. Larsen.

We have just a few minutes and I am going to take the risk, we cannot, because of the flight back to Washington, DC and votes this afternoon—cannot let this linger beyond 11 o'clock, but I wanted to take the opportunity for the folks in the audience to have an opportunity to make very short comments, a minute or two, and we are going to send the microphones around. You need to tell us your name, you will have to fill out a card with your name and address and what you do, but if we can just take two or three folks that have something they would like for us to hear.

Mr. BODDIFORD. Thank you, Mr. Chairman. My name is Joe Boddiford, I am from Sylvania, Georgia. Jack Kingston used to be my Congressman, but now I have the privilege of having John Barrow to be my Congressman.

But if you would bear with me just a moment on the world trade issue. We have got the DOHA Round of agreements that we are working on and all of that. And I think as we transition into the new world, we are going to have world trade as something we are all going to have to live with. But as we transition into it, we need to be very careful what we do. You look at the automotive industry and how it transitioned. A Toyota is no longer a cheaper automobile. And I think as the standard of living comes up in other countries, it will not be so critical to American agriculture. But in the current time, we are going to need significant subsidies to help us transition into that new age and time.

Hopefully through research and development of new technologies, our cost of production will not increase as rapidly as they will in these other countries over around the world. When you have got dollar a day labor, let us say, obviously you have got significant economic advantages over the labor rates and things that we have in this country. So I think that is an issue you need to deal with.

I think that we are going to have to change the way that we do farm subsidies. We have heard some discussion on that. I personally do not feel like that the farmers have enough education and information. I do not think you have enough information and I do not think the public has enough information for us to make the radical change at the current time. Maybe we are going to have to, if we do, we may need to extend the farm bill for a few years to give us time to get enough information of how do we transition into that State, so I have some concerns about that.

And of course, we have talked about energy and I think if we can start producing more of our energy, those types of things will happen in rural areas, I think that will contribute to rural development, which will help our rural areas and a lot of other areas. I heard Congressman Bishop ask about this. In rural development, we certainly need more roads, we are going to need wireless Internet access, we are going to need 3-phase electricity it has been brought to my attention. That would give us a chance to substitute some of our energy sources. If we had more availability of 3-phase power, we might put in more electric irrigation pumps, our small businesses in the rural areas would have cheaper form of electricity and all of that. And that might take the pressure off of our petroleum fuels.

And of course research, long-term research—and I think we need to maintain our commitment to that—is going to be critical to trying to get the rural areas into good shape.

I heard the gentleman comment about 10 percent of the farmers get 73 percent of the subsidies. Of course, we do not want to diminish the number of farmers that we claim to be out here in the country, but realistically, when you have a gross income of $10,000 or $20,000 or $50,000 with any kind of business expenses, you can see that it is kind of hard to make a living off of that. So for the folks that are truly making a living from agriculture, obviously, they are going to receive the largest percent of the subsidies.

And gentlemen, I appreciate you recognizing the audience. Thank you, Mr. Larsen.

Mr. MORAN. Mr. Boddiford, you obviously prepared. I saw that you had—you must have known what I was going to do. You did very well, thank you very much.

Mr. WETHERINGTON. Hello, my name is Fred Wetherington, I am a farmer from Hahira, Georgia just up the road here. Nobody mentioned today, and I just wanted to bring it to your attention, Mr. Chairman, about the country of origin labeling. It was addressed in 2002 and I will just say for me personally, it is something I have been really frustrated by, about all the different challenges that has brought about. We talk about the technology and the research and we talk about all these things, and we have almost 300 million people here in this country who I think, by far the majority of them, would not mind paying a few cents more for some premium

American grown commodities or beef or, if it is cotton or whatever it is. And I just want to challenge you to—I know you guys, we are all on the same team, but I just wanted to challenge that we not give up on country of origin labeling. I think it is ridiculous that we cannot get that done. I do not see how it is not fair, I mean you are just telling folks where their products that they are buying are from. I think it just gives us American farmers an advantage here at home.

Thank you.

Mr. MORAN. As a Kansan, thank you for speaking on behalf of beef. [Laughter.]

Anyone else. Yes, sir?

Mr. FOLSON. Thank you, Mr. Chairman, Paul Folson from Lanier County. I do grow beef cattle also. The one thing that was brought up that was not really expounded on was the beef identification program. I have sent letter after letter to Washington, applications for the farm to be recognized and I am interested in the beef identification program, never have received anything back. Not being a feminist none, but it was a lady that I talked to over the phone several times, but I think it really needs to be implemented as a beef identification program because we supply a safe product, not only the other commodities, but beef. A lot of people have records for their beef cows, of age, so forth, when they were born. I mean that is simple.

But I appreciate you all coming and listening to us. Thank you.

Mr. MORAN. Thank you, sir. It is always troublesome for us as Members of Congress to hear that someone has written their government with little or no response, and I am sure if you talk to one of your Members of Congress or to me or Mr. Etheridge, we would be glad to try to make certain that you get a response from USDA.

Mr. KINGSTON. Mr. Chairman, if I can, I just want to say that Georgia is participating in the Southeast Livestock Network and what we are hearing, that group wants to continue with the voluntary labeling animal ID program rather than go with a mandatory, because that would probably move too fast, particularly for the midsize farmers to be able to afford it.

Mr. FOLSON. [Inaudible comment.]

Mr. KINGSTON. I think we are going to stay on voluntary for right now.

Mr. MORAN. I thank you all very much for your cooperation in getting this meeting concluded at 11 o'clock.

I do want to recognize that Donny Smith, who is Governor Sonny Perdue's agriculture liaison, is here. Thank you very much, thank you for joining us.

I very much appreciate the panel's testimony. It is great for us as a diverse group of Members of Congress interested in agriculture to come to south Georgia and hear the perspective of what is going on. One of the things I have discovered in the hearings we have had across the country and the time I have spent with farmers, it does not matter whether you are a wheat farmer in Kansas or raising pecans in Georgia you have a lot of the same issues and concerns and a lot of the same things we want to accomplish for farmers and their families exist across the country.

Again, we thank Mr. Bishop and Mr. Kingston for their hospitality and their staff in helping us. We were delighted to have the Georgia Peanut Commission and the National Cotton Council provide us with some time last night again to visit with them and to learn about Georgia agriculture. Mr. Etheridge and I are delighted to be in your State and I appreciate all the members of this subcommittee taking the time away from their families and their home districts to join us in Valdosta.

Dr. Zaccari, I misspoke in pronouncing your name. Mr. Kingston was kind enough not to point that out except the way he said it correctly, he emphasized it. But the hospitality we have experienced at your university has been exceptional. We are delighted to be with you.

Anyone who would like to make a written statement and have it submitted for the record has that opportunity. The record remains open for 30 days, if you want to submit to us comments that you want to make certain that we see and hear and that would be made part of the record. And without objection, the record of today's hearing will remain open for that 30 days to receive additional material and supplemented written responses from any witness to any question posed by a member of the panel. So if you all decide you made a mistake in the way you answered your question, we give you 30 days to correct it. That is congressional courtesy because we like to do the same thing.

With that, again, thank you very much, the hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 11:00 a.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

## STATEMENT OF RALPH CAVENDER

Good morning, Chairman Jerry Moran and Members of the Committee, My name is Ralph Cavender from Claxton, Georgia. I am a multi-crop farmer who farmed approximately 300 acres in the past.

I am honored to be able to testify before the Agriculture Committee about farming in Georgia. I believe that we are at a crossroads in farming. The 2002 farm bill has become the only vehicle by which most row crop farmers have remained profitable. I will explain.

I am concerned about the profitability for my neighbors and myself. Using the cost and returns in our University of Georgia projections of row crops, corn, soybeans, peanuts, wheat and cotton, there is not one crop we can plant and expect a profit without the Federal subsidy. In my county, Evans County we now have approximately 15 row crop farmers. Most like myself supplement their income with other enterprises. Some of which are, poultry, cattle, swine, pecans and other specialty products. Many live on the appreciation of their land values.

I am also concerned with budget cuts to our support groups. Such as our Land Grant Universities, where our basic research is done and the network of Extension Agents. We are in need of more cost effective ways of production. We also need more help to diversify our operations. Our local Farm Service Agency is now open only 1 day each week.

I would also like to expand on the price of many farm products. I have a neighbor and friend, who upgraded his peanut equipment 2 years ago. This was a substantial investment, which is now worth substantially less because of the price of peanuts. This year we will have the least acreage planted in peanuts in many years. These are some of the risks many farmers are now facing.

I would argue that reauthorizing the farm bill is a national security issue. We need to ensure that our food products are grown domestically, rather than abroad. Otherwise, we are subject to the uncertainties of the marketplace and consumers may not like it when they cannot purchase certain crops.

Thank you for giving me this opportunity to express my concerns and the concerns of my neighbors on our current farming situation.

## STATEMENT OF DONALD CHASE

Good Morning Chairman Moran, members of the committee, my name is Donald Chase. I am a peanut producer from Macon County, Georgia. I am a board member of the Georgia Peanut Commission and the Georgia Peanut Producers Association. I am also Chairman of the Georgia Agricultural Commodity Commission for Corn.

Our farm is a family farm producing Peanuts, Corn, Sweet Corn and Poultry. My Father, my Mother and myself farm 1,100 acres and produce about 1.5 million broilers annually. My wife of 20 years and I have three children aged 18, 15 and 11. I am a graduate of Vanderbilt University with an MBA in finance and operations management. Returning to the farm was a lifelong dream and it has been both challenging and rewarding. In my opinion, agriculture is one of the basic building blocks for American society. I appreciate where we have been in the past and have great expectations for what the future holds.

First I would like to make some general comments on Southeastern agriculture, followed by some comments specifically about peanuts. It is my opinion that most farmers would like to produce crops and sell them at prices which offer profitability without the need for farm subsidies. Unfortunately this is not possible. The reality is that we operate in a world where we cannot compete in an increasingly global economy. Farm subsidies offer a way to level the playing field. We must have a level playing field if I am to continue farming and offer my children the opportunity to pursue the same wonderful way of life that I have been blessed with. What does the American taxpayer get from their investment in Agriculture? Here are a few of the benefits:

- Safe, Affordable, Reliable and Secure food supply.
- Numerous environmental and aesthetic benefits.
- Tax base for local governments.
- A part of the solution to reliance on foreign oil.

I am sure this committee is well informed about all these benefits. I just want to applaud your efforts in the past and encourage you to continue your strong leadership in the future.

Next, I want to thank the House Agriculture Committee for its leadership in moving the U.S. peanut program from a supply-management program to a more market oriented program in the 2002 farm bill. Your leadership protected those U.S. quota holders who had invested their money in peanut quota for many years. Yet you allowed our industry to move into the future with a program designed to make U.S. peanut producers competitive in both the domestic and export marketplaces.

At our 2002 Southern Peanut Farmers Federation meeting in Panama City, Florida, Congressman Terry Everett told peanut producers that this program should be changed. He encouraged our producers to work with the Congress to create the best market-oriented program possible. We took Congressman Everett's advice.

The new peanut program has encouraged peanut product manufacturers to develop new products and spend more money on marketing these products. Domestic demand has increased for peanut products. The new program has also allowed producers to more readily enter peanut production. In Georgia alone, peanut acres have expanded significantly with some of the greatest growth in non-traditional peanut areas.

We also believe the peanut program has cost the Federal Government less than anticipated by the Committee.

The Georgia Peanut Commission has met with other segments of the industry including buying points, shellers and manufacturers and each have indicated they were pleased with the 2002 farm bill. Each segment of the industry supported the peanut title of the 2002 farm bill.

While the Congress passed a very respectable peanut program in 2002, the administration of the peanut program by the U.S. Department of Agriculture has not been as successful. While the domestic marketplace has seen a healthy increase in demand from consumers and production growth for producers, this has not been the case for the peanut export market. How can this be so when U.S. producers lowered their price support significantly in the 2002 farm bill?

The USDA continues to set the loan repayment rate for peanuts too high. Despite language to the contrary in the 2002 farm bill, the Department has relied far too much on data unrelated to the price other export nations are marketing peanuts for in the world marketplace. U.S. peanut producers have lost a significant portion of their export market despite the changes invoked by the 2002 farm bill. Our present export situation is directly related to the high loan repayment rate set by USDA. Although peanut state Members of Congress have tried to assist producers in meetings with USDA, letters and inquiries in formal hearings since the 2002 farm bill, the rate has remained artificially high. The 2002 farm bill directed the Secretary to establish a loan repayment rate that the Secretary determines will:

- Minimize potential loan forfeitures
- Minimize the accumulation of stocks of peanuts by the Federal Government
- Minimize the cost by the Federal Government in storing peanuts
- Allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally.

It is this last point that is most problematic. Georgia growers believe that USDA is not sufficiently considering the competition in the world marketplace. This lack of response to competition from other origins has critically wounded our export programs.

The Georgia Peanut Commission will be meeting with our industry partners in the coming days to develop more specific suggestions for the next farm bill and will promptly submit those to your Committee. At present, we support the continuation of the current program but will seek to update specific provisions. When the 2002 farm bill was drafted, peanut producers did not envision record high energy prices that impact our major crop inputs including fuel, fertilizer and chemicals. The 2006 peanut crop will feel the full impact of these increased costs. It is important that the next farm bill not rest on the backs of declining farm equity. We hope that every effort will be made to insure that producers who are assuming the risk in agriculture will be the recipients of these programs and incentives.

Finally, our peanut producers in the Southeast are very concerned about the U.S. Trade Representative's recent Doha Round proposal for Less Developed Countries. To allow Less Developed Countries access to markets import and duty free could severely impact U.S. peanut producers. The list of countries involved in this sector produce over twice as many peanuts as U.S. producers. We appreciate Chairmen Goodlatte and Chambliss conveying their concerns about the Doha Round negotiations to the administration.

I appreciate the opportunity to be here today representing Georgia peanut growers.

## Statement of R. Lee Webster, Jr.

Mr. Chairman, and committee members, I would like to welcome you to Georgia and thank you for the opportunity to bring my thoughts to this hearing. My name is Lee Webster and I am a third generation farmer in western Burke County, Ga. I have operated my farm continuously since 1977 growing cotton, corn, soybeans, small grains, and hay. I farm lands that were farmed by my grandfathers upon moving to Burke County and my father who retired from farming in 1998. My wife and I look forward to the future as our daughter and son are raised on our farm.

I am speaking to you today based on real life experiences gathered over some 30 years. My hope is that today's testimony will allow for future generations of Webster's and other family farmers to continue to be a part of this country's foundation and rich heritage.

I am proud to be represented by Congressman John Barrow and appreciate his interest and concerns with agriculture in the 12th district of Georgia.

As previously stated, I began farming after leaving college in 1977. As long as I can remember, I have farmed under a national farm bill. The most crucial decisions in farming result from this legislation. It is imperative that each farm bill be prepared in advance of its predecessor's ending, so that decisions can be made in an informed, timely, and effective manner. These decisions can affect the very existence of our family farms. Farmers have to meet with bankers for operating loans, equipment dealers to ensure that they will have the necessary tools to work, and Ag suppliers to meet the needs to produce a crop. Unknowns in the farm bill make decisions of this nature a constant "best guess" rather than a knowledgeable and educated decision.

I have been fortunate to have served as the president of the Burke County Farm Bureau for the past 20 years. In this position, I have been privy to advance notice of legislation and valuable insight from farmers all over this state. I have seen the implementation of the farm programs through FSA and NRCS which stabilized agriculture and helped to promote farm conservation techniques. I have seen many farmers who would not be farming today were it not for government assistance and crop insurance. I have seen urban encroachment from metropolitan areas and the loss of agricultural land for the sake of development.

Analysis of USDA data shows that large and small farms are growing in numbers while midsize commercial farms are steadily declining. I would submit to you today that these midsize farms represent the majority of family farms. It is my firm belief that continuity of transition between farm legislation is critical to decision making among these farmers. In 2000 and 2001 leading up to implementation of the 2002 farm bill, I faced such a dilemma. At that time, I farmed some 6,000 acres of mostly cash leased land. I employed five full-time and three–four part-time workers during any crop year. I had farmed most of this land for over 20 years and through previous farm bills, had good planting history, and built good bases and good yield averages. Leading up to 2002, it was clear that our farm programs were in for radical changes. Just what these changes would be or what they might encompass was not so clear. Drought and floods which had deeply affected production during much of the 1990's clouded the picture even further. After much thought and deliberation with others, the decision was made to cut my operation back to some 1,000 acres which was mostly owned by myself and family members. This resulted in cutting labor to only two full-time workers and liquidation of excess equipment.

As we moved into 2002 and 2003, low farm prices and general frustration with uncertainty, prompted other family members to entertain offers and eventual sales of part of our farm. To bring this into perspective, what I have just described is the slow but methodical breakup of my family's farm. Those 9 people who were born, lived, and worked on my farm all work in non-farm jobs, and no longer live on the farm. The excess acreage was consumed by much larger farms or developers who have subdivided the land for country estates. This scenario has played out thousands of times across this country and has effectuated the demise of our family farms.

Many people fail to see how important saving the family farm is. We currently rely on other countries to support our oil production, thus giving them a pricing monopoly on our fuel. Should our nation ever become dependant on foreign countries for food, one of the staples for our very existence, we will lose this great nation. The family farm ensures America's security.

As time has proven, the 2002 farm bill has turned out to be one of the greatest pieces of farm legislation. It has created some of the greatest stability while offering the greatest amount of flexibility in plantings ever offered to agriculture. At last accounting, it has come in some $11 billion under budget. To my recollection this is unprecedented among any other farm bill. This is not to say that the money was over-budgeted, but is evidence that intelligent, forward thinking people have not only created something that works, but works very well. It is no secret that farming operations face considerable variables to success; weather, commodity pricing, input costs, and labor issues. One of our local farmers last year had budgeted $1.65 per gallon for fuel which seemed more than adequate for early 2005. Actual costs were $2.10 per gallon. Fixed costs are unfortunately non-negotiable and are impossible to absorb with profit margins running so closely. This man is no longer farming.

The family farm not only benefits from a healthy farm bill, but relies on it to exist. The current DoHa trade negotiations seek to level trade within a world market. Our commodity exports to other countries are not equal to our imports. To finalize a farm bill prior to completion of the DoHa negotiations would only place our farmers at an extreme disadvantage by making any new strategies for farm legislation obsolete. We cannot afford to do this. Our current farm bill needs to be extended until these negotiations are complete, then we will have the knowledge and information to make educated decisions to keep the family farm in business.

Another benefit of the 2002 farm bill is the way it addresses rural development. I have been privileged to serve on the Burke County Planning Commission since its inception in 1995 and serve as its Chairman since 1997. Many of the problems with growing pains which we face by being located adjacent to a major metropolitan area are evident in Burke County. This bill lends assistance and gives much needed direction in areas faced by rural counties across this nation.

Finally, I would like to note that any change made to the farm bill should include some mechanism to assist farmers with dramatic, unforeseen input costs (i.e. fuel, fertilizer, etc.) which seem to be spiraling out of control. Farming is capital intensive, and abrupt changes cannot be absorbed in short periods of time.

Again, thank you for this opportunity to give my thoughts on the new farm legislation.

## STATEMENT OF BRISE TENCER

Dear Chairman Goodlatte, Ranking Member Peterson, and Members of the House Committee on Agriculture:

I, Brise Tencer, am submitting this testimony on behalf of the Board of Directors of the Organic Farming Research Foundation (OFRF) to detail our analysis of the effectiveness of Federal programs in serving the organic industry.

The Organic Farming Research Foundation (OFRF) is a non-profit, charitable organization dedicated to the improvement and widespread adoption of organic farming practices. Specifically, we sponsor research related to organic farming practices, disseminate research results to organic farmers and to growers interested in adopting organic production systems, and educate the public and decision-makers about organic farming issues.

Organic farming and ranching provide multiple benefits that contribute to all U.S. strategic goals for agriculture: a safe and secure food system; environmental protection; increased trade opportunities; improved human health and nutrition; and prosperous rural communities.

The organic sector is extremely diverse in scale, and both ends of the spectrum are experiencing vibrant growth. The International Trade Center (UNCTAD/WTO) estimates that organic products now make up between 2 percent to 2.5 percent of total U.S. retail food sales. Despite organic agriculture production being one the fastest growing segments of the country's agriculture production, supply may not be growing as fast as demand. USDA Foreign Agricultural Service has estimated that the U.S. currently imports 10 times the amount of organic products than we export.

Organic certification brings an added value to any crop. Because organic products tend to bring a price premium, it is a desirable alternative for many producers and represents an important opportunity for growth in U.S. agriculture. Yet despite gains made in the Farm Security and Rural Investment Act of 2002, producers of organic specialty crops still receive a disproportionately small share of USDA resources.

It is important for Congress and the USDA to work together to strengthen public investment in organic production in the next farm bill. USDA programs that support research, extension, education and economics of the organic sector should receive a share of USDA resources that reflects the growth and opportunities of the organic sector. Programs and policies in other mission areas (natural resources, risk management, etc.) should be established that provide strategic support for the balanced growth of organic production. Specific recommendations are detailed below.

### RESEARCH AND EXTENSION

Many producers of organic specialty crops find few information resources available to them to address production or marketing issues specific to organic. Development of organic production effectively serves USDA strategic objectives for environmental quality, human health and nutrition, and agricultural trade. Federal agricultural research dollars dedicated to organic food and farming are disproportionately low in relation to the size of the organic industry. Only since 1998 has organic research been funded at all, and it currently receives far less than a proportionate share of Federal agriculture research dollars. Some resources such as Sustainable Agriculture Research and Education (SARE) and the National Center of Appropriate Technology (NCAT) have successfully supported organic research and extension (although neither focuses primarily on specialty crops), yet organic is still underserved by the USDA Research Education and Extension (USDA REE). In 2004, 3.1 percent of the USDA gross outlays ($2.5 billion) were used to fund research and education. Of this $2.5 billion, only about $10 million (0.4 percent) went to organic-specific research.

Additionally, we believe a stronger fiscal commitment is essential to better serving the organic community. In 2004, USDA-ARS spent about $3.5 million on organic-specific projects, or about 0.35 percent of ARS annual expenditures. A framework of "fair share" funding of organic agricultural research, based on the organic share of U.S. retail food sales, calls for at least a five-fold increase in USDA-ARS resources explicitly allocated to organic. Additionally, we would like to see a requirement for on-going reporting of organic activities.

We also believe that ARS needs to strengthen efforts to disseminate organic research results through the National Agriculture Library's Alternative Farming Systems Information Center (AFSIC). For example, funding should be provided to the USDA National Agriculture Library's Alternative Farming Systems Information Center (AFSIC) to manage the *www.OrganicAgInfo.org* web site as a publicly available online database of research and extension information specific to organic production and marketing.

USDA Cooperative State Research Education and Extension Service (CSREES)

• Integrated Organic Program (IOP)—The Integrated Organic Program, comprised of the Organic Research and Extension Initiative and the Organic Transitions Program, has been extremely successful. Because of the high level of interest in this program, only about 10 percent of qualified applicants have been able to receive funding (compared to 19 percent–29 percent of qualified applicants that receive funding in comparable grants programs at the USDA CSREES). We expect interest in this program to continue to grow. Accordingly, funding for the IOP should be increased. Expansion of this program should focus on a higher number of smaller grants. Additionally, the extension component of this program should be strengthened. Also, it is important that this program keeps its own identity and not be incorporated into the National Research Initiative.

Marketing, policy, and economic research is very important to the organic sector but is severely under-developed within the USDA. A new grants program within the USDA CSREES Marketing and Economic Systems section is needed. This should be a competitive grant program designed to fund marketing, economic and policy-related research pertinent to the organic industry. Such a grants program would be part of the USDA CSREES Integrated Organic Program and fall under the oversight of the National Program Leader for Organic Agriculture.

Last, the current National Program Leader for Organic Agriculture is serving in a 1-year interim position. This position needs to be a permanent one that provides leadership, oversight, and integration to organic activities, such as the competitive grants programs, within the different divisions of USDA CSREES.

• IPM Centers—The USDA CSREES Integrated Pest Management Centers should better serve the organic specialty crop industry by developing "Strategic Plans for Organic Best Management Practices."

• National Research Initiative (NRI)—Organic plant and animal breeding should become a priority area within existing NRI germplasm programs.

Outreach Education and Extension: In the 2007 farm bill, a Beginning Organic Farmer/Rancher Program should be created that offers training and extension services to those wanting to begin farming or ranching organically. Also, an "organic" activity code should be created within the USDA Current Research Information System (CRIS). This will allow increased access and searchability of organic research resources.

Data Collection: Expanded data on the organic sector is essential to better understanding the organic industry's growth and trends. The Organic Production and Marketing Data Initiative provided for in the Farm Security and Rural Investment Act of 2002 farm bill reads: "Secretary shall ensure that segregated data on the production and marketing of organic agricultural products is included in the ongoing baseline of data collection regarding agricultural production and marketing." This requirement needs to be fully implemented.

Specifically, within the USDA Agricultural Marketing Service we would like to see Fruit and Vegetable Market News provide regular nationwide reporting of organic prices. Currently, such information is only gathered regularly at the San Francisco and Boston wholesale markets. Specific surveys and data sets for the organic sector, including census (or census-type) data and farm gate price reporting are needed from the USDA National Agriculture Statistics Service. The USDA Economic Research Service (ERS) has done an impressive job of collecting data on the organic sector (including farm financial indicators and market trends among handlers and processors of organic products,) and we hope these efforts are continued and expanded.

## CONSERVATION

In 2004, 10 percent ($8.1 billion) of USDA gross outlays were used for natural resource and conservation programs. It is still unclear how much went to organic growers. Stronger leadership and oversight of how conservation programs serve organic specialty crop producers by the USDA Natural Resource Conservation Service is needed. Specific improvements to conservation programs are needed to ensure these programs serve organic producers.

Conservation Security Program: Basic organic practices such as cover cropping and crop rotations should be prioritized within the Conservation Security Program. Also, organic farm plans submitted to accredited organic certifiers should be accepted as proof of compliance with the highest tier (III) of conservation.

Environmental Quality Incentives Program: Incentive payments for transition to organic production should be added to the list of national priorities of the Environmental Quality Incentives Program. Funding and programmatic direction is needed for technical assistance providers specific to organic.

### Organic Certification Cost Share

In recognition of the costs to farmers and handlers associated with the process of organic certification, the National Organic Certification Cost Share program was authorized by section 10606 the Food Security and Rural Investment Act of 2002 (2002 farm bill). Under this program, producers and processors can be reimbursed for 75 percent of their certification costs, up to a maximum of $500. While the program is available to producers and processors of all scales, perhaps its most important benefit is to promote diversity of scale in the organic industry, by assisting small and medium scale producers and processors with the costs of organic certification. Annual costs and burden of maintaining organic certification are often cited by small and medium scaled producers as one of the frustrations with the National Organic Program. An on-going cost-share program to help defray these costs for initial certification as well as annual re-certification is crucial to assuring the continued diversity in scale of organic farms and handling operations.

This program should receive a mandatory $2 million per year. In order to improve the effectiveness of this program, management should be either moved to the AMS Federal State Marketing Improvement Program (FSMIP), Farm Service Agency, or managed through organic certification agencies. Additionally, standardized reporting should be required for both allocations to states and actual disbursement to producers and handlers.

### Risk Management Agency/Crop insurance program

Organic farmers should not have to pay the 5 percent additional fee surcharge they currently must pay to be covered by a crop insurance program. When an organic producer incurs a loss they should be reimbursed based on organic prices for that crop or commodity. The Adjusted Gross Revenue program should be offered nationally.

Supporting the organic industry by providing needed support provides critical, cost-effective benefits for U.S. producers and consumers. Thank you the opportunity to provide testimony. I appreciate your consideration of these comments.

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## Statement of Mike Newberry

Mr. Chairman, thank you for the opportunity to provide remarks on the next farm bill. My name is Mike Newberry. I operate a diversified farming operation in Early , producing corn, cotton, peanuts, wheat, and soybeans. We also have a beef cattle operation. I am a fourth-generation family farmer.

I am honored to add my welcome to Georgia to you and the members of the subcommittee and special guests. I am a constituent of Congressman Bishop and want to thank him for bringing this hearing to Georgia.

I believe at least one other witness will focus on Georgia's cotton industry and the cotton program, so I will briefly address cattle, corn, cotton, and peanuts. .

Georgia producers have been well served by the current farm bill, and we strongly support its balanced approach to commodity, conservation, nutrition, and rural development.

We believe it provides a stable and effective national farm policy for this country. As you know, it constituted a significant change for the peanut industry, so we are still making adjustments. The current law includes benefit delivery provisions that provide needed support in times of low prices without distorting overall planting decisions. An effective marketing loan provision allows U.S. cotton and other commodities to be price-competitive in a global market. I believe that the peanut loan repayment has been set too high. This mistake has caused a loss of a portion of our export market that is important to our livelihood. Current law also contains sufficient planting flexibility provisions to allow producers to react to market signals.

For many years farmers have been known as food and fiber producers. It is now a fact that we also produce energy. The fledgling ethanol industry must be encouraged in every practical manner to ensure its growth, which will in turn result in increased needs for grain.

The national animal ID system is now in the spotlight after a cow was found in Alabama with BSD. We must decide how to implement this system instead of arguing that it is impossible to accomplish.

And it is critical that current law be allowed to operate, without major modification, through its scheduled expiration with the 2007 crop so that producers can continue to make responsible investment, cropping, and marketing decisions.

Mr. Chairman, as your committee begins consideration of the next farm bill, we believe it is critical for Congress to provide adequate budget authority in order to craft an effective farm bill.

Second, we understand that the outcome of the current Doha trade negotiations could impact the makeup of our next farm bill. Peanut producers are very concerned aboutgranting market access to Less Developed Countries.

Given the challenges of these two critical policy areas, we support continuation of the current structure of farm programs as contained in the 2002 Act. The combination of direct and counter-cyclical payments provides an effective means of income support, especially in periods of low prices, without distorting planting decisions. We strongly support continuation of a marketing loan program without limitations so we can be competitive in domestic and international markets.

In addition to sound farm program provisions, it is critical to ensure that farming operations, which are commercially-viable and designed to achieve an economy of scale, be eligible for program benefits. The size and structure of farming operations varies by region and cropping pattern. Current limitations unfairly penalize highly efficient operations and operations with certain cropping mixes, which include combinations of high-value crops such as cotton, peanuts, and rice. We believe Congress should at the very least maintain current limits, including the separate limit for peanuts.

Conservation programs are an important component of farm policy. The Conservation Reserve Program, the Conservation Security Program, and Environmental Quality Incentives Program are proven, valuable ways to promote sound conservation and environmental practices through cost-share, incentive-based approaches.

Mr. Chairman, we recognize that your committee and Congress face numerous challenges crafting new farm legislation. I would emphasize that adequate spending authority, effective trade policy, and the current farm program will form a solid foundation for the next legislation.

Thank you again for the opportunity to present these remarks.

## STATEMENT OF WAVELL ROBINSON

Mr. Chairman, thank you for the opportunity to provide remarks on national farm policy and the next farm bill. My name is Wavell Robinson. I have farmed since 1964 and produced cotton in each of those years. I operate a diversified cotton farming operation with my son and we produce peanuts, tobacco and vegetables in addition to cotton.

I am honored to join others in welcoming you and the members of the subcommittee to Georgia. I am proud to be a constituent of Congressman Sanford Bishop and thank him for working with you and your colleagues to schedule a hearing in Georgia.

Mr. Chairman, the cotton industry in Georgia has experienced resurgence. As recently as 1986, acreage planted to cotton was slightly over 200,000 acres and production totaled 185,000 bales. In 2005, we planted 1.2 million acres and produced over 2.1 million bales. Georgia, Arkansas and Mississippi produced virtually the same amount of cotton in 2005 sharing the title as 2nd largest cotton producing states next to Texas. Unfortunately, we have had to adjust to the loss of a significant portion of our domestic textile manufacturing base due to a flood of cheap apparel imports. This year China will purchase more U.S. cotton than the US textile industry, but China will also supply over 30 percent of US textile and apparel imports and the share is rapidly growing. We have to adjust to the need to export up to three-fourths of our annual production, but at the same time we want to do everything possible to preserve what is left of our domestic textile manufacturing base.

The principle reasons for the resurgence in cotton production in Georgia are the successful eradication of the boll weevil and an effective farm program. That is why Georgia cotton producers strongly support the current farm bill. One of the most important provisions in the legislation was one that allowed us to update our bases and yields to reflect our recent planting and production history.

It is imperative that current law be allowed to operate, without major modification, through its scheduled expiration with the 2007 crop so producers can continue to make responsible, market driven investment, cropping and marketing decisions. We appreciate your support for this position.

Mr. Chairman, as you and your colleagues begin consideration of the next farm bill; we believe it is critical to preserve adequate budget authority necessary to craft effective farm policy. We understand that the budget deficit you face today is very different than the surplus that was available during the last farm bill debate, but we urge Congress to protect the budget baseline for all aspects of the farm bill.

In addition to the budget considerations, we understand that the outcome of the current Doha trade negotiations will very likely impact the makeup of our next farm bill. In fact, several organizations have expressed support for extension of the current law under certain circumstances. If, for example, negotiations in the Doha round have not been completed to the point that the implications for future farm policy are clear by late summer, we would support continuation of the current farm bill for at least one additional year. Given our significant financial investment in land and equipment and our alternative cropping alternatives, we need to know what policy will be in place well in advance of planting a crop. Uncertainty is disruptive and costly.

The cotton industry is very concerned about the attempts by some to single out cotton for treatment in the WTO that is different from the remainder of agriculture in both level of reduction and timeliness of implementation. We were disappointed by the language in the recent Hong Kong Ministerial text. We continue to urge U.S. negotiators to insist that the negotiations be conducted as a single undertaking for all programs regarding levels of domestic support. We strongly believe that there should not be any significant reductions in US domestic support unless accompanied by meaningful increases in market access for all US products.

We are also concerned that certain countries, including India, China, Pakistan and Brazil, which are highly competitive in world markets, not be allowed to utilize special and sensitive product designations and safeguards, designed to assist the poorest of the poor, as a way to avoid committing to significant increase market access. The US cotton industry has supported the Doha round but we will not be able to recommend that Congress support an agreement that requires cotton to accept deeper and quicker reductions in domestic support; that does not provide significant, meaningful increases in market access and that allows countries like Brazil, China, Pakistan and India to declare themselves less developed for the purpose of evading compliance.

Given the challenges of the budget and trade policy, we believe the current structure of farm programs should serve as the blue-print for the new farm bill. Current law is balanced between commodities, nutrition, conservation and research and has provided a stable and effective national farm policy for this country. The combination of direct and counter-cyclical payments provide an effective means of income support, especially in periods of low prices without distorting planting decisions. We strongly support the continuation of the marketing loan without limitations so U.S. commodities can be competitive in international markets regardless of the type of subsidy we face. The current law also contains sufficient planting flexibility provisions that allow producers to react to market signals.

In addition to sound farm program provisions, commercially-viable operations must be eligible for program benefits. It is important to recognize that the size and structure of farming operations varies by region and cropping pattern. A significant majority of farmers in this area strongly oppose all forms of payment limitations. Limitations are particularly unfair to irrigated operations and to operations with certain high value cropping combinations, for example, cotton and peanuts in Georgia or cotton and rice in Mississippi. At a minimum, we urge Congress to maintain current payment limits and eligibility requirements.

Conservation programs should continue to be an important component of farm policy. These programs should be operated on a voluntary, cost-share basis and can be a valuable complement to commodity programs, but they would not make an effective substitute for the safety-net provided by commodity programs. The Conservation Reserve Program, the Conservation Security Program, and Environmental Quality Incentives Program are proven, valuable ways to promote sound conservation and environmental practices through cost-share, incentive-based approaches.

As domestic consumption declines, export markets are increasingly important to Georgia farmers. We support continuation of the successful public-private partnership fostered by export market promotion programs including the Market Access Program and the Foreign Market Development program. We support continuation of a WTO-compliant export credit guarantee program.

Research and crop insurance are also important to the future of our industry. We are particularly frustrated that the Risk Management Agency has not been more successful in responding to our need for affordable, higher levels of crop insurance coverage. I hope RMA will be willing to re-evaluate and improve the range of products available to us.

In conclusion, Mr. Chairman, I will briefly address specialty crops. Recently some groups have made it clear that they want to be a significant part of the next farm bill through increased earmarked funding for conservation, nutrition, research and block grants. Our challenge is to identify funding for these new or enhanced programs without having to substantially reduce current levels of support for other programs. I want to be clear. The cotton industry does not oppose programs that benefit specialty crops because many of us produce specialty crops. We look forward to working with the specialty crop interests and Congress to address their concerns.

The U.S. cotton industry understands the value and benefits of an effective promotion program. Because of advertising campaigns financed with grower monies, the average U.S. consumer buys 35 pounds of cotton textiles and apparel each year. In the rest of the world, cotton consumption is only 6 pounds per person. Promotion works, and it is imperative that the authority for farmers to operate self-help, self-financed commodity promotion programs continue.

Mr. Chairman, we recognize that Congress will face many challenges from many different interests in crafting new farm legislation. I would emphasize that adequate spending authority, effective trade policy, and the current farm program form a solid foundation for the next legislation. The cotton industry will work closely with you and your colleagues to ensure that our country maintains an effective national farm policy.

Thank you again for the opportunity to present these remarks.

Good morning Chairman Moran and Members of the Subcommittee. My name is Bill Brim. I am a vegetable grower from Tift County, Georgia. Lewis Taylor Farms is a diversified transplant and vegetable production farm operation. We have 352,000 square feet of greenhouse production space and 4000 acres of vegetable production. Our greenhouse operation produces over 85 million vegetable transplants a year and over 15 million pine seedlings. I also serve as First Vice President of the Georgia Fruit and Vegetable Growers Association.

The fruit and vegetable industry is growing at a rapid pace in the State of Georgia. We are adding jobs and dollars to rural economies throughout the State. But this growth is not limited to our State. Specialty crop growers produce approximately 50% of the farm gate value of total plant agricultural production in the United States

Despite the impact to the U.S. economy, specialty crop growers receive a very small percentage of federal resources aimed at promoting and sustaining efficient agricultural production. I hope the Committee will take a hard look at a balanced farm bill that includes an increased emphasis on specialty crop producers.

This morning I would like to focus my remarks on several key areas of the farm bill that we hope the Committee will consider during your deliberations in coming the months. A number of fruit and vegetable grower organizations have been meeting to discuss common interests for the farm bill and the results of these discussions will be shared with the committee in the near future.

I am not here today to tell you that our southeastern vegetable industry believes we need a new farm program for vegetables. Although I do believe there are areas of the farm bill that should address issues of concern to our industry.

Of specific interest to me and other southeastern producers are issues related to:

- Restrictions of Planting Flexibility
- Unique Attributes of Specialty Crop Producers
- State Block Grants
- Research
- Nutrition Programs
- Crop Insurance

**Restrictions of Planting Flexibility**

This long-standing provision is as a fundamental matter of equity among farmers. As long as some farmers receive direct payments from the government, they should not be allowed to plant crops on that subsidized land that compete with unsubsidized farmers.

**Unique Attributes of Specialty Crop Producers**

Due to the nature of high-value specialty crop production, many current Farm Bill programs and disaster programs are of limited benefit to specialty producers due to payment caps, limits on Adjusted Gross Income, limits on off-farm income even if integral to farming operations, etc. We support a thorough review of all farm programs to ensure that specialty crop producers have access to benefits comparable to other farmers, rather than being excluded or limited simply due to a higher-cost of production.

**State Block Grants**

We support an expansion of the State Block Grants for Specialty Crops program originally authorized in the Specialty Crop Competitiveness Act of 2004, and funded through appropriations in the FY06 Agricultural Appropriations bill. Due to the wide diversity and localized needs in specialty crop production, state departments of agriculture are uniquely able to assist local growers with the specific investments they need to increase competitiveness.

**Research**

Significant new investment in research for specialty crops is desperately needed, through both the National Research Initiative and programs with CSREES and ARS.

**Nutrition Programs**

We support a strong new focus within the 2007 Farm Bill on increasing the access and availability of fruits and vegetables, particularly to children. We support expansion of the school fruit and vegetable snack program, increased commodity purchases, higher allocation to the Department of Defense (DOD) Fresh program for schools, development of a new nutrition promotion program to assist producers in enhancing their markets, and a general requirements that USDA feeding programs and commodity purchasing comply with the 2005 Dietary Guidelines.

**Crop Insurance**

Most fruits and vegetables are not covered by a 'crop insurance' program. We would like to see an increase in pilot projects and studies to determine the feasibility of minor crop coverage.

I want to thank the Committee for giving me this opportunity to testify today. I sincerely hope the next farm bill will address issues of concern to specialty crop producers and reflect the value of their production to the U.S. Economy, as well as the dietary needs of all Americans.

I would be remiss if I did not encourage the Congress to continue to work towards a solution to the guest worker issue for American producers. I realize it is not an issue of jurisdiction for this Subcommittee; however, it is the single most important concern for my business being considered as part of immigration reform in the U.S. Congress.

My farm is just north of here. I want to tell you how much I appreciate and the farmers of this state appreciate your interest in Georgia Agriculture. To have this many Members of Congress from around the country in the heart of our state's farm belt means a great deal to our producers.

Thank you.

# REVIEW FEDERAL FARM POLICY

**MONDAY, MAY 1, 2006**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
*Coolidge, AZ.*

The subcommittee met, pursuant to call, at 2:00 p.m., Central Arizona College, Coolidge, AZ, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Etheridge, Butterfield, Larsen.

Also present: Representative Renzi.

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

Mr. MORAN. This hearing of the Subcommittee on General Farm Commodities and Risk Management will come to order.

We are delighted to be here in this part of Arizona, this part of the country. I very much appreciate the hospitality that has been extended to us, me, and the other members of this panel.

We are very grateful that Congressman Renzi has invited us to his district to Arizona and to the Southwest United States to get a perspective as this subcommittee and the full Committee on Agriculture attempts to determine what the farm policy should be in this country. We do that in anticipation of a 2007 farm bill.

The full Agriculture Committee and this subcommittee will be in a dozen-plus locations across the country trying to make certain that we have significant and adequate input from people who earn their living on a daily basis in production agriculture. I am certain that there are some unique perspectives that we will hear today from the farmers and ranchers of this part of the country and it will help us as we try to determine how best we can continue to have prosperity in agriculture.

My name is Jerry Moran. I chair this subcommittee. I am joined by three other members of the subcommittee. I am a Kansan and represent three-quarters of the State of Kansas and our agriculture is related to wheat, cattle, corn, and soybeans. We are the largest livestock producing district in the country.

It is useful for me and for members of the committee to be out and listen and learn from those who have different interests in agriculture. I have learned in the time I have been in Congress how diverse agriculture is. Although I have also discovered that we have so much in common. Ultimately I think what all farmers, what all producers want is the opportunity to earn a living.

They want an opportunity that there is another generation of sons and daughters who have the ability to farm and ranch with moms and dads and with grandparents. You will find members of this committee to be very, very interested and very supportive of trying to see that what we do in Washington, DC is beneficial to American agriculture.

As I said, we are in the process of writing a new farm bill. The current 2002 farm bill expires in 2007. Our goal is to determine today what things are working well, what things could be improved, what changes have occurred since 2002. Clearly we are aware of the ever-changing and, unfortunately, increasing input cost that farmers across the country do to fuel fertilizer and natural gas cost are experiencing.

One of the things that I know is that we need to take into account those ever-increasing input costs. We also face budget constraints in Washington, DC. We all have the goal of moving in the direction of a more balanced budget and that will create implications for the new farm bill.

Foreign markets are critical and we have ongoing trade negotiations in Geneva with our trade ambassador Rob Portman at USTR with the DOHA negotiations and the outcome of those negotiations very well may affect what the farm bill will look like. We have worked hard to try to keep the 2002 farm bill fundamentally intact. Agriculture is our No. 1 priority.

You also need to know that as supportive as all of us are of agriculture, we operate in a very urban Congress so we are in a minority. In addition to visiting with us we encourage you to make certain that the more urban Members of Congress from Arizona know about agriculture. It is important for us to reach out to those who may not believe that agriculture is important to their constituency.

We discover this all the time but it is an opportunity for us that we must take in order to speak with one voice on behalf of agriculture in this country. Particularly as it relates to environmental rules and regulations which affect every producer across the country.

We know there are challenges. We are delighted to be here. We are interested in hearing what you have to say and we look forward to hearing from the eight witnesses that will present testimony today.

Let me now turn to the ranking member of the subcommittee, Mr. Bob Etheridge, who is a congressman from North Carolina.

Mr. Etheridge.

**OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA.**

Mr. ETHERIDGE. Thank you, Mr. Chairman. Let me thank you for holding this hearing. Thanks to your president and the folks at the college here for hosting us and your hospitality already thus far. We appreciate being here. When folks think of the Southwest States like Arizona, New Mexico, and Nevada, they generally think of a hot, dry climate and big cities like Phoenix and Albuquerque and Las Vegas surrounded by desert lands. People back east sort of think of that if they haven't been out here.

What they don't realize there is a vibrant agriculture sector in this region. We are glad to have you here today to tell us about it. I appreciate being here so I can learn more about what is happening in the Southwest agriculture and hear what farmers from the area want in the next farm bill. Part of the country that I come from in North Carolina and my colleague Mr. Butterfield we grow a lot of peanuts and corn and soybeans, a few hogs, a few cattle, and lot of tobacco so we have a very diversified agricultural base as well.

American agriculture, as I said, is extremely diversified. It sort of its our Nation's expensive size and debauchery and all the different climates that we have but it is produced all across this country. A lot of folks don't realize that, the many products we do produce. That is why it is so important, I think, Mr. Chairman, that we hear from farmers and they have an opportunity to present their views.

This is one committee in Congress—you hear a lot about Congress—but this is one committee that works hard to be bipartisan. We realize that food and fiber are so critical and that is why I think it is important that we hear from farmers from all parts of the country and they have a chance to voice their views.

Much of what we have heard about in the previous farm bill is a pretty simple message. By in large, as the chairman has said, a lot of folks like what was crafted in the 2002 farm bill and they sort of challenged us and saying, "It is working pretty good now. Just make these fine tweaks." You have heard that we are going to be challenged, I think, in terms of budget constraints and a bunch of other things.

I suspect we will hear some of the same things today with some suggestions for some changes. I would say to you that back home in North Carolina it would be very difficult to hold a hearing like this because most farmers today are out in the field getting crops planted, getting things ready to go so let me thank those of you who have come in. I expect if it wasn't planting season the auditorium would be full.

My guess is they are out working as well so I want to take this opportunity to thank those of you who came in for being here. From what I know it is a very busy schedule to testify today and we appreciate your commitment to agriculture and to the land and to conversation and for providing the food and fiber that keeps this country going. A lot of folks don't think about it until they need it and too many people in this country who really think it comes from the grocery shelf. We have to do a better job of educating.

Again, Mr. Chairman, thank you for bringing the hearing to Arizona. I think this is a good place to start.

Mr. MORAN. I thank the gentleman. The other two members of our subcommittee that are here are Mr. Butterfield, also of North Carolina, and Mr. Larsen of Washington State. I would ask they submit their opening statements, if they have any, for the record so that we can quickly begin the testimony of our witnesses.

I was thinking that those of you who wished you were testifying, it may be fortunate that you are not as I look over there and see the panelists in their coats and ties. I had originally thought that probably only Members of Congress would wear coats and ties in

Arizona today, once again proving how out of touch we are with reality. Thank you for making us feel less than—it is a very warm welcome, I should say, that we received in Arizona today.

Before we begin, let me now turn to the gentleman from Arizona, Mr. Renzi. We are pleased that he extended his invitation to join him and here from his producers and we very much appreciate that invitation and we look forward to working with Mr. Renzi as we develop foreign policy in this country on behalf of Arizona agriculture. Mr. Renzi is recognized.

Before we do that, let me ask unanimous consent that Mr. Renzi be allowed to join us at the table here today and be authorized to ask questions and make an opening statement. Without objection so ordered.

Mr. Renzi is recognized.

**OPENING STATEMENT OF HON. RICK RENZI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA**

Mr. RENZI. Thank you, Mr. Chairman, and the ranking member, and my colleagues who have really taken a lot of time to come here today. You all may have heard we talk about a saying that gold is man's commodity. You can reach out and ask folks for help once in a while and they will give you a little bit of money and that is typically man's commodity is to give gold, but time is God's commodity.

When individuals spend time to fly across the country, time that could be spent with their family or their community to come here, it really is humbling for me. I want to say thank you very much with all humility for everyone who has taken time to come here and listen to our folks and learn and find ways that we can improve this new farm bill.

I have got to say thank you to President Calloway and the folks at CAC, the whole board, all the students who turned out and the people in the community who have come to engage in the great debate to find ways to push and pull and wrestle with this issue and make it better for all America. This isn't just for Arizona. You are going to help today change the lives of farmers and ranchers across the country and I appreciate you all coming out and doing that.

I have had several hearings throughout Arizona. I think the most congressmen we have ever gotten are three including myself. Today we have five. We reeked havoc on the Panel County Sheriff's Office and the law enforcement folks here at CAC so I want to say thank you to those folks for the security they provided in keeping us all safe and orderly.

I am very grateful for this farm hearing. We were back in the green room talking. Apparently about 48 years ago in Phoenix, Arizona there was a farm hearing that talked about equipment and manpower and a few other issues and maybe financing or something. Since it was in Phoenix it didn't really count because you have got to come to rural Arizona to hear from the real people. And 48 years ago is when the last farm hearing was held in Arizona so I am honored for the opportunity to bring this to our State and bring it to our people and hear you speak truth to power.

We in Arizona have a $6.3 billion agricultural industry. 7,300 farms and ranches in our State. We get involved in cattle. Of course, our beef industry in Arizona is world renown. Our dairy producers are some of the best in the country. Our cotton—those shirts that you have on today with those nice ties, although I didn't wear one because I got the dress code memo, those cotton shirts that you wear Pima cotton comes from Arizona from Pima County.

That is where it got its name. It is all across Graham and Greenly and some of our other areas. Fruit. We have got some specialty products in fruit that are phenomenal that go out to the rest of the world and help feed and provide food and fiber to this Nation.

My district is really the rural part of Arizona, although Trent Franks and Raul Grijalva have some of the western. My district is 50 percent of the land mass of the State of Arizona all the way from the border up in Utah all the way down almost to the Mexican border. I am very lucky to have been taught by many of the people.

Chris Udall is here from the Udall family who took time over 3½ years driving in a car with me to teach me about the farms and the ranches. It is like not just the ranch here in Arizona but they have the public lands and how that kind of constrains us at times and how public lands and the people who manage it can sometimes be at odds with our folks so I am looking forward to hearing your all's testimony today.

I feel like the people from my district, my ranchers, probably like many of the congressmen here, are some of the hardest working truest patriots in this country. It is my honor to have done just a little bit to help bring the initiative to have the Agriculture Committee come here today.

Mr. Chairman, thank you for your kindness in bringing Washington to rural Arizona.

Mr. MORAN. You are very welcome, Mr. Renzi. We thank you. We thank the community college and we are very grateful to the people of Casa Grande for their hospitality.

We will now turn to our panelists. The first panel consist of Mr. Dennis Palmer, a cotton producer from Thatcher, Arizona; Mr. Paul Rovey, a dairy producer from Glendale, Arizona; Mr. Tom Isom, a cotton producer from Casa Grande, Arizona; and Mr. Dave Cook, a cattle producer from Globe, Arizona.

Mr. Palmer, you may begin when you are ready.

## STATEMENT OF DENNIS PALMER, COTTON PRODUCER, THATCHER, AZ

Mr. PALMER. Thank you. Mr. Chairman and members of the subcommittee, I want to add my welcome to Arizona. Thank you for allowing me to present comments on current and future farm policy.

My name is, of course, Dennis Palmer. I am a fourth generation cotton farmer in the Gila Valley in southeast Arizona. My 73-year-old father, 28-year-old son and I are the full-time operators of a 2,600 acre farm. Our wives are all actively involved in the administrative duties associated with our operations. I have another son, my oldest, who is serving in the U.S. Army in Germany. I am actively involved in a number of State organizations and in my marketing cooperative.

Arizona farmers strongly support current farm law and urge you to utilize the same structure in developing future policy. The marketing loan enables us to be competitive against subsidized competition in international markets; the decoupled direct payment provides certainty to those who finance our operations and the decoupled counter-cyclical payments are important when prices are low. We are fortunate that Congress has provided an effective financial safety-net to assist us when prices are low.

Arizona farmers are operating in an environment where land prices are high due to competition with developers and where irrigation water is both scarce and expensive to pump due to surging energy prices, as we have all seen. We operate under stringent environmental regulations which contribute to increased costs of production compared to those of our international competitors.

Farming is a full-time, year-round occupation in Arizona. Our operation requires intensive management, so there are few opportunities for off-farm income compared to the Midwest where farmers can hold down other jobs.

While the structure of farm policy is important, unrealistic limitations on benefits and unnecessarily restrictive eligibility requirements can result in the most generous and effective policies being unworkable for us.

Mr. Chairman and members of the committee, we continue to hear statements that 20 percent of farmers receive 80 percent of the benefits; that farmers are increasing the size of their operations solely to capture more payments; and, that programs inflate land values and increase rent, which blocks entry into farming.

From my perspective, the one-size-fits-all, randomly established limitations on benefits unfairly penalize full-time family farmers like me. The limit on counter-cyclical payments, which applies commutatively to all crops except peanuts, covers only 348 acres of cotton on an average Arizona farm.

This is well below what is considered to be an economically efficient unit in the irrigated West. That same limit covers considerably more acreage in dry-land Texas and substantially more corn and soybean acreage in Iowa. So, not only am I competing against heavily subsidized production in China, India and Pakistan, I am also competing against other U.S. farmers who have significantly more of their production eligible for program benefits. I am not asking you to penalize them, just don't tighten limits to further penalize me and my family.

I also want to address land values and beginning farmers. I too am concerned about the declining number of farmers and the difficulty young people have in starting their own operations. But I can assure you that tighter limits and eligibility requirements, coupled with significant cuts in support when prices are low, will make it even more difficult for young people to begin farming and will guarantee continued consolidation. In the absence of a financial safely net what financial institution is going to provide operating capital to an inexperienced, beginning farmer?

Finally, I want to address international trade and its influence on farm policy. We are deeply concerned by the U.S. proposal to cut domestic support by 60 percent because we haven't seen a reciprocal offer by our trading partners to make clear, unambiguous commitments to increase market access for our products.

The U.S. cotton industry has to export 75 percent of annual production. We must have consistent access to China's market; otherwise, the WTO negotiations will be a failure in our view. We ask that you insist that the negotiations are conducted as a single undertaking and that market access commitments are obtained from our trading partner.

Mr. Chairman and members of the committee, there will be other members on this panel that will express a strong interest in higher levels of coverage for crop insurance; the importance of agricultural research; the need for an effective, public-private international market development program; and conservation programs operated on a voluntary, cost-share basis. I want to associate myself with their remarks. Again, thank you for the opportunity to testify today. I will be pleased to answer questions at the appropriate time. Thank you.

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

Mr. MORAN. Mr. Palmer, thank you for your testimony.

The Chair recognizes Mr. Rovey.

**STATEMENT OF PAUL ROVEY, DAIRY PRODUCER, GLENDALE, AZ**

Mr. ROVEY. I appreciate the committee's invitation for me to come here and present my views on dairy in regard to the 2007 farm bill. I am Paul Rovey and I represent Arizona dairy farming community and my cooperative, the United Dairymen of Arizona. I want to being my statement with a very big thank you to the House Committee on Agriculture, Chairman Goodlatte, and Ranking Member Peterson for their leadership in passing S. 2120 recently. This was the producer-handler/unregulated plant legislation which our co-op, and others that are part of the National Milk Producers Federation, worked so very hard to pass for 3 years.

Dairy farmers are in the process of working toward a consensus on the policy items we would like to see addressed in the 2007 farm bill, using our Dairy Producer Conclave meetings to obtain input from dairy producers across the country. The input at those listing sessions will ultimately be shared in a formal document with agricultural leaders in the House, Senate, USDA, and other relevant agencies.

My main message today is that there is a strong consensus that the dairy portion of the next farm bill should contain some form of economic safety net for dairy farmers. We don't anticipate that dairy producers will want to implement any radical changes in the philosophy or direction of farm policy, and thus we hope you will agree that it is important for a strong and workable safety net to exist now, and in the future.

While we are open to further dialog with members of this committee about the specific form of that safety net, let me suggest a few general themes that are advisable regardless of the outcome of the farm bill's creation:

The safety net should not discriminate between farmers of different sizes;

The safety net should not discriminate between farmers in different regions of the country;

The safety net should not result in price enhancement, meaning that it should not be an inducement to produce additional milk. The Government's safety net should be just that, a device that prevents a collapse of producer prices, without stimulating milk output or sending inappropriate signals to the marketplace.

Another clear theme is that America's dairy farmers see their future success as being impacted by more than just a narrow interpretation of what the farm bill should cover. High on the list of priority concerns for dairy producers are issues that include changes to our environmental policies, workable immigration laws, and the need to develop a mandatory national animal identification program.

We must also guard against the encroachment nationally of State initiatives or laws such as humane treatment of farm animal initiative that may be on Arizona's ballot in November. It is very important to add that such regulations don't get implemented on top of the other regulations and best management practices that we live under to provide safe, cheap food supply for the world.

As we contemplate Government programs, however, dairy farmers have elected to continue their own recently launched self-help economic program called Cooperatives Working Together which aims to help stabilize the balance between supply and demand but CWT was never intended to replace Federal farm programs. Rather, our self-funded program is a supplement to what the Government has in place. This is true with respect to both our domestic safety net, the dairy price support program, and our export assistance program, the Dairy Export Incentive Program.

Let me also make a point about the relationship between the 2007 farm bill and the DOHA Round of WTO negotiations. We supported a successful multi-lateral round of trade talks if it helps to level the very uneven playing field in the dairy export subsidies, tariff protections, and domestic support programs. But we won't support any final agreement that doesn't represent a net increase in our opportunity to better compete against our more heavily subsidized and protected competitors in the EU, Canada and Japan, as well as more balanced trading opportunities with key developing countries.

Further, I can tell you that if we have to decide today what our safety net should be for the next farm bill, we would support the continuation of the dairy price support program with or without a successful DOHA round. We strongly disagree with those who claim that the price support program must be phased out or eliminated upon completion of the DOHA round.

Let me close by also mentioning the importance of swiftly passing legislation to apply the 15-cent checkoff that dairy farmers in the U.S. pay to imported dairy products as well. This was also required by the 2002 farm bill. We need additional legislation this year to make the import assessment WTO compliant by extending it to the very producers of Alaska, Hawaii, and Puerto Rico.

In closing, Chairman Moran, I want to thank the committee and subcommittee for having this series of field hearings. We welcome you to our State and hope your short time here was enjoyable. I will be happy to answer any questions or provide any additional information. Thank you.

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

Mr. MORAN. Thank you very much, Mr. Rovey.

Mr. Isom.

**STATEMENT OF TOM ISOM, COTTON PRODUCER, CASA GRANDE, AZ**

Mr. ISOM. Again, welcome to sunny Arizona. I think it is our first 100 degree day today for the year. I am a third generation cotton farmer in the Casa Grande Valley. My father and my son and I will plant about 1,200 acres of cotton this year. We will also plant 100 acres of watermelons, 250 acres of barley, 350 acres of wheat, and about 300 acres of milo. I am currently serving as the president of the Arizona Cotton Growers Association and I am a member of the National Cotton Council.

We appreciate this opportunity to express our views concerning the future of foreign policy. We also would like to thank Congressman Renzi for his work in organizing today's hearing and for his support for farmers and ranchers.

The Arizona cotton industry is distinguished by strong history of solving problems on our own initiative. Between 1984 and 1991 we successfully conducted a massive State-wide effort to eliminate the boll weevil. We accomplished our objective on time and on budget. Arizona was the second State to be declared "weevil free" after North Carolina.

Now we are initiating a program to eradicate the pink bollworm, a destructive and persistent pest. The program will use a combination of sterile moths and genetically enhanced cotton, which is used on nearly 70 percent of Arizona's acreage.

We are the first in the country to employ insect growth regulator chemicals to control one of the most devastating pests ever encountered, the silver leaf whitefly, which destroys the value of a cotton crop by depositing sugars which make the fiber "sticky" and unspinnable.

The careful use of IGRs literally saved our industry. Finally, we have spent over a million dollars to develop a method called AF36 to eliminate aflatoxin in our cotton seed. It is effective, inexpensive, and adds value to our seed.

A large percentage of the costs of all these programs have been funded by Arizona growers. The Federal Government has provided critical cost share funds for the boll weevil and ink bollworm eradication projects, as well as funding to ARS for the aflatoxin program. If any of your colleagues ever express doubts about the use of funds for research and eradication, we urge them to visit Arizona to see the results. We are proud of our accomplishments because we are committed to producing a top quality product, while being good neighbors and stewards of the land.

Mr. Chairman, Arizona farmers manage complex operations in an environment of high land values, complex irrigation requirements, escalating energy and pest control costs, and stringent regulatory standards. Our producers need a consistent, predictable farm policy, particularly when prices are low.

The current farm bill has worked well for Arizona farmers, so we strongly support, as was mentioned earlier, using current law as the basis for new farm legislation. We urge you to maintain a counter-cyclical program for times when prices are low; decoupled direct payments; and an effective marketing loan without limitations. We also support continuation of the cropping flexibility provisions in current law. This structure is sound and promotes financial stability in American agriculture.

It is especially important that payment limitations not be reduced further and that current eligibility requirements are maintained. We commend you and your colleagues for resisting the efforts to change the payment limitation provisions in current law. Current limits penalize Arizona operations.

Using conservative assumptions, industry economists concluded that if the provisions of Senator Grassley's amendment were implemented annual direct payments would be reduced by 62 percent and total benefits by 55 percent. The Payment Limit Commission reached the same conclusion in their report.

Arizona's farmers are more adversely impacted by current limitations than farmers in other regions, in order to achieve economics of scale in an area of high fixed costs, as in Arizona, our operations are necessarily larger than those in the Midwest. It is also important to note that our operations require intensive year-round management and our income is virtually 100 percent from on-farm activities.

Mr. Chairman, if there is one message that I want to leave with you and the committee, it is don't reduce payment limits any further. We understand there is discussion in Congress and in the country about whether to extend current law until the DOHA round of trade negotiations are completed. We strongly support an extension to provide certainty and stability.

The cotton industry has been generally supportive of the DOHA round, provided cotton is not singled out for unfair treatment and that meaningful increases in market access for our products can be achieved. If the DOHA round concludes with an agreement that includes disproportionate cuts in domestic support for cotton, we will not recommend that Congress approve implementing the legislation.

Concerning immigration, Mr. Chairman, I would be remiss if I did not tell you that a Guest Worker Program must be part of any immigration reform legislation. A workable guest worker program is essential to southwestern agriculture.

Crop insurance is also important to the future of our industry. We have been somewhat frustrated that the Risk Management Agency has been unsuccessful in responding to our need for affordable higher levels of crop insurance coverage. We need to insure levels of 90 or even 95 percent of our yields in order to have an effective risk management tool in Arizona.

Finally, Mr. Chairman, let me address the issues of funding for specialty crop programs. Many cotton growers produce specialty crops as part of their operations. We do on our farm as well. We need a variety of cropping alternatives, but if funding for new specialty crop programs requires cutting funding for existing research and eradication programs such as those in Arizona, then we must ask you to consider adding funds to meet the needs of specialty crops.

Mr. Chairman, maintaining an effective farm policy is important to Arizona farmers. An effective safety net available to all farmers without discrimination against size of organizational structure is extremely important to our highly productive capital-intensive operations.

Again, I thank you for coming to Arizona and hearing our concerns and recommendations. I also will be glad to answer questions at the appropriate time.

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

Mr. MORAN. Thank you, Mr. Isom.

Mr. Cook.

**STATEMENT OF DAVE COOK, CATTLE PRODUCER, GLOBE, AZ**

Mr. COOK. Thank you. Chairman Moran and members of the committee and Congressman Renzi, I want to thank you for the opportunity to address you on the needs of producers in Gila County, Arizona and throughout the western States. My name is David Cook. My family and I are proud to say that we are producers of American beef.

Livestock producers who operate on State and Federal lands in the West play a significant role in America's agricultural production. Farm bill programs should benefit all agricultural producers. In the West, that means private, tribal, State, and Federal lands. Let's make the conservation provisions of the next farm bill about high quality conservation on working agricultural lands, and not a private land vs. other lands program.

In my county the amount of private land is approximately 3 percent. This 3 percent includes those lands used for mining. The remaining 97 percent of land ownership is Federal. There must not be a set limit on private land ownership to qualify for farm bill programs.

The 2002 farm bill states the following land is eligible for the Environmental Quality Incentives Program (EQIP), other land on which crops or livestock is produced.

It further states, "60 percent of available EQIP financial assistance will be targeted to conservation practices related to livestock production." This percentage must be maintained or increased in the new farm bill.

In August 2004, President George Bush issued an executive order related to the use and enhancement of natural resources. With these two tools we have been able to put together a coalition of experts to assist us in managing not only our 11,000 acre grazing allotment but an additional 45,000 acres of private and Federal agricultural land.

In the West, cooperative conservation is essential. In a pilot program that is now on its third year in bringing the NRCS on Forest Service lands to assist in Coordinated Resource Management (CRM), it has had a tremendous positive impact on our economy, way of life and most importantly our rangelands in Gila County.

Locally led conservation is essential to efficient and effective implementation of farm bill programs. Agencies must not try to manage the work of conservation from Washington DC. The NRCS State Conservationist has a State Technical Committee made up of other Federal agencies, State agencies, conservation districts, producer groups and others who provide sound technical advice to the State Conservationist on eligibility criteria and standards appropriate for the local soils and climate. Setting a national resource standard for program eligibility has left some of the best agricultural producers out of the farm bill programs.

In cases in the West, we need the new farm bill to expand the possibilities of cooperative conservation and resource management on all lands to include Federal lands. This means bringing the experts of range management from the NRCS and their management tools to the producers of Federal lands. How can we say what is good for treating and managing private, State lands, and tribal lands not be good for Federal agricultural lands?

The work of agricultural conservation is not the same as the work of Federal land management. Congress must appropriate funds to the NRCS for providing voluntary conservation programs across private, tribal, State, and Federal lands.

It is my opinion that conservation, resource enhancement, protection, and use of natural resource dollars that are allocated to the agencies such as the USFS rarely ever trickle down to the producers. It is lost between Washington, DC and in the process prior to reaching us on the ground. I ask that those limited dollars be maximized by expanding on current avenues and not only continue programs such as ours, but expanding them further in the West.

I can not express to you how having the NRCS as a partner in grazing land management has helped us. We have been able to implement conservation practices on the allotment just within a few years that were unrealized in the past 30 to 50 years with just one Federal agency involved, the Forest Service. I am seeking to reinforce and extend the benefits of Coordinated Research Management of Federal agricultural lands by updating and improving our current farm bill provisions in the next farm bill.

Once again, I want to thank you, and offer any future assistance to you and this committee that you may require in the shaping of our next farm bill to better serve agricultural producers in Arizona and the other 14 western States. Thank you.

Mr. MORAN. Mr. Cook, thank you very much. I thank all of our four witnesses. Let me ask just a broad question, at least initially. The current farm bill is considered to be the greenest, the most conservation oriented farm bill in our country's history. There is contemplation that the next farm bill will be even more so. My guess is Mr. Cook might find that desirable.

I wanted to ask, particularly Mr. Isom and Mr. Palmer, but also you, Mr. Rovey, if we are to prioritize our dollars in trying to determine how best to craft a farm bill and conservation will take a priority because of WTO considerations and urban Congress more interested in conservation and the environment than commodities or farmers who grow crops, tell me how that would affect you? How would you prefer that we prioritize spending of money on the commodity title of the farm bill versus additional dollars into conservation? Mr. Palmer, Mr. Isom, my guess is this probably would affect you the most.

Mr. ISOM. Well, if what you're saying is you would like to divert——

Mr. MORAN. Not I. I am saying that we may face this dilemma or this challenge. Many of our urban colleagues will be much more interested in spending dollars on the environmental side of agriculture which is very beneficial agriculture. You face many rules and regulations, restrictions.

EPA and others create lots of handicaps for you and we are trying to create some opportunities for those handicaps to be, at least in part, paid for. But if the emphasis is to be on conservation as compared to the commodity title, how would that affect you? What would be the up or the down side of that?

Mr. ISOM. Well, with rural crops in our part of the country we are pretty much level base on irrigation type, sprinklers or drip or some kind of irrigation. We don't have a lot of runoff. We don't have a lot of erosion. Doing conservation efforts like they perform back in the Midwest they just don't exist here and so I really have to see what you would have to put together to see how it would be effective in Arizona.

Conservation measures in Arizona are much different than they are in other parts of the country. We don't get the rainfall that a lot of other areas do. If there is a way we can conserve water or find better ways to irrigate, there could be some meaningful use to that.

Mr. MORAN. Thank you.

Mr. Palmer.

Mr. PALMER. I think the biggest emphasis needs to be on commodity support. The price of cotton right now almost got back into the 40's 2 or 3 days ago. It is basically at 50 cents right now. In conservation there are some great things that are happening in the cotton market in cotton production. The greatest thing is genetically altered seeds.

On my cotton farm we used absolutely no insecticides last year. Not any. That is just a tremendous blessing for the environment right there. The big problem we have is that our cotton prices are so low and everything is just skyrocketing we cannot compete. We have to be supported in commodity prices.

On the other hand, these things that are happening with the conservation efforts, Arizona is much different than wetlands. We are still in a severe drought in parts of the State and so there are things that are happening where we are not using chemicals. We are doing a lot of things on our own that do not pollute the environment. That kind of goes on nationally.

Mr. MORAN. Thank you. Again, along the cotton line, I would tell you that several members of the House Agriculture Committee were in Geneva last week. I can tell you that I personally delivered the message about not singling out cotton. Incidentally, Kansas has become the fastest growing cotton State in the country. I think that occurred about the time I became chairman of the subcommittee.

I have some belief that the cotton industry decided to take me over to become an ally. Clearly that is a concern that we are advocates. We are on your side. You do face many challenges but this issue of WTO and the Brazilian cotton case affects every other commodity. You just happen to be the first target. Again, we have encouraged our negotiators not to negotiate a separate deal on cotton.

In regard to crop insurance, Mr. Isom, you mentioned the desire to get to 90 or 95 percent of yield. I rarely mention at home that I chair a subcommittee that has responsibility for crop insurance because it raises all kinds of issues. Everyone has a problem with their crop insurance program. You might tell me what effort the RMA, the Risk Management Agency, has made to try to meet that. Is this an ongoing project with them?

Mr. ISOM. Right now with the insurance coverage levels that we have the premium subsidies range anywhere from 67 percent down to 38 percent. Our coverage level at a 50 percent coverage level subsidizes 67 percent. If we get coverage up to 85 percent, our premium subsidy factor drops down to 38 percent. Currently there is no coverage level or premium subsidy at all for 90 percent coverage guaranteed yield. As the premium subsidy decreases, our costs go up.

Currently on our farm we are insured for multi-peril at 75 percent and we are paying $13 an acre and that's just for the multi-peril insurance. If we were to go up to 85 percent, our cost would be $27. If that would go up to 95 percent as the factor for premium subsidy goes down, we could end up paying—the way that this schedule is produced here we could end up paying $45 to $50 an acre for multi-peril insurance and that would be fairly expensive for us. I don't think we would be able to afford to do that.

Mr. MORAN. Do you know if the cotton industry has requested the risk management agency to develop a policy that covers that 90 to 95 percent level?

Mr. ISOM. I believe there are States in the country that are covered. The 90 percent is offered but it isn't offered in Arizona.

Mr. MORAN. I see. Thank you very much. My time has expired but let me ask just one other question.

Mr. Cook, I want you to explain to me the sentence in your testimony, "There must not be a set limit on private land ownership to qualify for the farm bill." I come from a State that has virtually no public lands. Is there a limitation now or are you just worried that something may happen in the future?

Mr. COOK. Well, I have not found a limitation. In researching the Federal Register I found a limitation there. However, each State conservationist can set their own rules and guidelines to where they can say that this program must benefit private land. Even though the law doesn't say that, they can change that in each State which means they can set that, "Well, you need to have so much private land to qualify for a farm bill."

For instance, the Federal grazing allotment in our county is such small private land that you only have to have 10 acres for a Forest Service allotment so we do about 57,000 acres currently that we manage on a ranching operations. You can do all that with only 10 acres of private land.

Mr. MORAN. So your point is don't discriminate against producers on public lands?

Mr. COOK. Exactly. No, on Federal land. Yes, sir.

Mr. MORAN. Thank you very much.

I now recognize the gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Let me go to a little different topic, something that is on the minds of everybody today. If you are out farming and you have tractors and equipment running or trucks, you are feeling the pinch. How has higher fuel cost impacted your ability to farm looking at your cost-flow sheet now where you look at prices of products being pegged or dropping?

Some farmers from other regions have suggested a program that delivers benefits to farmers when energy prices spiked. If they spike up, then sort of like a safety net in energy prices or energy consumption. What are your thoughts on that? I want to hear from each one of you very quickly.

Mr. MORAN. You want to start?

Mr. PALMER. Certainly. These energy prices have just done whatever they wanted to do and mainly go up and make oil people rich. I think some sort of program that would help offset that when they did spike that would certainly be beneficial. I don't exactly in my mind have a plan for that to suggest but if they continue to go skyward, it is a real problem depending on how much fuel your operation uses.

Mr. ROVEY. Energy is a huge part of the dairy industry. Not only on the dairy in Arizona we have to cool our cows. In fact, on my dairy I am one of the top 500 customers of our utility and it is a very large utility just because of the cooling on the dairy so it is a tremendous expense. That also extends not only just from the dairy but into the processing and manufacturing of the dairy products, i.e., our co-op and our drying operation and those gas prices. If there is some way of mitigating or helping in those energy costs, it would be acceptable.

Mr. ISOM. Our fertilizer, the process that is used to produce our fertilizer consumes a lot of natural gas and so when fuel prices spike, our fertilizer prices go through the roof as well. I would just like to say if you could address the issue of some kind of help with the fuel prices that you could also consider that it definitely has an affect on our fertilizer bill as well and that is a significant part of our operation.

Mr. COOK. The biggest impact to us in the cattle industry is I started out in the hay business when I was 18 years old in Oklahoma. I purchase hay from all over this valley. One of my best friends is 3 miles from here. The trucking companies that haul the hay for us, we buy about $150,000 to $200,000 worth of hay a year. Those people are just about to go out of business.

A friend of mine said it used to be he could give $100 to the driver of the truck and stop in and fuel up to make a load from Flagstaff and back down to Guatelupe. They can't do that now. They have to give him $300 to do that same load. At the same time they have increased their prices maybe $3 to $4 a ton which is $80 a truckload. They just can't do it. We pay them $25 a ton just to try to keep those people in business. If we lose that inner structure from the producers to the end users, where is this transportation going to come from? That is what we are facing now.

Mr. ETHERIDGE. What you are saying is you can't pass it on.

Mr. COOK. You can't pass it on.

Mr. ETHERIDGE. The farmers have to pull it where they can.

Mr. COOK. That is right.

Mr. ETHERIDGE. Thank you. Let me move to another area because there is some discussion in Washington now about the need to develop a permanent disaster program in Congress to pass some kind of ad hoc disaster package because we do it when we have a major disaster. Eventually we fight through it and get there.

The talk is that maybe rather than wait for hurricanes and disasters and other kinds of things in agriculture to make it part of a farm bill similar to what we have with FEMA so if a disaster strikes, you don't have to wait 6, 8, 10 months. Let me hear your thinking on that as we develop a new farm bill. Do you think that would be appropriate? Would it help?

Mr. COOK. I think it is great. We did a little bit of fund raising for those people out of hurricane Katrina from Arizona. We just delivered that money, the Arizona Cattle Growers did to them. What those people were going through when you met with them, I mean, the farmers and ranchers that were hauling hay and getting people down there, there was no program set up for them. I think that is a wonderful idea to set something like that up in the 2007 farm bill because those people there are still hurting. They are still in need and there should be some kind of program directed towards that kind of thing.

Mr. ISOM. The FEMA Disaster Assistance is maybe part of the 2000 farm bill. Is that what you are saying?

Mr. ETHERIDGE. No. I was just raising the question were you thinking of doing that as part of it similar to what we do with FEMA for hurricanes, major disasters in urban areas. We don't have such a deal in the farm bill. What we do in the farm bill is we sort of have an ad hoc bill. When it comes up we fight through to get money to get into agriculture and it comes several months later for folks who are struggling to try to make ends meet.

Mr. ISOM. I am trying to think. As an Arizona producer out here in the desert we don't get a lot of flooding. We really don't have a lot of hurricanes or tornadoes so I am trying to wonder what other disaster that could happen.

Mr. ETHERIDGE. You would have drought.

Mr. ISOM. Yeah, we do have drought.

Mr. ETHERIDGE. But if you have water, you can irrigate. If you run out of water, you do have a problem.

Mr. ISOM. We do have droughts so yes, we do. Along those lines I think if that can help us out in a drought situation, that would be beneficial to us.

Mr. ETHERIDGE. Thank you.

Thank you, Mr. Chairman. Either one of you want to add?

Mr. PALMER. I just want to add that I live in the southeast part of the State which is a little bit different. There is not a dam above us on the Hela River. We had a flood last year that cost us a lot of money out of our own pockets to prepare the ground back. We also have had tornadoes, a lot, that come through. They are disasters. These people that have disasters if there is not some sort of disaster program in effect, they are not going to be in business. They have to have some way to get helped back on their feet or they are going to be gone. We will lose them.

Mr. MORAN. Mr. Rovey.

Mr. ROVEY. One comment. I have a national presence in the dairy industry and I know a number of the dairymen across the country both in Florida and Mississippi and Louisiana. Their comment was the Federal help in those situations went to the cities but the rural and agricultural people suffered for way longer and that is an issue because the help goes into the cities into the major populations and the agriculture does sit aside.

Mr. ETHERIDGE. Thank you very much.

Mr. MORAN. The other gentleman from North Carolina, Mr. Butterfield, is recognized.

Ms. BUTTERFIELD. Thank you very much, Mr. Chairman, for convening this hearing. It is very beneficial to me as one of the newer members of this committee. I also want to thank Congressman Renzi who has been very instrumental in trying to steer us in this direction. I am glad that we came to this part of the country to get this testimony.

I live in the First Congressional District of North Carolina. It is tobacco country so it is good to get out and to hear other farmers and ranchers throughout the country talk about the challenges that they face. I am here today more on a fact-finding mission than to do a lot of talking. I do have one or two questions that I would like to ask you basically as a group. If any of you want to respond, I would be delighted to hear your response.

Last year the President proposed lowering payment limitations to $250,000. I think you know that. That was widely reported. He also proposed reducing all payments to farmers by 5 percent. He proposed limiting marketing loan eligibility based on historical acreage. Again this year the President has again made these same recommendations.

While the administration has not developed a proposal for the next farm bill, it is reasonable to expect that some, if not all, of these changes to the current farm bill could be part of the administration's plan for the next farm bill. Please tell me your comments on these proposals and what, if enacted, they would mean to your ability to continue farming.

Mr. ISOM. On our farming operations of these proposals were enacted, we would probably be out of the farm business when it happened.

Mr. BUTTERFIELD. You would have a what?

Mr. ISOM. We would probably get out of the farming business at that time. If he proposes a cut across all budget items by a certain percentage, we will be willing to step up to the plate and take the cut along with every other budgeted program. I feel that this last reconciliation process they eliminated the step 2 from the program which will affect our price by about 2 or 3 cents starting with the 2006 crop. I feel like we have already taken the cut because of the budget constraints that are already there. I would urge that your committee and the committee of the Senate would strongly oppose any of those cuts that are being proposed by the administration.

Mr. PALMER. The main problem with the cotton industry is the price of cotton is too low and we can't control that price of cotton. If we have many more cuts, farming on the edge like we do with such high-input costs like high-stake gambling playing the $10 slot machines, not the nickel ones, anymore cuts will drastically——

Mr. BUTTERFIELD. Even a 5 percent cut? That would be devastating to your operation?

Mr. PALMER. Five percent will be 5 percent. I think we operate on a margin somewhere between 5 percent and maybe a little bit more. We have invested large amounts of capital and equipment. Any cuts at all would definitely hurt our operation.

Mr. BUTTERFIELD. Even though 5 percent sounds small, it is really a significant cut?

Mr. PALMER. Yes.

Mr. BUTTERFIELD. In your life.

Mr. PALMER. Yes. But, as Mr. Isom has said, we would be willing to do take a cut along with everyone else but not to pick on the farmers.

Mr. BUTTERFIELD. You share the pain.

Mr. PALMER. Share the pain.

Mr. ROVEY. While dairy doesn't get any—we only have one direct payment. I know the Southwest and primarily the West disagrees with that payment and we wouldn't have much objection to that payment being eliminated.

Mr. COOK. Congressman, I would like to add that you know the 5 percent cut you would be asking everybody to take is not the 5 percent that really is going to be the impact. It is the fact that the increased fuel cost and everything else has gone up. Asking for a 5 percent cut alone would be OK but when fuel prices are twice as much as they were 4 years ago, when insurance rates are going through the roof, when vehicles and farm equipment keep going up and the price of labor, it is not the 5 percent. It is everything else is going up and yet you are asking the income to go away.

Mr. BUTTERFIELD. Before my time runs out let me just ask one other question that pertains to land values and I know that is a big topic here in Arizona. For those of you who receive direct payments, if they were reduced either due to budgetary restraints or WTO agreement, what impact would it have on your land values? Would it affect your ability to continue farming?

Mr. ISOM. In this part of Arizona around Casa Grande area, even the central part of Arizona, it really wouldn't have any direct affect on land values because land values are driven by urbanization of our area. There is a lot of development going on and a lot of the people who buy our land allow us to lease it back for much less than we leased it for before because they would like to maintain the ag status for property tax. A lot of our leases are going down. In this part of the State anyway, the central part.

Mr. BUTTERFIELD. All right. Thank you. I believe my time has expired. I yield back, Mr. Chairman.

Mr. MORAN. Thank you very much, Mr. Butterfield.

The gentleman from Washington, Mr. Larsen, is recognized.

Mr. LARSEN. Thank you, Mr. Chairman. The first set of questions are for Mr. Rovey. You mentioned the producer handler issue and I have a district, one particular area of the district, the other producer handler in the West, and surrounded by 200 dairy farmers as well that I think had the same view of it as you did, too. It still can be a very contentious issue and we are committed to try to work through it in Congress.

Also found that with a Democratic colleague and two Republican colleagues of the Dairy Caucus recently and we are going to try to devote some time and attention specifically to the issues of dairy. In that regard I wanted to ask you a question. You testimony outlined some of the general themes about what the safety net should not be for dairy. Can you tell me what it should be and what it is now and what you like about it now?

Mr. ROVEY. What it is now is it is set at a price below the cost of production. It basically supports so that the cost doesn't go completely down and so that is acceptable. We don't want it to where it encourages any production in the country. We don't want it to make production because that is not beneficial to the producers, nor to anybody so basically where it is at now.

The program that I referred to there of the direct payment. That one in the Southwest and in most of the West we definitely disagree with that MILC payment. It isn't beneficial. It doesn't send the right market signals and those things. We would very much discourage that from continuing. The basic safety net below the cost of production is acceptable so that it provides a floor but it doesn't let the thing completely fall to a zero price or something in that neck of the woods.

Mr. LARSEN. Sure. And you mentioned the DEIP and CWT that a lot of dairies are running now. In your testimony I don't think you came right out and said it but are you saying that the USDA is under utilizing the DEIP program and needs to be more active?

Mr. ROVEY. That is exactly that. DEIP has not been used and has not been utilized and needs to be utilized to the fullest extent.

Mr. LARSEN. Are you picking up anything direct from USDA that they are relying on dairy to utilize the CWT program as a replacement?

Mr. ROVEY. I don't know that there is any direct signals but maybe some indirect signals that is the case that they are relying on CWT to take up that slack and they are not utilizing the DEIP in that respect. DEIP would be a tremendous benefit to the dairy industry at this point in time in our milk pricing.

Mr. LARSEN. With regard to the dairy checkoff program, you said you can't apply the importers until the checkoff applies to farmers in all the States. Do farmers join State by State? Is that what is preventing the few dairy farmers in Alaska and Hawaii and Puerto Rico from joining?

Mr. ROVEY. No, it was just an oversight in the drafting of that bill back in 1983 whenever they drafted that legislation being that Alaska and Hawaii and Puerto Rico have such minimal amount of production so they left it out as an oversight. All the rest of the checkoff programs do have the checkoff in those States as well as the milk fluid processing. The checkoff is in Alaska in that respect but that is a technicality that doesn't allow us to do the checkoff.

Mr. LARSEN. Apply the checkoff to importers.

Mr. ROVEY. Correct.

Mr. LARSEN. Can you right now identify for me and for the committee is it a USTR representative's office or U.S. Department of Agriculture's office?

Mr. ROVEY. It is USTR.

Mr. LARSEN. So it is USTR and you have heard directly from USTR's office that they are concerned about applying the importer checkoff until they get these three other States in the Commonwealth?

Mr. ROVEY. That is correct. It wouldn't be WTO compliant because it is not the same across the whole country.

Mr. LARSEN. OK.

Mr. ROVEY. That is the one holdup on us being able to get that importer checkoff as well as all the rest of the checkoffs can do any imports and apply the checkoff to them.

Mr. LARSEN. Right.

Mr. Isom, you grow cotton but you also mentioned specialty crops. And then you mentioned issues with crop insurance coverage. Are you referring only to your crop insurance coverage for cotton?

Mr. ISOM. Can you say that again?

Mr. LARSEN. When you talk about crop insurance coverage are you applying your comments only to your insurance coverage for cotton?

Mr. ISOM. Oh, yes. My coverage is basically on cotton.

Mr. LARSEN. It is. And there is nothing really available or do you desire anything for the specialty crops?

Mr. ISOM. The only thing we have for specialty crops is CAT insurance as far as our watermelons are concerned. Now for barley we use the current multi-peril insurance as we do for the cotton except the value of that crop is a lot less than the value of our cotton crop. We can grow a barley crop for $300 an acre and wheat crop for maybe under $400 an acre but our cotton crop from the time we plant it to harvest it, we are looking at over $1,100 per acre so there is a big expense in that crop compared to the others. It is much more critical to have that help with our cotton crop than it is the others.

Mr. LARSEN. Thank you. Thank you, Mr. Chairman.

Mr. MORAN. Mr. Larsen, thank you very much. The Chair would now recognize the gentleman from Arizona, Mr. Renzi. Mr. Renzi is not a member of the Agriculture Committee but is a very active member of a committee that I know makes a lot of sense and difference in Arizona, the Committee on Resources. Pursuant to our unanimous consent we have invited Mr. Renzi to join our panel for today and we are delighted to have you as a member of this subcommittee, at least for the moment.

Mr. Renzi, you are recognized for 5 minutes.

Mr. RENZI. Thank you, Mr. Chairman. I appreciate the kindness and the opportunity you extended me. I also want to thank the panel here, my fellow Arizonans, who have shown that they are forward leading and very interactive in their responses. The chairman whispered over to me that a lot of times when you get out on the road you don't get that. You get a lot of people sitting back reading testimony. This give and take is what it is all about for the great debate. I appreciate it.

I want to start with my friend Dave Cook who spent a lot of time teaching me a lot of the different types of barriers and some of the frustrations that the cattle industry has had, particularly in Gila

County. I think it pertains to all of our cattle producers across the country, particularly those who are trying to grow cattle on public lands.

In your testimony you brought out the fact that Gila County is 97 percent Federal land that you are having to deal with. A lot of people don't realize, maybe some of the folks in the audience, but on the resources committee we deal a lot with the Department of Interior but we do reach over sometimes and get involved with the Department of Agriculture because they have the Forest Service underneath them.

I would like, if you don't mind, please, just so some of my friends here from Washington could hear, what are some of the frustrations that you deal with as far as growing cattle on public lands and, in particular, how sometimes core herds of cattle are pulled off our leasing program and some of the frustrations that we go through as cattle producers.

Mr. COOK. Some of the frustrations we go through particularly in our county, we are solely dependent economically on the multiple-use system, mining, ranching, and used to be timber. When I see it you have the Department of Agriculture which holds the NRCS in it and holds the Forest Service in it. That is the same branch of Government. There should be crossing those lines where those can work together.

But what you have is you have the Forest Service which is the authoritarian over this giant land mass that blames you for everything. I mean, if the forest is in bad health, it is because of livestock grazing. If the soils are in bad shape, it is your livestock grazing. If the willow fly catcher is not growing in numbers, it is your livestock grazing.

When you are able to bring another agency such as the Natural Resource Conservation Service that has the tools and the experience and the education about range lands and livestock grazing to the table, I asked them to come to a meeting when they were going to renew our permit and do NEPA. The first word out of the rangeland specialist for the NRCS was, "Where is your soils data?"

The other agency looked at each other and they said, "We don't have any." And he said, "Then what are we doing here? How can we determine what the health of the rangelands are and they are capable of if we don't have that soil and that data and that information?" Those are some of the challenges.

Just by a telephone call no matter how hard you work, how many hours you put in, no matter what your financial status and investment is, you have that one agency that can call you up and say, "Monday you are going to get a letter and you need to remove all your cattle." You are not left with a core herd. You are not left with heifers. You are on a rotation system. That could be your sole amount of income for you and your family. I just don't think it is right for one agency to have that kind of power and authority over families, specially in counties like mine.

So all I am asking is the old farm bill says this; we can bring the USDA NRCS on to help us manage these rangelands because if it is good for private land, how can it not be good for Federal agricultural lands?

Mr. RENZI. Thank you, Dave.

Mr. COOK. You are welcome.

Mr. RENZI. I just want my colleagues to know John Wayne's old cattle ranch was in my district. Arizona beef is world renown, yet we are losing so many of our beef producers. Can you imagine taking a second mortgage on your home in order to get lease on a 1,000 acre or 500 acre draw and then being told 3 months into it that you are going to pull your core herd off.

You can't even get financially the money to get back on the land even if it does become healthy enough. A lot of folks believe in Cattle Free by 2003. We have seen bumper stickers in Government employee's lockers Cattle Free by 2003. That personal agenda is something I just wanted you all to hear and I do appreciate it.

Mr. Isom, you in your testimony brought out a little bit about the pink bollworm. The folks in the cotton industry have spent some time in my office teaching me that issue. I know that the Federal Government was able to get some monies into the Texas region and help do some eradication there. We were, I think, next on the list. Can you help me understand a little bit of that issue?

Mr. ISOM. You are asking me to talk about the pink bollworm eradication program?

Mr. RENZI. Yes.

Mr. ISOM. Actually it is a whole southwestern region that involves Texas, New Mexico, Arizona, Southern California, and parts of Northern Mexico. Actually it is an international endeavor. Texas and New Mexico had been involved with it for about 4 years. I don't remember if they are on their fourth or fifth year.

They are just about 95 percent, almost 100 percent pink bollworm free eradicated. We are just starting up. We just pass a referendum last year. We are putting sterile moth out, I believe, starting this month in May. Just the central and eastern part of the States will be the first to start on the program and then once that gets going next year we will bring in hopefully the western part of the State of Arizona.

Congress has approved $5.2 million for the sterile moth release program which is a very important part of the program because the sterile moths are released I forget how many millions a week but they release out over the crop and they propagate with the native moths and there is nothing there.

That is a major part of this program along with the BT cotton that we grow also. We are hoping that in the next 4 years that this program will be completed and the pink bollworm moth will be eradicated from the State of Arizona.

When we passed the referendum here in Arizona it was a 4-year program and that is all there is. We have 4 years to get it done and if we can't get it done in 4 years, that is all this program goes for. We are going to try really hard the next 2 or 3 years to get this thing completely eradicated.

Mr. RENZI. I appreciate it. I see my time is up. I wanted to have an opportunity to talk with the other gentlemen but I do appreciate the opportunity. Thank you all.

Mr. MORAN. Mr. Renzi, thank you. Mr. Renzi is correct. We have been very impressed with the testimony by the panel and especially your straightforward answers to our questions. Mr. Renzi mentioned Cattle Free in 2003. Mr. Rovey, you mentioned some State initiative that I couldn't find in your testimony. Just remind me what is going on in Arizona.

Mr. ROVEY. The same people that did the referendum in Florida on the pig crates is doing the similar sort of thing in Arizona trying to get on the ballot for humane treatment of animals. It is those type of referenda that really causes havoc in the animal industry.

Mr. MORAN. Thank you all very much. We are very grateful for your testimony. We actually have our next panel waiting in the wings and we are delighted to call to the table Mr. Bill Brake, cattle producer from Scotsdale, Arizona; Mr. Philip Bravo, a livestock producer from Peach Springs, Arizona; Mr. Paul Ollerton, wheat and cotton producer from Casa Grande, Arizona; and Mr. Nic Helderman, fruit and vegetable producer from Willcox, Arizona.

I was trying to decide who looked like the most anxious to begin. Mr. Brake, it looks like you have a smile on your face so we will recognize you first. Welcome. I look forward to hearing your testimony.

## STATEMENT OF BILL BRAKE, CATTLE PRODUCER, SCOTSDALE, AZ

Mr. BRAKE. Thank you, Mr. Chairman. I was just thinking about how I could switch these signs before everybody sat down. My name is Bill Brake. I am a rancher out in southern Arizona down by Elgin. I also have had ranches the last 25 years over in the eastern part of Arizona and also in Gila County.

Just to kind of set the record straight, we didn't get the memo, us cowboys, but I did iron my Levis, I polished my boots, and this is a clean shirt so I don't want you to think we are being disrespectful to yourselves.

Mr. MORAN. You look much more comfortable than we feel.

Mr. BRAKE. As I said, I am president of the Arizona Cattle Growers' up until the end of this week if I don't blow it so I will go forward with my testimony. I do thank you for allowing us to talk. I have got a little different approach to this than perhaps you may think. I want to talk to you a little bit about open space in Arizona. What I would like to do is talk to you a little bit about really two issues of ranching in Arizona. I need to make you understand, if I could, please, there are two issues.

Your farmers and ranchers in Kansas take my cattle. I ship cattle every year from here to go over on winter wheat and they go to feed lots. To the gentleman in North Carolina, it takes me 100 acres to run one cow. It takes you 1 acre to run a cow and I can't think why I am competing against you guys when I drive through that country. That is kind of a little difference between our two situations.

Arizona is a fast-growing community. Most people don't understand that Phoenix is bigger than Philadelphia, Atlanta, Detroit, San Francisco, San Diego, Denver. A lot of people don't understand that Tucson 10 years ago was the 57th largest city in the country and this year it is the 23d largest country. We are growing by leaps and bounds.

What does this means to ranchers? Well, we represent and manage on Saturdays and Sundays, not just Mondays through Fridays, the other places that these people in this area want to come and go. They come to go hiking, they come to go fishing, they hunt, they drive ATVs, and they use our areas to train their birddogs, go look at various types of wildlife, et cetera. We are proud to be managers of that.

The second, I wouldn't say problem, but second situation we have to do is we have legislation. We have legislation, for instance, that I am just going to give you some real quick examples of what we have. We have an EPA dust control measure in Maricopa County which should get passed this year. What it is going to do is say that all ATVs will have to not be used in Maricopa on dirt roads. They will have to go out.

There is right now approximately 47,000 registered ATVs in Maricopa County. When they go out of Maricopa County guess what counties they come to and ride on?

We also are dealing with a State land trust. We are going to go have an election here and it probably will pass. We are taking a bunch of cattle raising ranches, et cetera, and we are going to set those aside. Those areas are going to be managed by teachers so instead of me meeting with the Forest Service and people being on my land now are going to be meeting with the school to talk about managing land, another change from legislation.

I don't need to tell you. Probably you know this but there is a new forest management plan being enacted for the next 10 years. We have begged and asked to be part of that. They have told us we will be part of it. The reality is I have been to two meetings and I have been feeling that what they are going to do is tell me what is going on instead of letting me be part of the planning. I don't like that. I don't think that is right. I think that causes conflict.

I don't need to go into the Endangered Species Act with you. You probably have never run into the yellow bellied split tongue two nailed toad but we manage for that one, too. All of this means that we are required to put new fences out and new water lines out. That is part of our business because it is our job to manage those riparian areas.

The Forest Service doesn't go out and put—maybe they put signs out or give them to us and we put them out but it is us on the ground that manage that. We are the custodians of that.

What I would like to tell you, and I say this in jest and this is when you are going to ask me to leave, the Arizona Cattle Growers would like to make a deal with you. We would like to have your panel recommend to the Congress that we dispatch Congress a State legislation [sic] and we will in turn just deal with the rules and regulations we have now and we don't need anymore Federal or State land issues coming down in the future.

We think there is more going to come. Probably that won't happen but what we need to do is have Congress and State deal with what Mr. Cook was talking about. Talk about science, not emotion. Don't let laws and rules be passed on emotional issues. Let them be scientific.

All in all what we boil down to—I need to wrap up but what we boil down to is we have one thing going for us in the farm and ranch and that is the EQIP that Dave Cook talked about. That is the only thing that you bring to us ranchers when somebody from the Forest Service who has no money or somebody from the State has no money and tells us to build a fence, we go to the conservation programs and the farm bill and we ask for support on the EQIP program and, therefore, we can build a fence.

I built a fence for $8,000 a mile. The Forest Service builds them for $12,000. I build a water line for $8,000. It takes them $22,000 to build a model water line. I am the best person you have. I water more illegal aliens to keep them from starving and freezing to death than any single group in the country and nobody gives me credit for it. I lost five of them, Congressman Renzi, on my property last week, five. They are dead.

I don't know how many people would be dead if I didn't have those waters out there for those cattle. We collect more trash. We save more lives and we do more for conservation than any single group. We need your support of that conservation part. I thank you very, very much for the opportunity to talk to you.

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

Mr. MORAN. Thank you for your less than subtle testimony, Mr. Brake.

Mr. Bravo, welcome.

**STATEMENT OF PHILIP BRAVO, LIVESTOCK PRODUCER, PEACH SPRINGS, AZ**

Mr. BRAVO. First I want to tell you where I am from. I am from Hualapai Reservation. You have heard these guys talk. My friends here just alluded to the amount of country you guys have to work back there. The ranch I work on is over a million acres, bigger than some States. We are divided up into four associations on the reservation and I take care of a fourth of that million acres by myself.

First I would like to emphasize that with the push for alternative fuel is going to affect the farm bill because the guidelines in the farm bill say that a new farmer rancher can get 95 percent cost share. What I see happening in the Midwest is that some of the small ranchers are turning to farming for the fact that they can get the 95 percent cost share which is going to hurt us back here because we are trying to apply for that and we only get 50 percent cost share on the projects that we do. It makes it quite difficult for us to try to compete with everybody back east. I think that there should be an earmarked set of fundings for us out West because we have to overcome more severe conditions.

We have got prolonged droughts. We have to maintain and put in miles and miles of pipeline, maintain miles and miles of fence. I want to see the continuation of emergency fund programs, Drought Relief, Erosion, National Resources Conservation. This is only to name a few of them.

There is one thing that we do need a lot of help with and that is engineering in NRCS. I feel that we need to have an engineer in every zone within the State of Arizona. Right now we have 2 engineers in the NRCS program that takes care of all the districts and the zones throughout the whole State of Arizona.

When I am trying to go out and get a project and try to get something done, they tell us to use a third party vendor. I understand this but when I go and hire an engineer and he sees that I am going to get this money, we see people jacking their prices up. They run them up so high that it goes out of the bounds of my projects. I end up losing those because of the fluctuation of prices right now, oil products, petroleum products.

We have to get a guarantee. When we do a project the next week I turn my paper in, that price has already changed on my pipe. I have turned it in for $1.60 a foot and when I get it back and get ready to do my projects I am at $1.80 or $2 a foot and we can't do our projects. We are getting out of it.

Flexibility. All the departments need to work together. We have discussed Forest Service. We need to discuss BLM, Forest Service, Wildlife and Native Lands. Everyone of these has a different policy and we need to get away from having separate policies on all of these organizations. We should have one set policy that we all deal with. Without that we end up bumping heads all the time. There is always a conflict. Forest says that you have to pull out. BLM says you have to pull out because of grazing issues. We have the sacred Native Lands and they all have a political issue, every one of them, very political.

The funding is really unclear to me when it comes to the State. I don't know how it is divided. Especially when it comes to natives I don't know if it is divided after it comes to the State and they take the funding and say, "OK, here are all the zones in Arizona," and you put the native lands in one bucket over here. Are we all treated equal or is just we are getting leftover what hasn't been issued out? That is really unfair and we need to know that.

I am running short of time but there is animal ID real quickly. I think that we need to forget about animal ID and I think the Government needs to stop the import of livestock over 30 months of age into the United States to protect our borders from foreign diseases and take all the pressure off of the local ranchers. We are putting more laws on our local ranchers than we are on foreign countries. That is a fact.

Direct funding. I think that direct funding should be on a government-to-government relationship and straight across with natives because they are all sovereign. There is a sovereignty issue there. I don't see why we can't work directly with them. 1990 farm bill, FSA and Grant and Loan Programs were suppose to provide someone on all reservations 2 days a week.

We would like to comply with this law. This law has not changed. Therefore, more direct presence on Indian land needs to be honored by the 1990 farm bill. That law hasn't changed and they have not put anybody on native lands. There is more and you guys can read it. I will take any questions later. Thank you.

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

Mr. MORAN. Thank you, sir, very much.

Mr. Ollerton.

**STATEMENT OF PAUL OLLERTON, WHEAT AND COTTON PRODUCER, CASA GRANDE, AZ**

Mr. OLLERTON. Mr. Chairman, members of the subcommittee, welcome to Arizona and thank you for holding this hearing. I appreciate the opportunity to present remarks about future farm policy, with an emphasis on cotton.I have a statement for the record that you have all been provided with. I have a statement that I would provide at a later date pertaining to Carl Butt and the wheat issues in Arizona if you would like.

My name is Paul Ollerton and I farm in the Casa Grande Valley. I will grow 700 acres of cotton this year as well as wheat, barley, alfalfa and watermelons. Mr. Chairman, Arizona is a State with an extraordinarily diverse agricultural economy. It is critically important to our farmers and ranchers that our farm policy remains balanced between commodities. Even slight acreage shifts from row crops to specialty crops can result in market disruption. In addition to sound farm policy, science-based regulations and an effective immigration policy are important to Arizona farmers and ranchers.

Virtually all of Arizona's cotton producers strongly support the current farm law. It is imperative that it continue to operate without major modification through its scheduled expiration with the 2007 crop. Our producers have made substantial long-term investment, cropping and marketing decisions, which are based on current law. We are particularly concerned by annual proposals to further tighten limitations on benefits or limit eligibility to the loan. Current limitations already place most of our operations at a significant disadvantage because of our costs and economies of scale.

The combination of a marketing loan, counter-cyclical payment when prices are low and a direct payment for stability are a sound foundation for future farm policy. Although we currently produce very little extra-long staple cotton, Arizona was once a significant producer and we support continuation of a loan program with a competitiveness provision to ensure U.S. extra-long staple cotton, also known as Pima cotton, remains competitive in international markets. The balance between the upland and Pima cotton programs is important in California and Arizona to ensure that acreage is planted in response to market signals and not program benefits.

If negotiations in the DOHA round have not been completed to the point that the impact on future U.S. farm policy is clear, we would support continuation of the current farm bill for at least one additional crop year.

Mr. Chairman, we know you recently returned from Geneva where you were briefed on the DOHA round. We are deeply concerned that the language in the recent Hong Kong Ministerial agreement will be used to single cotton out for special and differential treatment.

We ask that you and your colleagues urge the U.S. negotiating team to insist the negotiations be conducted as a single undertaking with no early harvest for cotton. We also urge you to make clear to our negotiators that the agreement must include meaningful increases in market access for all commodities before there can be agreement on reductions in domestic support.

We are also concerned that certain countries, which are highly competitive in world markets, not be allowed to utilize special and sensitive product designations and safeguards, designed to assist the poorest of the poor, as a way to avoid committing to significant increase market access.

The U.S. cotton industry has supported the DOHA round but we will not be able to recommend that Congress support an agreement that requires cotton to accept deeper and quicker reductions in domestic support; that does not provide significant, meaningful increases in market access and that allows countries like Brazil, China, Pakistan and India to declare themselves as developing countries solely for the purpose of avoiding concessions.

Conservation programs will continue to be an important component of farm policy. For example, the Environmental Quality Incentives Program (EQIP) can be useful as we work to improve air quality. Conservation programs should be operated on a voluntary, cost-share basis as a valuable complement to commodity programs. However, they should not be viewed as an effective substitute for the safety net provided by commodity programs.

Since Arizona exports almost 100 percent of our annual cotton production, we strongly support continuation of the successful public-private partnership fostered by the Market Access Program (MAP). And we urge continued funding for the Foreign Market Development program and a WTO-compliant export credit guarantee program. These are so-called Green Box programs under the WTO and they enable us to effectively maintain important markets.

Research and crop insurance are also important to the future of our industry. We are particularly frustrated that the Risk Management Agency has been unsuccessful in responding to our need for affordable, higher levels of crop insurance coverage. We need to insure levels of 90 or even 95 percent of our yields in order to have effective risk management. You have also heard comments about our successful attempts to reduce and eliminate aflatoxin. This is a classic example of the important benefits to be derived from agricultural research.

In conclusion, Mr. Chairman, I want to briefly address the specialty crops. Recently some groups have made it clear that they want to be a significant part of the next farm bill through increased earmarked funding for conservation, nutrition, research and block grants. Our challenge is to identify the funds for these new or enhanced programs without having to substantially reduce current levels of support.

The cotton industry does not oppose programs that benefit specialty crops. In fact, given the diverse cropping alternatives in Arizona, we need a viable specialty crop market. However, we also need balance between programs and we need adequate resources. We look forward to working with the specialty crop interests and Congress in addressing their concerns.

Thank you for the opportunity to present these views. I look forward to working with the members of the committee in developing effective farm policy.

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

Mr. MORAN. Thank you very much.

Good segue into the testimony of Mr. Helderman.

**STATEMENT OF NIC HELDERMAN, FRUIT AND VEGETABLE PRODUCER, WILLCOX, AZ**

Mr. HELDERMAN. Thank you. I am Nic Helderman, chief operating officer, at Eurofresh Farms in Willcox, Arizona. Eurofresh Farms produces tomatoes and cucumbers year round in state of the art greenhouses. We started in 1992. At the moment Eurofresh Farms has 265 acres of greenhouses and we employ 1,050 employees, producing 3 million pounds of tomatoes and cucumbers per week. These tomatoes and cucumbers are sold all through the United States.

Mr. Chairman and distinguished members of the committee, thank you for the opportunity to discuss Federal agriculture policy and the 2007 farm bill. It is critically important that Congress focus on the many challenges that now face our nation's growers of fruits, vegetables and other specialty crops. I commend you for coming to Arizona to learn more about these issues.

Growers of specialty crops currently are confronted by many pressing issues that must be addressed by Congress in the 2007 farm bill. As markets become globalized, as Federal and State regulation of our industry increases, and as trade barriers continue to block access to foreign markets, it is increasingly difficult for growers to compete against foreign producers who are often heavily subsidized and minimally regulated.

A competitive domestic specialty crop industry is necessary for the production of an abundant, affordable supply of highly nutritious specialty crops. In addition, with all the concerns about food safety and bio-terrorism today, a secure domestic food supply is critical to our national security. Federal agriculture policy must be improved dramatically if we are to sustain an efficient and productive domestic specialty crop industry.

The support for current methods of growing crops in the United States is both vital and important to our country's agricultural production and overall economy. We would also like to highlight that there is an emerging method of growing specialty crops that is worthy of consideration. In the Southwest greenhouse technology is effectively and efficiently producing tomatoes and cucumbers by utilizing the abundant sunlight while significantly conserving water. The benefit of greenhouses extends beyond water conservation by helping to lower emissions through energy efficient heating and cooling systems that ultimately create oxygen and reduce carbon dioxide.

Our challenge is that what is internationally declared as "Greenhouse Grown" is not comparable to the high tech standards found in the United States. This gives an unfair advantage to those international growers who do not provide the same quality products that are pesticide free and grown to Federal regulated standards. Having a USDA approved "Greenhouse Grown" standard would be a first good step to leveling the playing field.

To conclude, Arizona specialty crop growers would greatly appreciate the opportunity to work with the Members of Congress in crafting a farm bill that fully recognizes our unique needs, and also allocates a level of resources sufficient to sustain our growers in global markets.

Thank you, Mr. Chairman, and members of the committee, for this opportunity to testify here today.

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

Mr. MORAN. Thank you, Mr. Helderman, very much.

Mr. Brake, let me begin with you. You described the wide array of activities that occur on your land as a result of city folks, urban folks coming to rural Arizona to recreate. I am trying to understand the unique nature of Arizona with its public lands. Does that all occur because you ranch on public lands and, therefore, you have little ability to control access?

Mr. BRAKE. To a great degree it is, Mr. Chairman. I ranch on public land which happens to be BLM. I also have a big portion of my ranch on State land. I also have a portion of my ranch on private land. The problem we have is if we cut the access off private lands to get to public lands, it causes real conflict and ranchers become bad guys. We are essentially inundated with people on the weekend to use the public land many of which have to go through our backyard, literally in my case, my backyard to get to those private lands.

Mr. MORAN. So provisions of the lease with the BLM or the State of Arizona require public access and then you have lost the ability to control public access to your private land because that is the route to the public land.

Mr. BRAKE. To a certain degree, right. Or I could have a full-time guard going around 40 miles of fence and see when they cross over from public lands into private lands which is not practical. The best thing to do is a working relationship with as many of the people who use it as you can.

Mr. MORAN. All of the livestock producers, I think, have talked about the importance of EQIP. Let me turn to Mr. Helderman or Mr. Ollerton. Help me understand what other conservation programs, if any, are important in Arizona. Are there other provisions under the conservation title of the farm bill that matter here? In Kansas CRP is an issue. Another one that's growing is the conservation security program. Did those or other components of conservation programming apply in Arizona?

Mr. HELDERMAN. As far as I am concerned with our greenhouses I don't know any of those conservation programs.

Mr. MORAN. Mr. Ollerton, anything from the cotton side?

Mr. OLLERTON. The last part of your statement you were talking about conservation reserve, I believe. Then there was something else.

Mr. MORAN. The other one is the Conservation Security Program. That is a growing interest across the country. It is a working lands conservation program. I am just curious whether those kind of programs have any application in Arizona.

Mr. OLLERTON. I am not really that familiar with either one of them to comment.

Mr. MORAN. That may answer my question. It probably does.

Mr. Helderman, you mentioned about greenhouse labeling. I am not sure what your exact phrase was but some standard by which we establish a label. Does this issue apply to similar kinds of considerations when it comes to country of origin labeling? The specialty crops, the fruit and vegetable folks, depending upon who you are and what part of the country you are in, you have had an interest in labeling kind of the Native America label. Is that of interest or issue to you?

Mr. HELDERMAN. We like the country of origin label because we produce all our tomatoes and cucumbers in the United States. Also when I refer to the Greenhouse Grown standard, international growers. They may produce tomatoes and plastic structures. There is no high tech. There is no pesticides. The quality of those foods are far below our standards but still they enter the United States market as Greenhouse Grown products.

Mr. MORAN. And the consumer in the United States would not know the difference until, I guess, they——

Mr. HELDERMAN. Until they eat it.

Mr. MORAN. Until they eat it. And I assume that crop insurance in your greenhouse operation is not anything of importance to you that you have been able to reduce the risk, weather related and otherwise, that crop insurance is not an issue for folks who utilize greenhouse growth?

Mr. HELDERMAN. Well, it is still an issue but it is not an issue in the same context that you are talking about.

Mr. MORAN. In what way is it an issue?

Mr. HELDERMAN. We always are watching the diseases and the pests but because we have a controlled environment we can manage those pests much better than open field growers.

Mr. MORAN. Do you utilize crop insurance?

Mr. HELDERMAN. No.

Mr. MORAN. OK. I think that is the extent of my questions at the moment. Let me turn to the gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Mr. Helderman, as you know, specialty crops do not receive much support from the farm bill. Nowhere near as much support as other commodities. To provide more equitable allocation of resources would likely mean producing funding for other parts of the farm bill would probably present some challenges if we are looking at a tough tight farm bill next time. My question to you is this as it relates to specialty crops.

If we are squeezed for additional funds for the benefit of specialty crops, and we are hearing that from a number of folks who are into specialty crops, which of the priorities that you included in your testimony would give your industry the biggest bang for the buck? As an example, more money for nutrition aimed at fruits and vegetables? State block grant program? Technical assistance? Pest and disease research? What is the top priority of your funding the industry?

Mr. HELDERMAN. I think it would be pest and disease research. Plus I would like the labeling for the Greenhouse Grown.

Mr. ETHERIDGE. That would be No. 1?

Mr. HELDERMAN. Yes.

Mr. ETHERIDGE. All right. Then what would be No. 2?

Mr. HELDERMAN. Greenhouse Grown would be first and pest and disease research would be second.

Mr. ETHERIDGE. OK. That is the kind of issue that we may have to deal with next time around.

Mr. HELDERMAN. I understand.

Mr. ETHERIDGE. Let me ask you one other question along that line because the outcome of the WTO cotton decision raises questions about our ability to maintain the prohibition of planting fruits and vegetables on contract acres. If the United States is forced to life this prohibition, what impact do you think it will have on the fresh and processed fruit and vegetable industry? What would be the appropriate remedy for fruit and vegetables if this were to occur?

Mr. HELDERMAN. I don't know the affect on processed vegetables so I will have to find out. I don't know.

Mr. ETHERIDGE. I think that is one of those things we would like to hear from.

Mr. Bravo, let me ask you one question. Most of your testimony talks about NRCS. Tell us a little bit about the relationship between tribal farmers and the Farm Service Agency. By that I mean do tribal farmers participate in the commodity programs administered by FSA? Are they getting an adequate level of service and, if not, is it simply a question of resources or the approach taken to working with tribal farmers by FSA?

Mr. BRAVO. A lot of it has to do with the way the tribes are set up. Some tribes have a natural resources program. Some have a soil conservation board and some don't. Most reservations are set up in associations and the individuals don't deal directly with NRCS on a one-to-one basis. It is dealt with tribally which makes it really hard for us because we cannot apply for limited farmer. You have that program where I can't apply for that because someone within an association, say the chairman of the Hualapai tribe was in my association and he makes a pretty good chunk of money.

Mr. ETHERIDGE. Let me ask you a question, though. Is that an NRCS problem is it a tribal issue?

Mr. BRAVO. I think it is an NRCS problem because I think NRCS ought to fix that problem because what they ought to do is be able to let the rancher and the farmer or the association be able to apply for those funds. Right now we can't because within the association there might be 10 owners and one of those people make over $60,000 and the whole association can't apply.

Mr. ETHERIDGE. OK. That seems to be an area that will take some attention. Every year it seems that there is a fight during the appropriation process in Washington on overfunding for market access programs. Now we are dealing with WTO issues as well. How important is the market access program to your knowledge as it relates to your product? How important is that to you to exports?

Mr. BRAKE. It is very important, I think, to our industry and to our association and to me as a member. I market natural beef. I am looking for niches in order to compete in the world, let alone in Arizona. Any help that I can get, and I have applied for help, to market that and help me advertise and get that word out that I have it available here is very important.

Mr. ETHERIDGE. Do the rest of you agree?

Mr. ROVEY. I agree with that.

Mr. ETHERIDGE. Thank you. I will yield back.

Mr. MORAN. The gentleman from North Carolina, Mr. Butterfield.

Mr. BUTTERFIELD. Thank you very much, Mr. Chairman. Let me get back to you if I can, Mr. Bravo, for just a minute. Let me make sure I fully understand do the tribal farmers in this region participate in commodity programs with the FSA?

Mr. BRAVO. Yes, they do. I can only say that the reservation that I am from.

Mr. BUTTERFIELD. Are you satisfied with the relationship that you have with FSA with respect to commodity programs?

Mr. BRAVO. It works but it is slow. It is slow. Like when we got our drought relief funds we just got paid for drought relief funds last year for 4 years ago. It took us that long to get recompensated for the drought.

Mr. BUTTERFIELD. And what would you attribute the delay to? Is it just the lack of resources or is it the insensitivity of FSA to your needs? We get a lot of complaints in the south from minority farmers about the insensitivity of FSA organizations. Do you have that same situation here?

Mr. BRAVO. I wouldn't say so much as that. I think it has got to do with the limited number of staff. You don't have enough people. NRC does not have enough people to cover the State of Arizona. There could be sensitivity in that certain part about native farmers. Some people believe that native ranchers ranch for free on Reservations. That is not true.

I pay a grazing fee just like this man does and just like the rest of everybody. The only thing is my grazing fees are 25 percent less than the State. What they do on our Reservation is they took State BLM and Forest Service and rounded it off into a nice figure and then knocked off 25 percent so we pay grazing fees like everybody else. We don't get it for free.

Mr. BUTTERFIELD. Generally speaking are your credit needs being met with FSA?

Mr. BRAVO. Yes.

Mr. BUTTERFIELD. Generally speaking. I understand there may be some delays and all of that but generally speaking the relationship is good?

Mr. BRAVO. Yes.

Mr. BUTTERFIELD. What about the young or beginning farmers? Are they able to obtain credit to buy or lease land and equipment?

Mr. BRAVO. They can. There is funding out there through these programs. The problem is that the interest rates are so damned high that you can't do nothing. It is cheaper to go to a bank than it is to use money in Government programs. I think we need to change that because if you are supposed to be helping everybody, it is not happening. We would rather go to the bank and get treated like a human instead of going through your program and they don't even look at us.

Mr. BUTTERFIELD. That is a very powerful statement. We are going to take that back to Washington.

Mr. BRAVO. Yes, sir. Take it back.

Mr. BUTTERFIELD. We will fix it Monday morning.

Mr. BRAVO. Thank you.

Mr. BUTTERFIELD. I am saying that in jest of course. The hour is late, Mr. Chairman. Thank you very much. I yield back.

Mr. MORAN. Thank you very much.

The gentleman from Washington.

Mr. LARSEN. Butterfield, go back and fix your programs. It is your fault.

Mr. Helderman, you grow tomatoes and cucumbers. Do you export those or are those for domestic?

Mr. HELDERMAN. Mostly domestic. We export a little bit in the wintertime.

Mr. LARSEN. OK. With regard to greenhouse, you didn't mention any specific countries that your proposal of Greenhouse Grown would impact across the border from my district in Northern Washington State in British Columbia. If you drive across the border and then into Vancouver, British Columbia, the Fraiser Valley is covered with greenhouses growing, I think, tomatoes, largely tomatoes. How would you compare the standard of those greenhouses to the standard that Eurofresh has here in Willcox?

Mr. HELDERMAN. I think the Canadian standards are pretty close to the standards that we have in Willcox. When I am talking about international growers, it is mainly producers from Mexico.

Mr. LARSEN. Mainly Mexican producers.

Mr. HELDERMAN. Yes.

Mr. LARSEN. Your testimony is pretty interesting to me. In Washington State we have 250 or so individual crops or commodities or products grown in agriculture. About half of those are grown in my district. A lot of specialty crops in my district. Trying to keep track of them is pretty tough. We are the No. 1 producer of red raspberries in my district and 10th most productive dairy county in the country is in my district. Red potatoes eaten all over the country are grown in my district. We try to export a lot as well.

The reason I bring this up is because it gets to the point in specialty crops, and your testimony said it is important to note specialty crop growers produce over $55 billion in crops in 2004, about 50 percent of the total crop production. Yet, a small portion of the USDA budget has allocated policies and programs.

We joked in 2002 that we were successful in increasing the specialty crop allocation from a half a percent to 0.6 percent and considered that a victory in 2002. I think the discussion that we have had here from Mr. Helderman and others about what is the new balance going to be if at all, I think it is important to note what we can do to help with export, especially with regard to specialty crops. You mentioned the market access program. Can you identify specific actions or specific programs that are especially helpful to export for specialty crop producers?

Mr. HELDERMAN. First of all, I think 20 percent increase was a good start so if you do that a couple of years we will be in good shape. As it comes to how you can help the export, I think it is important that you get the standards well known to everybody so that our international markets know food is safe and how healthy so then I think many counties will be excited to import those specialty crops. I think if you can make it standard with everybody and they appreciate it, then the export will benefit.

Mr. LARSEN. Thank you. Thank you, Mr. Chairman.

Mr. MORAN. Our host, the gentleman from Arizona is recognized.

Mr. RENZI. Thank you, Mr. Chairman.

Mr. Brake, I want to thank you for coming out today. It is always a pleasure listening to you. I grew up bow hunting on your ranch along that spot in the Mustangs. To me your ranch is one of the most beautiful in the nation. It really is. My little ranch is just down the road from you. We are probably less than three-quarters of a mile from each other.Last week I know you suffered great loss when we saw some of the illegals that were killed out there in the road right out in front. I think they had it locked down where you couldn't even get into your ranch for a while.

Mr. Cook and you both talked about the EQIP program and you talked about how there is some assistance in the bill as it relates to some of the fencing and the corral work, some of the equipment you all put up and the improvements that you make to the property.

When the illegals come through your ranch and they cut your fence, we have also had some ranchers down in Southern Arizona that had a lot of their cattle shot, I commend you still for reaching out from a humanitarian standpoint and taking care of our brothers and sisters to the south who we rely on very much within this industry.

Is there any type of reimbursement that you find at all or do you think there is any kind of a policy the Federal Government should employ that would help reimburse you for that loss, particularly to your equipment, to your fencing, to your cattle, to your operations, sir?

Mr. BRAKE. Thank you, Congressman Renzi. It is a pleasure to have you as a neighbor. I think you have missed a few of those deer up there, too, but I shot a record buck this year, which have brought more people down to the ranch, by the way.

The illegal alien problem, they are humans, OK? I mean, I don't care who they are or what they are. I sit there in the wintertime and I see them freeze to death 100 yards from my house while I am sitting at the fireplace. I found them out there dying of thirst and got them to the hospital just in time. You never hear about that.

Frankly, gentlemen, you have got a problem and you better fix it. I have over 100 people, the border patrol, coming through out place every night, 100 of them. It is real. It is not a joke. I have fence cut because people don't like to get ripped up by barbed wire so they bring fence cutters. Pretty obvious.

If they can't get to the water underneath a cattle trough they will turn the cattle trough off. I pay for that. I am the guy that buys the diesel to get out there and I am the guy that goes to the local hardware store and buys all that stuff. Politically in Arizona all the money is going to the counties and Government agencies for various other things.

When it gets down to us, the people who were there Monday through Sunday, we don't get anything. We are the guys paying the price but the county wants some, the governor wants to get this. We have no help from anybody on that and we have no solutions in the long or short term so we would appreciate something.

Mr. RENZI. I appreciate that. I would point out to my colleagues there are many bills that reimburse our counties for ambulance services, for law enforcement, for jail facilities, for a lot of the cost as it goes to the issue on illegal immigration, but there is no real reimbursement to our farmers and our cattlemen for some of the loses that they have.

Mr. Bravo, thank you for coming down from the Hualapai. It is just outside my district. I represent more Native Americans than anybody else in Congress and did not know, sir, forgive me for my ignorance, that you all paid a lease on the land. I don't know how you say sovereignty and yet you pay the State but, hey, I understand.

You and your testimony talked about the fact that you would like to see no calf over 30 months come into America. That was interesting, I thought, as far as some of the disease and some of the new diseases that we are seeing growing around the world. Can you elaborate on that, please?

Mr. BRAVO. Yes, sir. Mad cow disease is found in most animals over 30 months of age. Our borders are not very well protected. If you guys read the papers 3 months ago, the beef that came in from Canada, 21 head came into Canada and they were suppose to be under 21 months of age. They were supposed to be unbred. Four of the cows were bred when they were slaughtered. One of them was 3 years old.

That tells us that our border people are not doing our job. USDA is not doing their job if those inspectors are letting animals come through because when those animals are dead, all you have to do is look at their teeth and it will tell you how old they are. If foreign countries don't do that test, let us give them back to them. Foreign countries are dictating what our Government is doing and our Government is saying, "OK. Do it."

Mr. RENZI. I appreciate it. So you would like to see the new farm bill include some sort of limitation on the age or better inspection at the border?

Mr. BRAVO. Yes, sir.

Mr. RENZI. Thank you, my friend.

I know my time is up, Mr. Chairman. I am honored to have been able to stay here and visit with you and learn a lot today. Thank you for allowing this.

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

We thank the panel for their testimony. Again, this has just been a real highlight for us to be able to be here in Arizona. I am so glad we accepted Mr. Renzi's invitation. You do have many unique challenges. There are things that are different in the Southwest part of the United States than there are in the Midwest and the east coast.

Again, agriculture is so diverse and I think those of us who care about farmers and ranchers, who care about producers, we need to understand those challenges and we need to make a concerted effort, although Mr. Brake has already suggested that we simply go home from this hearing and not return to Washington.

We hope by the time the hearing is done that you would conclude that at least the five of us were welcomed back in Washington to try to make a difference. It has been a very useful afternoon and

I am very grateful for the words and testimony and the education that you provided us.

I am told, and in fact I can see my former colleague, Matt Salmon here today and we welcome you. It is nice to see you again. I am told that Representative Cheryl Chase is here who serves in the State legislature. Welcome, Representative. Thank you very much. She serves on the Agriculture Committee and we are glad to have her join us today.

Mr. Renzi, any concluding comments?

Mr. RENZI. I just want to say thank you to my fellow Arizonans, my patriots, for turning out today and engaging in a debate in this first of many hearings that are going to go on around the country to help formulate and change the foreign policy for the future. It is out country, our Government, and those of you who take time to engage in the great debate, you all are true patriots.

I know the Arizona Farm Bureau and the Arizona Cattle Growers are talking about having a barbecue just east of here on the main lot of the campus. I am told there are enough steaks for everybody so I would invite you to come out. I know the Congressmen and I will all be there. Let us chat a little bit more. God bless you for turning out today. Thank you.

Mr. MORAN. Mr. Renzi, thank you very much. We also appreciate our audience and those that we have the opportunity to visit with a little later this evening, that would give us an understanding of issues and things that maybe you didn't hear raised that we would be glad to visit with you about.

Without objection, the record of today's hearing will remain open for 30 days to receive additional material and supplementary written responses from witnesses to any question posed by a member of the panel. That also is a reminder to those of you in the audience who weren't a member of the panel, if you would like to submit written testimony to our subcommittee for purposes of your thoughts about farm policy and the next farm bill, we would welcome that. You need to see one of our staff members or the clerk.

With that this hearing by the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 4:09 p.m. the subcommittee adjourned.]

[Material submitted for inclusion in the record follows:]

## STATEMENT OF DAVID L. COOK

Chairman Moran and members of the committee, I want to thank you for the opportunity to address you on the needs of producers in Gila County, Arizona and throughout the Western States. My name is David L. Cook and my family and I are proud to say that we are producers of American beef.

Livestock producers who operate on state and Federal lands in the west play a significant role in America's agricultural production. Congress has authorized and funded farm bill programs to address natural resource priorities and concerns on watersheds, agricultural lands and other lands in the United States. farm bill programs should benefit all agricultural producers. In the west, that means private, tribal, state, and Federal lands. Each of these land ownerships have a separate and distinct status that must be carefully defined and consistently addressed across all farm bill programs. Let's make the conservation provisions of the next farm bill about high quality conservation on working agricultural lands, and not a private land vs. other lands program.

In my county (Gila) the amount of private land is approximately 3 percent. This 3 percent includes those lands used for mining. The remaining 97 percent of land ownership is Federal. Our Federal grazing allotment is approximately 11,000 acres of U.S. Forest Service (USFS) while we operate from our private land of four acres. There must not be a set limit on private land ownership to qualify for farm bill programs.

The 2002 farm bill (7 CFR 1666.8) states the following land is eligible for the Environmental Quality Incentives Program (EQIP):

- Cropland
- Rangeland
- Pasture
- Hayland
- Forestland
- Other land on which crops or livestock are produced, including agricultural land that poses a serious threat to soil, water, air, or related natural resources.

It further states (7 CFR 1466, d) "Sixty percent of available EQIP financial assistance will be targeted to conservation practices related to livestock production, to include grazing lands and other lands directly attributed to livestock production as measured at the national Level." This percentage must be maintained or increased in the new farm bill.

In August 2004, President George Bush issued an Executive Order in the "Facilitation of Cooperative Conservation." This executive order action was to relate to the use and enhancement of natural resources, protection for the environment (or both) and urged the involvement of collaborative activity among Federal, State, local, and tribal governments.

With these two tools we have been able to put together a coalition of experts from the USDA, Natural Resource Conservation Service (NRCS), University of Arizona—Extension, the livestock industry, and the local, county, and state governments to assist us in managing not only our 11,000 acre grazing allotment but an additional 45,000 acres of private and Federal agricultural land that we either manage directly or indirectly in our watershed.

In the west, cooperative conservation is essential. In a pilot program that is now on its third year in bringing the NRCS on USDA, USFS lands to assist in Coordinated Resource Management (CRM), has had a tremendous positive impact on our economy, way of life and most importantly our rangelands in Gila, County.

Locally led conservation is essential to efficient and effective implementation of farm bill programs. Agencies must not try to manage the work of conservation from Washington DC. The NRCS State Conservationist has a State Technical Committee made up of other Federal agencies, state agencies, conservation districts, producer groups and others who provide sound technical advice to the State Conservationist on important local resource concerns and the eligibility criteria and standards appropriate for the local crops, livestock, soils, and climate. Requiring reasonable uniformity with adjacent states also ensures reasonable program consistency across the country. Setting a national resource standard for program eligibility has left some of the best agricultural producers out of the farm bill programs.

In cases in the west, we need the new farm bill to expand the possibilities of cooperative conservation and resource management on all lands to include Federal lands. This means bringing the experts of range management from the NRCS and their management tools to the producers of Federal lands. How can we say what is good for treating and managing private, tribal and state lands not be good for Federal agricultural lands?

The work of agricultural conservation is not the same as the work of Federal land management. NRCS conservation programs offer agricultural producers the opportunity to voluntarily participate in improving resource management on working agricultural lands. Congress must appropriate funds to the NRCS for providing voluntary conservation programs across private, tribal, state, and Federal lands. These lands must be included in the allocation of technical assistance funds to western states.

Permanent improvements installed on Federal lands are currently claimed by the Federal Government, providing little incentive for Federal land agricultural producers to voluntarily invest in conservation. These permanent improvements voluntarily installed by agricultural producers on Federal lands should belong to the producer.

This would be an incentive to install conservation practices and assist in maintaining a viable ranching operation while providing land management from producers on these Federal agricultural lands.

It is my opinion that conservation, resource enhancement, protection, and use of natural resources dollars that are allocated to the agencies such as the USFS rarely ever trickle down to the producers. It is lost between Washington, DC and in the process prior to reaching us on the ground.

I ask that those limited dollars be maximized by expanding on current avenues that were made available by congress in the 2002 farm bill and President Bush's Executive Order and not only continue programs such as ours, but expanding them further in the west.

When Coordinated Resource Management planning is done between land users, multiple agencies, and multiple disciplines, the requirements of NEPA and Section 7 consultation should be considered met. Can you imagine the cost savings that would have within the Federal Agencies that are struggling with court ordered deadlines and regulatory burdens where grazing is concerned?

I can not express to you how having the NRCS as a partner in grazing land management has helped us in managing our 11,000 acre allotment. We have been able to implement conservation practices on the allotment just within a few years that were unrealized in the past 30–50 years with just one Federal agency (USFS) involved.

I am seeking to reinforce and extend the benefits of CRM of Federal agricultural lands by updating and improving our current farm bill provisions in the next farm bill.

Once again, I want to thank you, and offer any future assistance to you and this committee that you may require, in the shaping of our next farm bill to better serve agricultural producers in Arizona and the other 14 western states.

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## STATEMENT OF NIC HELDERMAN

I am Nic Helderman, chief operating officer, at Eurofresh Farms in Willcox, Arizona. Eurofresh Farms produces tomatoes and cucumbers year round in state of the art greenhouses. We started in 1992. At the moment Eurofresh Farms has 265 acres of greenhouses and we employ 1050 employees, producing 3 million pounds of tomatoes and cucumbers per week. These tomatoes and cucumbers are sold all through the United States.

Mr. Chairman and distinguished members of the committee, thank you for the opportunity to discuss Federal agriculture policy and the 2007 farm bill. It is critically important that Congress focus on the many challenges that now face our nation's growers of fruits, vegetables and other specialty crops. I commend you for coming to Arizona to learn more about these issues.

Growers of specialty crops currently are confronted by many pressing issues that must be addressed by Congress in the 2007 farm bill. As markets become globalized, as Federal and state regulation of our industry increases, and as trade barriers continue to block access to foreign markets, it is increasingly difficult for growers to compete against foreign producers who are often heavily subsidized and minimally regulated.

A competitive domestic specialty crop industry is necessary for the production of an abundant, affordable supply of highly nutritious specialty crops. In addition, with all the concerns about food safety and bio-terrorism today, a secure domestic food supply is critical to our national security. Federal agriculture policy must be improved dramatically if we are to sustain an efficient and productive domestic specialty crop industry.

It is important to note that specialty crop growers produced over $55 billion in crops at the farm-gate value in 2004, or approximately 50 percent of the value of total crop production in the United States. However, only a very small portion of the resources of the USDA budget are allocated to policies and programs that address issues of concern to specialty crop growers. In the future, the allocation of Federal resources aimed at addressing issues of concern to specialty crop growers must reflect the value of their production to our economy, as well as the dietary and health needs of American consumers.

It is important to understand that growers of specialty crops have different characteristics and face unique challenges compared with growers of Federal program crops. As a result, many Federal agricultural policies do not adequately address the needs of specialty crop growers.

As noted above, specialty crop growers in Arizona and across the Nation make a large contribution to our economy. However, this economic activity is in jeopardy due to a number of disturbing trends now facing our industry. These trends include:

- Stagnant export growth due to a lack of access to foreign markets. As a result, a U.S. trade surplus in fruits and vegetables of over $600 million in 1995 has become a trade deficit of nearly $2.3 billion in 2005;
- Heavily subsidized foreign competition. For example, the European Union provides over $12 billion annually in subsidies to fruit and vegetable growers;

• The loss of cost-effective crop protection tools due to Federal and state laws;
• Increasing import competition from growers in nations with minimal regulation;
• Increasing pest and disease problems due to the growth of international trade; and,
• Increasing Federal and state regulation, such as clean air and clean water restrictions.

These trends represent extremely difficult challenges because they are putting enormous downward pressure on the economic returns of specialty crop growers. The Federal Government has an important role to play in making sure specialty crop growers have the tools needed to combat these forces and ultimately remain competitive in global markets.

As you know, the Specialty Crop Competitiveness Act was introduced in 2003 to begin addressing the trends mentioned above. The enactment of an amended version of this legislation in 2004 was a small, first step towards this objective. The support and leadership of the members of this subcommittee on behalf of the Specialty Crop Competitiveness Act is greatly appreciated.

Much work remains to be done in the 2007 farm bill to address the competitive issues that confront specialty crop growers. As a member of Western Growers, I am aware that our industry has already started working on proposals for the farm bill. Western Growers is co-chairing the farm bill Steering Committee, which is working to develop a broad array of proposals aimed at improving and expanding Federal programs to meet the needs of specialty crop growers. The policy areas addressed by this proposal include: commodity programs; nutrition policy; expanded international market access; pest and disease exclusion; research and development; and other Federal agriculture programs. The FBSC proposals are expected to be introduced as legislation in Congress later this year. It is our hope that these proposals will be enacted as part of the 2007 farm bill.

The support for current methods of growing crops in the United States is both vital and important to our country's agricultural production and overall economy. We would also like to highlight that there is an emerging method of growing specialty crops that is worthy of consideration. In the Southwest, Controlled Environmental Agricultural Center or Greenhouse technology is effectively and efficiently producing tomatoes and cucumbers by utilizing the abundant sunlight while significantly conserving water. The benefit of Greenhouses extends beyond water conservation by helping to lower emissions through energy efficient heating and cooling systems that ultimately create oxygen and reduce carbon dioxide.

Our challenge is that what is internationally declared as "Greenhouse Grown" is not comparable to the high tech standards found in the United States. This gives an unfair advantage to those international growers who do not provide the same quality products that are pesticide free and grown to Federal regulated standards. Having a USDA approved "Greenhouse Grown" standard would be a first good step to leveling the playing field.

To conclude, Arizona specialty crop growers would greatly appreciate the opportunity to work with the members of Congress in crafting a farm bill that fully recognizes our unique needs, and also allocates a level of resources sufficient to sustain our growers in global markets. As a member of Western Growers Association, I also like to include in the text of my testimony for your consideration a number of concerns outlined in the attached "Fruit and Vegetable Industry Priorities for the 2007 farm bill".

Thank you, Mr. Chairman, for this opportunity to testify before your committee.

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## Statement of Leland "Bill" Brake

Chairman and members of the committee, Thank you for coming to Arizona to hold this public field hearing to review Federal Farm Policy, and inviting me to speak.

My name is Bill Brake; I am a Rancher in Arizona and currently serve as President of the Arizona Cattle Growers' Association.

The Subcommittee on General Farm Commodities and Risk Management is going to have to make some difficult decisions and those decisions affect us of those in the west, particularly on rangeland.

We find ourselves in the position of being stewards of the land with lots of unsolicited help in managing those lands. All the help (demands) we receive from various agencies both Federal and state as well as pressure from all kinds of private groups and individuals are requiring us to manage in a more and more expensive manner, without any benefit to us or the lands we manage.

The bottom line is we are trying to maintain open space in our state and we are the last ones left to do that. Let me use my ranch alone as an example. I ranch in Southern Arizona and I have 10,000 ac that I run cattle on. The land ownership in my ranch includes my private land, Federal Land and State School Trust land. Without all of the ownerships and the land the ranch would not be a viable ranching operation. Every day some group or one of the agencies or the towns nearby are telling me how I should manage my ranch for wildlife, for cattle, for insects, for fire, for recreation and for every other event that can possibly take place on that land.

The difference is that none of these people are putting up any cash to help meet their desires. They do it through regulations or laws. Let me give you an example. Recently Maricopa County, which includes the Phoenix metropolitan area and it's 2-plus million people, passed a rule that they will no longer allow off road vehicle use because they can not achieve the air quality standards due to dust (in a desert) required by the EPA.

Therefore all those people who have the off road vehicles for recreation come to places like my ranch to play. This causes damage on the land I am required to manage for the Federal and State Government as well as my own.

That means I am not only managing for livestock, I'm now required to manage for ATV use as well. The costs just went up. I also have to manage for wildlife. Partly I do it because I enjoy wildlife, but I also have to do it because of the wildlife laws at the state and Federal level.

I have developed and maintained waters, but fortunately this time I have paid only 50 percent of the cost because of the EQIP program through the USDA. This water benefits both livestock and wildlife. We have had 9 years of drought with more forecasted. I am the only one that goes out and turns that water on, maintains the equipment and makes sure it is available 365 days a year even though my cattle may be in the pasture only 60 days in that year. The only way I have been able to maintain a viable ranch on the diverse ownerships in Arizona is through the conservation programs such as EQIP. If you allow those programs to expire with the new 2007 farm bill. I will then be back to paying 100 percent for the maintenance and improvements required on those lands. It seems to be obvious I will not be able to maintain a viable operation and will have to sell out.

When that happens everyone looses. The agencies do not and cannot have enough personnel to do the job, the public looses because there is no one left to do the job, and we all lose the open space we all treasure. If you think this is idle speculation look at the National Parks and the problems they are having with the land they hold. The ranchers in the west on intermingled lands are the last hope to keep the open spaces open, maintained and cared for.

This is why it is so very important you keep those programs going in the west and especially in Arizona. Without that money we can not maintain our livelihood and meet all the regulations and laws placed on us by our government and the demands of a growing population for open space and recreation.

Without that program as more and more demands are placed on the land and therefore my finances I am forced to consider other options, including selling out.

When I have to sell out because the costs and pressures I generally have only one buyer who will pay me for my land. That is someone who will cut it up into smaller pieces and build on it.

Then the open space is gone.

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## Statement of Dennis Palmer

Mr. Chairman and members of the subcommittee, I want to add my welcome to Arizona. Thank you for allowing me to present comments on current and future farm policy.

My name is Dennis Palmer. I am a fourth generation cotton farmer in the Gila Valley in Southeast Arizona. My 73 year old father, 28 year old son and I are the full time operators of a 2,600 acre farm. Our wives are all actively involved in the administrative duties associated with our operations. I have another son who is serving in the U.S. Army in Germany. I am actively involved in a number of state organizations and in my marketing cooperative.

Arizona farmers strongly support current farm law and urge you to utilize the same structure in developing future policy. The marketing loan enables us to be competitive against subsidized competition in international markets; the decoupled direct payment provides certainty to those who finance our operations and the decoupled counter-cyclical payments are important when prices are low. We are fortunate that Congress has provided an effective financial safety-net to assist us when prices are low.

Arizona farmers are operating in an environment where land prices are high due to competition with developers and where irrigation water is both scarce and expensive to pump due to surging energy prices. We operate under stringent environmental regulations which contribute to increased costs of production compared to those of our international competitors.

Farming is a full-time, year-round occupation in Arizona. Our operation requires intensive management, so there are few opportunities for off-farm income compared to the mid-west where farmers can hold down other jobs.

While the structure of farm policy is important, unrealistic limitations on benefits and unnecessarily restrictive eligibility requirements can result in the most generous and effective policies being unworkable for us.

Mr. Chairman, members of the subcommittee, we continue to hear statements that 20 percent of farmers receive 80 percent of the benefits; that farmers are increasing the size of their operations solely to capture more payments; and, that programs inflate land values and increase rent, which blocks entry into farming.

From my perspective, the one-size fits-all, randomly established limitations on benefits unfairly penalize full-time family farmers like me. The limit on counter-cyclical payments, which applies commutatively to all crops except peanuts, covers only 348 acres of cotton on an average Arizona farm. This is well below what is considered to be an economically efficient unit in the irrigated west. That same limit covers considerably more acreage in dry-land Texas and substantially more corn and soybean acreage in Iowa. So, not only am I competing against heavily subsidized production in China, India and Pakistan, I am competing against other US farmers who have significantly more of their production eligible for program benefits. I'm not asking you to penalize them, just don't tighten limits to further penalize me and my family.

I also want to address land values and beginning farmers. I too am concerned about the declining number of farmers and the difficulty young people have in starting their own operations. But I can assure you that tighter limits and eligibility requirements, coupled with significant cuts in support when prices are low, will make it even more difficult for young people to begin farming and will guarantee continued consolidation. In the absence of a financial safety net, what financial institution is going to provide operating capitol to an inexperienced, beginning farmer?

Finally, I want to address international trade and its influence on farm policy. We are deeply concerned by the US proposal to cut domestic support by 60 percent because we haven't seen a reciprocal offer by our trading partners to make clear, unambiguous commitments to increase market access for our products. The US cotton industry has to export 75 percent of annual production. We must have consistent access to China's market; otherwise, the WTO negotiations will be a failure in our view. We ask that you insist that the negotiations are conducted as a single undertaking and that market access commitments are obtained from our trading partner.

Mr. Chairman, other members of the panel have expressed our strong interest in higher levels of coverage for crop insurance; the importance of agricultural research; the need for an effective, public-private international market development program; and conservation programs operated on a voluntary, cost-share basis. I want to associate myself with their remarks.

Mr. Chairman, thank you for the opportunity to testify today. I would be pleased to respond to your questions at the appropriate time.

## Statement of Paul Rovey

Thank you Chairman Moran, Ranking Member Etheridge, Members of the Committee, and Congressman Renzi. I appreciate the Committee's invitation for me to come here today and present my views on dairy in regards to 2007 farm bill. I am Paul Rovey, and I represent the Arizona dairy farming community and my cooperative, the United Dairymen of Arizona, UDA. I am also involved with several other national dairy and farm organizations, which are listed in my bio.

Our family dairy operation milks 2,100 cows at Glendale, Arizona, where our family has been in the dairy business for the last 63 years. My family started in the dairy business originally in 1909, in what is now downtown Phoenix.

I want to begin my statement with a very big thank you to the House Committee on Agriculture, Chairman Goodlatte, and Ranking Member Peterson for their leadership in passing S. 2120 recently. This was the producer-handler/unregulated plant legislation which our co-op, and others that are part of the National Milk Producers Federation, worked so very hard to pass for three years. There was one dairy farmer in our state who raised a big stink about this matter, but I'm speaking on behalf of the 100 other farmers in this state whose prices were depressed because of his unfair advantage. I can tell you that the silent majority of my fellow farmers here thanks you for closing that loophole and putting all of us on the same playing field.

Dairy farmers are in the process of working toward a consensus on the policy items we would like to see addressed in the 2007 farm bill, using our Dairy Producer Conclave meetings to obtain input from dairy producers across the country.

The input at those listening sessions—conducted earlier this winter in California, Illinois and Virginia—will ultimately be shared in a formal document with agricultural leaders in the House, Senate, the USDA, and other relevant agencies. I attended the meeting last January in Sacramento, and I can tell you that we had a spirited discussion about many of the items that we are all concerned with.

My main message today is that there is strong consensus that the dairy portion of the next farm bill should contain some form of an economic safety net for dairy farmers. We don't anticipate that dairy producers will want to implement any radical changes in the philosophy or direction of farm policy, and thus we hope you will agree that it is important for a strong and workable safety net to exist now, and in the future.

While we are open to further dialogue with members of this committee about the specific future form of that safety net, let me suggest a few general themes that are advisable, regardless of the final outcome of the farm bill's creation:

- The safety net should not discriminate between farmers of differing sizes;
- The safety net should not discriminate between farmers in different regions of the country;
- The safety net should not result in price enhancement, meaning that it should not be an inducement to produce additional milk. The government's safety net should be just that: a device that prevents a collapse of producer prices, without stimulating milk output or sending inappropriate signals to the marketplace.

As you are aware, three years ago, dairy farmers created their own self-help economic program called Cooperatives Working Together. We have enjoyed above-average farm prices most of the time since 2003, thanks in part to CWT's impact in helping stabilize the balance between supply and demand.

But it's important to remind you that CWT was never intended to replace Federal farm programs. Rather, our self-funded program is a supplement to what the government has in place. The dairy price support program is our current safety net, and CWT has helped us enhance prices above the very low price level maintained by the dairy price support program. The two complement each other, but CWT would be extremely difficult to sustain without knowing that the government also has a role to play in managing programs to help foster the health of our dairy industry.

That is particularly important where the Dairy Export Incentive Program is concerned. CWT has been busy lately helping export commercial sales of butter and cheese. But CWT's Export Assistance program is not intended to replace the Dairy Export Incentive Program that is also part of the current farm bill. So long as the WTO allows the use of export subsidies, we should use our DEIP program to the fullest possible extent, to help counteract the heavy dairy subsidy use of the European Union. We did not utilize this WTO-authorized program at all last year, nor does it appear that USDA is likely to use the program this year, despite dwindling milk prices. Dairy producers accepted a number of responsibilities as part of the U.S.'s WTO commitments; it is only fair that we be able to exercise the rights that agreement granted to us as well.

Let me also make a point about the relationship between the 2007 farm bill and the Doha Round of WTO negotiations. There is a "chicken and egg" dilemma that Congressional agricultural leaders must consider: namely, that it's hard to write the next farm bill with one eye on whether there will be a successful round of trade talks that is actually concluded and signed by the U.S. government in the next year or two. Both are important to America's dairy farmers; both represent opportunities as well as concerns.

We support a successful multilateral round of trade talks if it helps level the very uneven playing field in dairy export subsidies, tariff protections, and domestic support programs. But we won't support any final agreement that doesn't represent a net increase in our opportunity to better compete against our more heavily-subsidized and protected competitors in the EU, Canada and Japan, as well as more balanced trading opportunities with key developing countries.

If it would provide greater clarity to the authors of the next farm bill, NMPF would support extending the same levels of funding that exist under the farm bill that is now scheduled to expire in 2007. Such an extension of funding not only will help preserve an appropriate level of baseline funding for agriculture, it will also give our trade negotiators additional leverage, and may hasten, not lengthen, the WTO negotiations process.

Further, I can tell you that if we would have to decide today what our safety net should be for the next farm bill, we would support the continuation of the dairy price support program with or without a successful Doha round. We strongly disagree with those who claim that the price support program must be phased out or eliminated upon completion of the Doha Round.

Finally, let me touch back for a moment on the Dairy Producer Conclave process and the input we are seeking from our members about the next farm bill. One clear theme that emerged from the Conclave process is that America's dairy farmers see their future success as being impacted by more than just a narrow interpretation of what the farm bill should cover.

High on the list of priority concerns for dairy producers include:

- Changes in our environmental policies that address the water and air impacts of livestock operations. Especially important is finding a way to encourage our state and Federal regulators to use science-based approaches that generate compliance, as opposed to harshly penalizing perception-based problems;
- The need for Congress, and in particular the House, to implement workable immigration laws that recognize the reality of today's food production system, and that don't turn farm employers like me into either criminals or immigration authorities. We need some sort of guestworker program that will allow our farms to continue to operate efficiently, and I can tell you sincerely that the House immigration bill passed late last year is not the right approach to take. The approach taken by the AgJOBS 2006 provisions included in the bill recently approved by the Senate Judiciary Committee represent a much more workable way forward on this issue for agriculture, including dairies.
- The need to develop a mandatory national animal identification program, which is of particular concern if the USDA moves ahead with reopening the Canadian border to breeding cattle such as dairy replacements.

Let me close by also mentioning the importance of another self-help program that dairy farmers fund, but this is one that was created by Congress in 1983: the 15 cent national dairy checkoff. 10 cents of that money goes to a qualified promotion program at the state or regional level—we have that in the State of Arizona—and the other 5 cents goes to the National Dairy Board.

This year, the checkoff will collect about $270 million, much of which is invested through Dairy Management Inc. in a single Unified Marketing Plan designed to sell more dairy on behalf of all dairy farmers. I happen to be the current Chairman of DMI, so I've been working closely with the staff of that organization to make sure my fellow producers' dollars are wisely spent. Those dollars are invested in research, promotion and in partnership with cooperatives, processors and other industry leaders to overcome the barriers to increased sales and consumption of dairy products.

In the last few years alone, the checkoff has spurred a large increase in fluid milk consumption in quick-serve restaurants and in schools, by making a more attractive milk package available to children and their parents. These fast food outlets are recognizing that it's good business, as well as good for their younger customers, to offer families white and chocolate milk as their most nutritious beverage choice.

We hope that Congress understands that dairy farmers view the checkoff program as a critical part of their business. It helps us collectively work with food marketers in a way that most farmers individually simply could not.

One thing that the previous 2002 farm bill included was a provision for collection of the dairy checkoff on dairy products imported to the U.S. Here we are four years later, and there still has not been any collection of the dairy checkoff on imported products. Our understanding is that until the checkoff assessment is applied to farmers in all 50 states, our trade negotiators feel that applying it to importers represents a potential trade violation. So, we need legislation to provide for the collection of the checkoff from dairy farmers in Alaska, Hawaii, and Puerto Rico—where there aren't many farms, but there is a handful—before the checkoff can be collected on imported dairy products.

Mr. Chairman, we need this additional legislation even now, before the 2007 farm bill. Other commodities that have checkoff programs assess imports, so this is a matter of basic fairness. We are seeing more dairy imports in our market, and they should not enjoy the benefits of our $270 million promotion program, and our enormous consumer market, without contributing to that effort.

In closing, Chairman Moran, I want to thank the committee and subcommittee for having this series of field hearings. We welcome you to our State and hope your short time here was enjoyable. I will be happy to answer any questions, or provide any additional information that you might want.

## STATEMENT OF KEVIN G. ROGERS

We appreciate the members of the House Agriculture Commodities and Risk Management Subcommittee for coming to Arizona on May 1, 2006 to hear us on formulating the next farm bill. You heard comments from our agricultural leaders in cotton, horticulture, dairy and livestock. Even though Arizona agriculture is a very integrated community, there are diverse ideas and concerns on the provisions that will be found in the future legislation and the funding of those provisions. We as the Farm Bureau have a similar challenge as Congress in representing a general agricultural position that will keep U.S. agriculture competitive in a world economy.

Let us make two specific comments that I believe were not thoroughly touched on in your meeting and then a general observation about the future farm bill.

1.Tom Isom, President of the Arizona Cotton Growers eluded to crop insurance and risk management. We believe risk management will be a key point in the future farm bill. Congress will be looking for ways to move risk to producers and insurance companies, and producers will be looking for ways to manage risk at the least cost. The 2002 farm bill provided a mechanism to encourage competition in the crop insurance field. The program is called Premium Reduction Program (PRP) and allows insurance companies, under the watchful eyes of the USDA, to provide a discount program to producers. The savings to producers are achieved by companies having to compete and become more efficient in delivering the risk management product. Some insurance companies and independent insurance agents are hesitant to allow competition and have successfully lobbied the House Appropriations Committee to curtail this program by not funding USDA auditing. This ends the program after 2006. We would sincerely hope the Senate Appropriations Committee will appropriate the approximate $100,000 to continue the program for 2007 and you will consider including as a provision in the 2007 farm bill.

2. During his testimony, Paul Rovey, Chairman of Dairy Management, Inc., briefly mentioned the "Humane Treatment of Farm Animals" initiative that we face in Arizona. Animal rights groups with anti-meat agendas are targeting states with minimal pork or veal industries, where they hope to pass initiatives that will effectively shut down animal agriculture. This is in spite of the fact that current management practices have been shown to be safe and humane by over 200 reputable studies, and are endorsed by various veterinary associations. All of Arizona agriculture has come together to fight this initiative because their efforts will make U.S. livestock production less competitive in the world market and production will be outsourced to other countries. We consider this a direct threat to our national security, as we would be reliant on other countries with unknown safety standards. We are concerned by the comments submitted by the animal rights groups regarding animal welfare that are contained in the USDA's summary from the farm bill listening sessions that they held in 2005. We want you to know that animals raised in U.S. production agriculture are already treated humanely. It is in producers' best interest economically in addition to their moral obligation. Any restrictions on their ability to raise livestock based on sound science rather than emotional limitations will drive our meat production out of the country.

Let me restate that the current farm bill is unequivocally working. Unpredictable weather conditions and markets, uncertainties involved with international trade, the value of the dollar and variable input costs have produced turbulent and difficult times for agriculture. The farm bill helps American farmers and ranchers weather financial storms and it provides unprecedented funds for our nation's conservation needs. The nutritional needs of the poor, underprivileged, senior citizens and children are also funded through this law.

The farm bill provides an adequate safety net to farmers and ranchers when commodity prices are low. When prices rise, the law functions without additional funding from the government via counter-cyclical payments or loan deficiency payments. The Congressional Budget Office (CBO) says the actual spending level for the bill is $15 billion less or 40 percent lower in the first three fiscal years than the CBO projection when the bill became law.

Farmers worldwide are interested in making a fair wage for their labor and an adequate return on capital. Farmers care about their family's future and all have a passion for the land and their livestock. Farmers everywhere have a love for the agricultural industry and seek a fair solution to the many economic challenges we all face.

The vast majority of farmers throughout the U.S. will tell you that their ultimate policy vision would be a "level playing field" or a "chance to compete in open markets." Farm Bureau believes that should be our policy goal for the 21st century—a world where our farmers and ranchers are allowed to compete in open markets without tariff barriers, without export subsidies, without currency manipulations and yes, without production-distorting domestic subsidies.

Frankly, that view of agricultural policy is still very much in the developmental stages right now, but one that makes sense to a lot of people. In a world where we have access to foreign markets and where farmers are allowed to compete with other farmers and not against national treasuries, how could we continue to justify providing subsidies to our farmers here in the United States? American farmers and ranchers are willing to give up commodity loan payments, counter cyclical payments and the like if we are able to remove other barriers to more open trade.

Moving toward this goal is becoming more difficult every year as American farmers and some U.S. legislators feel that negotiated agreements are not being met and promises are not being kept. Each political failure is putting our delicate world trading system in jeopardy. We all know what is at stake and the potential economic catastrophe if we don't continue to move forward with meaningful discussions. But we must implement policies that will grow our markets. As markets grow, farm program costs decrease and farmers' incomes grow from the marketplace.

The 2002 farm bill has not increased taxpayer cost. However, even if costs had risen, farm policy has traditionally addressed the goal of producing a safe, abundant, domestic food supply. We've paid for our dependence on foreign oil. Imagine if we had to depend on foreign countries for our food. Also, if consumers think they're getting a good deal by spending less than 12 percent of their disposable income on a nutritious, safe, quality food supply, then they should conclude it's a good policy to provide for a measure of stability in our food production system.

During the 3 years before passage of the 2002 farm bill, Congress had to provide ad hoc assistance due to low incomes in the agricultural sector. Such ad hoc relief provided needed assistance, but was a poor substitute for a long-term policy on which farmers, lenders and taxpayers could count. The counter-cyclical program implemented in the 2002 farm bill has helped reduce the need for disaster assistance funding dramatically.

Again, thank you for listening to Arizona agricultural leaders. We look forward to working with Congress on the next farm bill.

Honorable Representatives of the Subcommittee on General Farm Commodities and Risk Management:

My name is Philip Bravo, Jr., and I am a livestock producer on the Hualapai Nation. I am also the President of Mohave Livestock Association, the Mohave County Farm Bureau and the newly appointed President of the Hualapai Nation Soil and Water Conservation district.

First I would like to emphasize that with the push for alternative fuel will have a new effect on the farm bill under current guidelines, new farmers and ranchers may be eligible for 95% cost share. The movement in the Midwest and east of the Mississippi where small producers to turn to farming will qualify, which might take a majority of the already cut back funding. There should be an earmark set of funding for ranchers out west where there are more severe conditions due to prolonged drought. We have to overcome the amount of land it takes to graze, the long distances we have to lay pipe, the miles of fencing that have to be maintained.

We want to see the continuation of Emergency Programs, Drought Relief, Emergency Erosion, Resource Equipment Program, Natural Resources Conservation Services only to name a few.

Engineering (NRCS) – I feel that there should be an engineer for every zone within the states. I understand the third party vendor, but you have to understand that the cost of a third party vendor will take most of the funding for a project leaving the participant limited funding for projects. I also understand that the engineer should be figured in but the fluctuation of product prices from week to week due to rising oil prices.

Flexibility – all departments need to work together. I understand time lines but when you have to work with BLM, Forest Service, Wildlife and Native Lands, all have their policies; one needs to try and get a project completed within time lines while trying to work with so many agencies. When working on Tribal Lands we have cultural issues, sacred lands and political issues, taking all of this in, some of our projects may end up in default.

Funding is unclear when it is allocated to the state then divided to the zones. How do reservations fit into the division of funds? Are the funds allocated then monies set aside for tribes? It is unclear to me.

I.D. – I have a hard time with the way animal ID is being implemented, every state or every branded state has brand rules that should be used. Then only after the sale of livestock leaving the ranch, should the trace back be implemented. Every ranch should have records up until the time of sale. It appears that we should be more concerned about protecting our borders from foreign diseases and disallowing any animal over thirty months of age to enter our country.

Streamline government police and have a direct relationship between small farmers and Washington, D.C. Increase direct relationship with tribal ranchers and farmers. Local presence of USDA, including the U of A Extension person, on the reservation who is involved in everything, not just range. That would increase environmental presence.

Direct funding of Tribes who have participated in Farm Bill programs in the past. Remove cost share rate for tribes – tribes are already at a disadvantage due to remoteness and high unemployment rate. Under the 1990 Farm Bill, NRCS, FSA and Grant and Loan Programs that were suppose to provide someone on the Reservation two days a week. We would like to comply with this law as it has not changed. Therefore, more direct presence on Indian Land at the very least honor the 1991 Farm Bill.

Direct funding for Technical Service Providers for all applicants. Increase personnel that serve rural areas. For our Tribal Nation, we are bound by tribal laws that everyone is to graze in an Association. The Association is not ever eligible as a Limited Resource Farmer because someone may have a job that prevents eligibility.

Respectfully submitted,

Philip Bravo, Jr.

**Statement of**
**Tom Isom**
**Before the**
**House Agriculture Committee,**
**Subcommittee on General Farm Commodities and Risk Management**
**Casa Grande, Arizona**
**May 1, 2006**

Mr. Chairman and members of the sub-committee, welcome to Arizona.

My name is Tom Isom. I am a second generation cotton farmer in the Casa Grande Valley. My family and I will plant 1,200 acres of cotton this year. We also produce watermelons, barley, wheat, and milo. I am currently serving as President of the Arizona Cotton Growers Association, which represents nearly 95% of Arizona's cotton producers, and I am a member of the National Cotton Council.

According to our records, this is the first time that either Agriculture Committee has visited Arizona to hear testimony on a farm policy. We appreciate this opportunity to present our views on current and future farm policy. We also want to thank Congressman Rick Renzi for his work in organizing today's hearing and for his support for farmers and ranchers.

Mr. Chairman, Arizona has a rich and diverse agricultural economy. Our state produces a wide variety of crops and we have a robust livestock industry. Agriculture makes a significant contribution to Arizona's economy. Cotton has been a major cash crop in Arizona since statehood in 1912.

Arizona's cotton industry is distinguished by a strong history of solving problems on our own initiative. Between 1984 and 1991 we successfully conducted a massive statewide effort to eliminate the boll weevil. We accomplished our objective on time and on budget! Arizona was the second state to be declared "weevil free," after North Carolina.

Now we are initiating a program to eradicate the pink bollworm, a destructive and persistent pest. The program will use a combination of sterile moths and genetically enhanced cotton, which is used on nearly 70% of Arizona's acreage. We are the first in the country to employ insect growth regulator (IGR) chemicals to control one of the most devastating pests ever encountered - the silver leaf whitefly, which destroys the value of a cotton crop by depositing sugars which make the fiber "sticky" and unspinnable. The careful use of IGRs literally saved our industry. Finally, we have spent over a million dollars to develop a method called AF36 to eliminate aflatoxin in our cotton seed. This is the first process to treat seed in the field. It is effective, inexpensive and adds value to our seed.

A large percentage of the costs of all these programs have been funded by Arizona growers. The Federal Government has provided critical cost share funds for the boll weevil and pink bollworm eradication projects, as well as funding to ARS for the aflatoxin program. If any of your colleagues ever express doubts about the use of funds for research and eradication, we urge them to visit Arizona to see the results. We are proud of our accomplishments because we are committed to producing a top quality product, while being good neighbors and stewards of the land.

Mr. Chairman, Arizona farmers manage complex operations in an environment of high land values, complex irrigation requirements, escalating energy and pest control costs, and stringent regulatory standards. Our producers need a consistent, predictable farm policy – particularly when prices are low.

The current farm bill has worked well for Arizona farmers, so we strongly support using current law as the basis for new farm legislation. We urge you to maintain a counter-cyclical program for times when prices are low; decoupled direct payments; and an effective marketing loan without limitations. We also support continuation of the cropping flexibility provisions in current law. This structure is sound and promotes financial stability in American agriculture.

It is especially important that payment limitations not be reduced further and that current eligibility requirements are maintained. We commend you and your colleagues for resisting the efforts to change the payment limitation provisions in current law. Current limits penalize efficient Arizona operations. Using conservative assumptions, industry economists concluded that if the provisions of Senator Grassley's amendment were implemented annual direct payments would be reduced by 62% and total benefits by 55%. The Payment Limit Commission reached the same conclusion in their report.

Arizona's farmers are more adversely impacted by current limitations than farmers in other regions. In order to achieve economics of scale in an area of high fixed costs, our operations are necessarily larger than those in the Midwest. It is also important to note that our operations require intensive year-round management and our income is virtually 100% from on-farm activities.

Mr. Chairman, if there is one message that I want to leave with you and the Committee, it is don't reduce payment limits any further.

Mr. Chairman, we understand there is discussion in Congress and in the country about whether to extend current law until the Doha round of trade negotiations are completed. We strongly support an extension to provide certainty and stability. Our operations require complex cropping decisions and significant capital, so stable policy is critical.

The cotton industry has been generally supportive of the Doha round, provided cotton is not singled out for unfair treatment and that meaningful increases in market access for our products can be achieved. Even though some of the proposals to significantly cut domestic programs being advanced in the Doha round cause us concern, we believe the process should have a chance to succeed. I understand you recently traveled to Geneva and we appreciate your willingness to devote time and resources to stay current on the status of the negotiations. As you know, we are not only concerned by the proposal to reduce all domestic supports; we are also deeply concerned that the U.S. cotton industry has been singled out for apparent disproportionate reductions. We urge you and your colleagues to insist on continuation of a single undertaking approach to the negotiations. Frankly, if the Doha round concludes with an agreement that includes disproportionate cuts in domestic support for cotton, we will not recommend that Congress approve implementing the legislation.

Mr. Chairman, I would be remiss if I did not tell you that a guest worker program must be part of any immigration reform legislation. A workable guest worker program is essential to Southwestern agriculture.

Crop insurance is also important to the future of our industry. We are particularly frustrated that the Risk Management Agency has been unsuccessful in responding to our need for affordable higher levels of crop insurance coverage. We need to insure levels of 90 or even 95% of our yields in order to have an effective risk management tool.

Finally, Mr. Chairman let me address the issue of funding for specialty crop programs. Many cotton growers produce specialty crops as part of their operations. We need a variety of cropping alternatives, but if funding for new specialty crop programs requires cutting funding for existing research and eradication programs, then we must ask you to consider adding funds to meet the needs of specialty crops.

Mr. Chairman, maintaining an effective farm policy is important to Arizona farmers. An effective safety net, available to all farmers without discrimination against size or organizational structure, is extremely important to our highly productive, capital-intensive operations.

Again, we thank you for coming to Arizona to hear our concerns and recommendations.

I will be happy to answer your questions at the appropriate time.

**Statement of**
**Paul Ollerton**
**before the**
**House Agriculture Committee,**
**Subcommittee on General Farm Commodities and Risk Management**
**Casa Grande, Arizona**
**May 1, 2006**

Mr. Chairman, members of the Subcommittee, welcome to Arizona and thank you for holding this hearing.

I appreciate the opportunity to present remarks about future farm policy, with an emphasis on cotton.

My name is Paul Ollerton and I farm in the Casa Grande Valley. I will grow 700 acres of cotton this year as well as wheat, barley, alfalfa and watermelons.

Mr. Chairman, Arizona is a state with an extraordinarily diverse agricultural economy. It is critically important to our farmers and ranchers that our farm policy remains balanced between commodities. Even slight acreage shifts from row crops to specialty crops can result in market disruption. In addition to sound farm policy, science-based regulations and an effective immigration policy are important to Arizona farmers and ranchers.

Virtually all of Arizona's cotton producers strongly support the current farm law. It is imperative that it continue to operate without major modification through its scheduled expiration with the 2007 crop. Our producers have made substantial long-term investment, cropping and marketing decisions, which are based on current law. We are particularly concerned by annual proposals to further tighten limitations on benefits or limit eligibility to the loan. Current limitations already place most of our operations at a significant disadvantage because of our costs and economies of scale.

The combination of a marketing loan, counter-cyclical payment when prices are low and a direct payment for stability are a sound foundation for future farm policy. Although we currently produce very little extra-long staple cotton, Arizona was once a significant producer and we support continuation of a loan program with a competitiveness provision to ensure U.S. extra-long staple cotton, also known as Pima cotton, remains competitive in international markets. The balance between the upland and pima cotton programs is important in California and Arizona to ensure that acreage is planted in response to market signals and not program benefits.

If negotiations in the Doha round have not been completed to the point that the impact on future U.S. farm policy is clear, we would support continuation of the current farm bill for at least one additional crop year.

Mr. Chairman, we know you recently returned from Geneva where you were briefed on the Doha round. We are deeply concerned that the language in the recent Hong Kong Ministerial agreement will be used to single cotton out for special and differential treatment. We ask that you and your colleagues urge the US negotiating team to insist the negotiations be conducted as a single undertaking with no early harvest for cotton. We also urge you to make clear to our negotiators that the agreement must include meaningful increases in market access for all commodities before there can be agreement on reductions in domestic support.

We are also concerned that certain countries, which are highly competitive in world markets, not be allowed to utilize special and sensitive product designations and safeguards, designed to assist the poorest of the poor, as a way to avoid committing to significant increase market access. The US cotton industry has supported the Doha round but we will not be able to recommend that Congress support an agreement that requires cotton to accept deeper and quicker reductions in domestic support; that does not provide significant, meaningful increases in market access and that allows countries like Brazil, China, Pakistan and India to declare themselves as developing countries solely for the purpose of avoiding concessions.

Conservation programs will continue to be an important component of farm policy. For example, the Environmental Quality Incentives Program (EQIP) can be useful as we work to improve air quality. Conservation programs should be operated on a voluntary, cost-share basis as a valuable complement to commodity programs. However, they should not be viewed as an effective substitute for the safety net provided by commodity programs.

Since Arizona exports almost 100 percent of our annual cotton production, we strongly support continuation of the successful public-private partnership fostered by the Market Access Program (MAP). And we urge continued funding for the Foreign Market Development program and a WTO-compliant export credit guarantee program. These are so-called Green Box programs under the WTO and they enable us to effectively maintain important markets.

Research and crop insurance are also important to the future of our industry. We are particularly frustrated that the Risk Management Agency has been unsuccessful in responding to our need for affordable, higher levels of crop insurance coverage. We need to insure levels of 90 or even 95 percent of our yields in order to have effective risk management. You have also heard comments about our successful attempts to reduce and eliminate aflatoxin. This is a classic example of the important benefits to be derived from agricultural research.

In conclusion, Mr. Chairman, I want to briefly address the specialty crops. Recently some groups have made it clear that they want to be a significant part of the next farm bill—through increased earmarked funding for conservation, nutrition, research and block grants. Our challenge is to identify the funds for these new or enhanced programs without having to substantially reduce current levels of support. The cotton industry does not oppose programs that benefit specialty crops. In fact, given the diverse cropping alternatives in Arizona, we need a viable specialty crop market. However, we also need balance between programs and we need adequate resources. We look forward to working with the specialty crop interests and Congress in addressing their concerns.

Thank you for the opportunity to present these views. I look forward to working with the members of the Committee in developing effective farm policy.

# REVIEW OF FEDERAL FARM POLICY

**MONDAY, JULY 31, 2006**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
*Wall, SD.*

The subcommittee met, pursuant to call, at 9:30 a.m., in the Auditorium, Wall High School, Wall, SD, Hon. Jerry Moran, (chairman of the subcommittee) presiding.

Members present: Representatives Goodlatte [ex officio], Etheridge, Herseth, and Peterson [ex officio].

Staff present: Tyler Wegmeyer, subcommittee staff director; Scott Martin, Clark Ogilvie, Mitchell Hall, and Ryan Stroschein.

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

Mr. MORAN. Good morning, everyone. This hearing of the Subcommittee on General Farm Commodities and Risk Management will come to order. We are delighted to be in Wall, South Dakota. I'm Congressman Jerry Moran and am the chairman of the subcommittee. I come from Kansas and I always tell people that, especially when I'm in South Dakota, I represent a district just like South Dakota. So very much the issues that you face in agriculture and rural communities are the ones that I face at home.

We're delighted to be invited by Ms. Herseth to be in South Dakota in her congressional district, and we are looking forward to the testimony of the witnesses here today.

The full Agriculture Committee chaired by Mr. Goodlatte, who is with us today, and Ranking Member Peterson, who is also with us today, has conducted 11 hearings across the country listening to farmers, producers, and ranchers talk about the current farm bill and the circumstances that agriculture faces today and what suggestions they have for improving the farm bill, the 2002 farm bill that we're operating under today, as well as the fires and the harvest of 2007, and the full Agriculture Committee is looking at input from people who earn their living each and every day on a farm or ranch in this country.

This subcommittee has also taken on the task of listening to farmers in places that the full committee has not been able to have a hearing, and we've been Valdosta, Georgia, Phoenix, Arizona, and today, Wall, South Dakota. We are looking forward to what you have to say. The circumstances that farmers face in South Dakota are very similar, as I said, to what we face in Kansas at home, and so your testimony, I think, will be very helpful to me as we fight for a farm bill that is advantageous to all of agriculture, but also to those of us here on the High Plains.

Let me cut my opening comments short so that we can proceed rapidly. I do want to acknowledge that Senator Thune has staff here, Quasi Alpac and Mark Hagan. Senator Johnson has staff here, Chris Blair, and we also have Agriculture Committee staff with us, and maybe we ought to have you hold your hand up so that those people who have specific complaints, they can find you instead of me. I know the two Thune staffers are here and Senator Johnson's staffer as well, so those of you who would like to chew on somebody, there's some hometown folks here so that you can do that today.

Let me turn now to my ranking member, Mr. Etheridge, the gentleman from North Carolina, my good friend and colleague.

**OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA**

Mr. ETHERIDGE. Thank you, Mr. Chairman, and I am pleased to be here, and I thank you for holding this hearing in Ms. Herseth's district. It has been a long time since I was in South Dakota. Probably been about 27 years. A lot of changes have taken place. I've had the occasion as a member of the committee to travel to a number of communities east, south, north, and west and held the first of these meetings with subcommittee chairman Thomas Ewing in North Carolina.

And everywhere that we've held these hearings, I've seen lots of agriculture sectors in every region of the country across America. And given the difference in size and various topography of America and wide variety of agricultural products that we produce, we've heard a very consistent message in most of these hearings. And you would appreciate that. I think all of you here today's message is, by and large, how well the 2002 farm bill has been working for farmers, and they believe that there's some tweaking that needs to be done, but it's worked to make a difference.

It's my hope that as the committee moves forward on the next farm bill that we'll be able to preserve much of the commodity titles that we have that have worked so well and make those changes that need to be made and need to help keep agriculture in this country moving forward.

I also believe that another message that we were introduced to today is something that all of us recall as we came to the area, as we flew in yesterday and as we traveled on the ground today, and that is that disaster assistance needs to be put in place before Congress leaves in September for our break before election.

Last year, while several southern and coastal States faced the wrath of Hurricanes Cindy, Dennis, Katrina, Rita, and Wilma, other parts of our Nation suffered from drought conditions. While we've been fortunate that no major tropical cyclone or hurricane has struck the United States yet this year, much of the country has seen high temperatures and extremely dry conditions. I believe I'm correct that yesterday you had another record day here in South Dakota. I was shocked when Stephanie told me what the heat was going to be. She suggested I bring a light jacket for last evening. I did. I didn't need it and I'm grateful I didn't, but I'm sorry it was so warm, but the hospitality and her hospitality has been terrific.

But the continuation of this drought can play havoc with the livelihoods of our farmers, not only here, but really across the Nation, and it's my hope and my commitment that Congress will provide some disaster assistance before we recess in September. I know a lot of people are working on it. When the farmers in my State of North Carolina saw their crops and livestock devastated by Hurricane Floyd, Congress responded, and responded expeditiously, and we're grateful for that. When farmers from other parts of the Nation suffer from their own natural disasters, we have a responsibility, I think, to respond accordingly. Farmers can't afford to wait till November or December just because it's an election year and Congress wants to get out. We need to act and we need to act now.

I want to thank all of the witnesses who are going to be testifying today. We appreciate your commitment to agriculture, to the land, and to providing proof to farmers that all of us are trying to help. Mr. Chairman, thank you for holding this hearing in South Dakota.

Mr. MORAN. I thank the gentleman. It's a real pleasure for us to be here in South Dakota and a special privilege for us to have the committee chairman, Congressman Bob Goodlatte from southern Virginia, and as much as we like to think we have a lot of input in writing the next farm bill, he is the leader of our effort, and it's a real pleasure to have him join us here in South Dakota to hear what the South Dakota and North Dakota producers have to say, and I recognize the gentleman from Virginia. Mr. Chairman, welcome.

## OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

The CHAIRMAN. Jerry, thank you very much, and you indeed will have a great deal of input in writing the next farm bill, and I very much appreciate your taking the leadership on holding this subcommittee hearing. Congressman Moran is the chair of what he and I would probably agree is the most important subcommittee of the Agriculture Committee. There is a great deal of importance to what he works on, but it's also very, very important that we have the opportunity to hear from all of you today about that.

Congressman Bob Etheridge, the ranking member of that committee, is from my neighboring State of North Carolina, and it's very valuable for he and I to come here to the Great Plains and hear about agriculture here. It is a little different. We have similarities, but you just look around at the terrain and know you face some different issues than we do as well.

I'm especially pleased that the ranking member of the full committee Collin Peterson from the neighboring State of Minnesota could also be with us. I very much look forward to working with him in a bipartisan fashion as we move ahead to write the next farm bill.

And then, of course, most importantly, delighted to be here in the State of South Dakota with Congresswoman Stephanie Herseth who is herself a new leader in the Congress and a bipartisan member of the committee who has much to contribute.

I'm also delighted that your Governor Mike Rounds joined us this morning, and I want to say a word about the rest of the South Dakota delegation in Congress. It's a small delegation, but I know them all well because I've served with all of them, all three of them on the House Agriculture Committee, first with Tim Johnson in my first 4 years serving in Congress, and then for 6 years with John Thune who is a good friend and ally across the Capitol. We work together on many, many issues as does Congressman Moran, Senator Thune, and we're pleased that Senator Johnson has representatives here today.

Finally let me say a word about the importance of these hearings. I had the opportunity yesterday to visit the fire that has been now brought under control. I hope these high winds don't bring it back out of control, but, Governor, your commissioner dealing with that fire gave us a tour yesterday, and I was very impressed with the way they contained and saved so many homes. We saw a few people's homes were lost and that obviously is devastating, but to see the blackened earth within just a few feet of people's homes that were saved and how relieved they were, I commend you and your team for getting that done.

South Dakota—in fact, an increasing portion of South Dakota appears to face another type of disaster, a more insidious one that doesn't spring up and race across the prairie into the forest like a forest fire does, but it bakes and bakes and has the same possibility of taking away somebody's home, not through burning it down, but through losing it by being unable to make a living in what is already a challenging field, that of farming and ranching.

So we are here to hold a hearing about what the next farm bill will look like, but we are also benefited by seeing and learning more about the nature of this disaster, and it's our hope that we will be able to find ways to be helpful here in South Dakota. I know that Mr. Moran in his State of Kansas is facing some of the same challenges as well. So I very much look forward to hearing from everybody today, and thank you, Mr. Chairman, again for holding this hearing.

Mr. MORAN. Mr. Chairman, thank you very much. I now turn to the ranking member of the full committee, Mr. Peterson, who is from Marshall, Minnesota. We all joined him last week in a field hearing in his district, and I was worried that he wouldn't be here. Although I drove from Kansas, I can fight the winds. Mr. Peterson flew himself here today and I was worried that he would be unable to join us, but a yeoman's effort apparently. I now recognize the gentleman from Minnesota, Mr. Peterson.

**OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA**

Mr. PETERSON. Thank you, Mr. Chairman. I wanted to add that last year, I was flying out this way and there were 70 mile an hour winds, and that day I did stay on the ground. That's a little beyond what I can handle, but I'm glad to be here, and especially delighted to be here with Stephanie Herseth who has become one of my key allies on the House Agriculture Committee. She hasn't been there that long, but she really has stepped up to the plate. I used to be the co-chairman of the Rural Working Group within our caucus, and since I moved up to this position, Stephanie and Bob Etheridge are now the co-chairs of the Rural Working Group and have done some outstanding work on that. And she's kind of been my point person on renewable fuels, ethanol, and we're very excited about the future for rural America as we continue the promotion of this renewable fuel industry. Minnesota has been a leader in that area, and South Dakota has as well, and we expect great things about the future. Stephanie has really been doing yeoman's work on that so I'm glad to be here with her today.

I get here once in a while to go hunting. I've never been to Wall. I've heard about it, I've seen the signs, now I've seen the store. I'm glad to be here with the full committee chairman Mr. Goodlatte. He and I have worked together in a very good bipartisan way, and we'd have to do that even if we didn't want to, but that's not a problem. We get along fine. But if we don't work things out between us, we wouldn't have a farm bill in Congress. It's generally not partisan. It's more regional, commodities, those kinds of things rather than Democrat or Republican. Jerry Moran from Kansas has done an outstanding job on the subcommittee as chairman. Bob Etheridge is the ranking member.

I won't drag this on. I just would say that I introduced the—I think the first disaster bill last fall. We had a vote during the budget funds reconciliation that was voted down on the party line. We had a vote in the Appropriations Committee that was voted down the party line. We should have done this back then. I had people in trouble last year. I hope with this election coming that people will see the light and do this stuff before we go home for the elections this fall because I know what's going on here in South Dakota and North Dakota and some other places. You need help and you need it now. I'll do everything I can to make sure that happens. Glad to be here and look forward to the testimony.

Mr. MORAN. Thank you, Mr. Peterson. In a moment I'll now turn to the gentlewoman from South Dakota, Ms. Herseth, whose district we are in. Great to be in Wall. I indicated to Stephanie earlier that when you grow up in modest means in northwest Kansas, you can afford one family vacation and that is to the Badlands and Mt. Rushmore, and my parents brought me here, I brought my kids here. We've been to Wall before. I live on I–70 in Hayes, Kansas, and I'm going to at least take home the idea that we ought to have Hayes Drug with billboards along the interstate.

And John Thune is a friend of mine. We have this continual battle of who has the most pheasants between Kansas and South Dakota, and even Kansas agrees with John Thune so I've lost that battle. But you live in a very special State, Stephanie, and again, it's a real pleasure for us to join you. We appreciate the hospitality that you've extended, and your staff has been very kind to us and we're delighted to be with you and hear what the producers have to say. I now recognize the gentlewoman from South Dakota.

**OPENING STATEMENT OF HON. STEPHANIE HERSETH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA**

Ms. HERSETH. Well, thank you, Mr. Chairman, and I'm delighted that you joined us today, that you did drive up from western Kansas. I'll have a few people individually to thank for hosting us here at your great new high school in Wall, South Dakota, but I do think you can tell from the friends that I have gathered here today that there's a lot of interest in the next farm bill, in the work of our subcommittee, in the work of the full committee in preparing to rewrite that farm bill, but also matters of importance that you and your constituents understand full well in times of severe weather such as we're experiencing throughout this part of South Dakota and across the State and in your district as well.

I'm pleased that both the chairman and ranking member of the full committee could join us as well. Some of you had a chance to meet them last summer when they were both in South Dakota. Mr. Goodlatte was in the eastern/southeastern part of the State. Mr. Peterson joined us at the State Fair meeting with leaders of our livestock organizations, our grain producers from across the State to talk already about some of the issues that we will be looking at in regards to international trade and rewriting the farm bill.

And, of course, it's certainly a pleasure to have Bob Etheridge from North Carolina here. As Collin mentioned, we co-chaired the Rural Working Group at the House Democratic Caucus, and we've been very focused on the impact on all of you as livestock and grain producers and those of you in businesses directly affected by the health of our agricultural economy; on the high cost of energy prices and what that means for the State's economy, what that means for the Governor and all folks that are working in Pierre, and so we're pleased to have him here today.

And all of you, thank you for being here. I want to commend the testimony of the witnesses we'll be hearing from. Again, this has brought a lot of interest to western South Dakota. I think it's important that we have a hearing at the subcommittee level here in western South Dakota to talk about the next farm bill. I do hope that each of our witnesses may share with us as well some of what they've been experiencing, their neighbors and family and friends have been experiencing by this ongoing drought that has plagued us not only so severely this year, but in past years as well. What that means for water supplies, what that means for crop insurance. It just doesn't cover those losses year after year. And while crop insurance is outside of the next farm bill, at least at this point, it is within the jurisdiction of our subcommittee.

And so I do look forward to hearing from our witnesses. I want to thank all of my colleagues who are also all friends. We do work in a very bipartisan way. Their willingness to be here in South Dakota, their willingness to share some of their insights and wisdom from their years on the House Agriculture Committee with all of us as we work together to write this next farm bill. So thank you to all of you for being here today, and I'll give it back to you, Mr. Chairman.

Mr. MORAN. Thank you very much, Ms. Herseth. I assume that the Governor of South Dakota is like the Governor of Kansas. The

Governor's not accustomed to waiting for others to speak. I apologize, Governor, that you had to listen to, what, five Members of Congress, but I can tell you I would lose control of this subcommittee had I not given everyone the opportunity to speak.

We are delighted to have you join us. As the leader of South Dakota, it is my understanding you'd like to talk to us about drought, drought assistance, and a proposal that we could take back with us to Washington.

I can tell you that as a Member of Congress who represents the western three-fourths of the State of Kansas, there is no more important nor immediate issues that my farmers and producers in rural communities face than the consequences of 5, 6, and in some cases 7 years of inadequate moisture, no snowfall, no rain, and this is a very important issue for us, and we look forward to hearing what you have to say. I now recognize Governor Mike Rounds.

Thank you for joining us.

## STATEMENT OF MIKE ROUNDS, GOVERNOR, STATE OF SOUTH DAKOTA

Governor ROUNDS. Thank you, Mr. Chairman. We most certainly appreciate you coming out and taking some time to listen to our producers. This is a critical issue for South Dakota as well as the upper Midwest. Ranking Member Etheridge, thank you very much for coming along and taking time from your valuable schedule to listen to what our members have to say as well as we certainly appreciate the value of your time.

Chairman Goodlatte, we appreciate you being here as well and the very kind remarks that you have made to our firefighting teams in the Rapid City area. We tell people that when you look at these teams of firefighters, many of them are volunteers. They give of their time and their efforts, and they are very, very good at what they do, and we appreciate your commending them and your good well wishes. Thank you very much, sir.

Ranking Member Peterson, I had the opportunity today to observe your landing coming in. We were the first aircraft in, the Twin Beech was right after us, and you were third. I can attest to the people here today as to your piloting skills. Nice crosswind landing. Well done.

And to Representative Herseth, thank you very much for bringing this bipartisan group together to come to Wall and to listen to these producers and to share a little bit about their stories in terms of the drought-stricken area in our State as well as the upper Midwest.

I can tell you that we appreciate the fact that people are working in a bipartisan way to create this new farm bill. In the announcement for this meeting, Representative Herseth said that she hoped there would be a focus on the livestock industry at this hearing. The biggest threat to our livestock industry this year and in many other years is drought. Right now many parts of South Dakota are in one of the worst droughts on record in State history. We are experiencing record low precipitation totals for January through June. July precipitation totals will likely be close to record-setting lows in many locations throughout our State as well. Nearly all of the State has had less than 50 percent of their average precipitation over the last 30 days. Large parts have had less than 25 percent of normal precipitation.

This drought is already having serious impacts throughout South Dakota on our water systems, crops, and livestock. For example, the Mni Waste—which used to be called the Tri-County Rural Water System—that serves Dewey, Ziebach and Meade County is pumping at maximum capacity and could have difficulty providing enough water to fight fires. They've implemented severe restrictions to maintain water availability.

The crop loss is great in many parts of the State. Most of the spring and winter wheat in north central and central regions of the State is already lost. Even if we get normal July through August rain, it will not be enough to create a good corn or bean crop. In a normal year, Walworth County averages 35 bushels of wheat per acre. This year it's 5 bushels per acre. 456 producers have already lost 80 to 100 percent of their crops. Ziebach County in the northwestern part of our State will have no crops this year. No crops this year. Alfalfa, barley, corn, wheat, oats and sorghum have been wiped out. 589 producers in that county have experienced 90 to 100 percent losses in their crops.

Also in Ziebach County during a normal year, pastureland would produce one ton of hay per acre. This year, it will only produce 100 pounds per acre, one-twentieth of normal. When there's no pasture or hay, our livestock producers are forced to sell and their incomes disappear, and unfortunately, once a herd is gone or severely reduced, it takes several years to rebuild it, if they can rebuild at all.

This drought's impact on livestock has already been substantial and is getting worse. Livestock auction markets located in drought-impacted regions, which is currently 41 of our 66 counties, have experienced a 79 percent average increase in sales when compared to last year. That means we're selling our factories. We're selling the cows that produce calves. Most producers in the impacted areas are reducing or liquidating their herds. Many producers say this is the worst they've ever seen the country look, and we still have the hotter months in front of us.

Our State secretary of agriculture Larry Gabriel fears that many ranchers will sell their entire herds. If that happens, many will choose not to get back into the industry. When it does rain again, many others will not have the financial resources to become livestock producers again.

Those are the problems in the livestock industry that happen during droughts wherever livestock is raised in the United States. Wherever and whenever drought hits in the country, our livestock producers need help.

In her request for South Dakota input, Representative Herseth also mentioned that there is a growing criticism in Congress against farm programs that help our producers which makes it very difficult to secure disaster assistance even when the needs are so clearly visible during drought years.

Secretary Gabriel and I are here to offer a solution for you to consider. It is actually a concept first offered to Congress during the 2002 drought by former Governor Bill Janklow. It didn't have a name in 2002, but today we call it science-based drought assistance. By science, we mean the science of moisture. Our proposal would provide assistance to livestock and crop producers in proportion to the reduced production caused by the absence of moisture. Payments would be calculated based upon the deviation from normal precipitation or normal moisture as it affects the productivity of the land. Compensation is tied directly to crops or livestock forage that did not grow because of inadequate moisture. That's the basic concept.

We believe this approach has two very important immediate benefits. Using science-based calculations in a preset formula would provide the right amount of help to the right people. Therefore, it would significantly decrease the criticism in Congress and elsewhere that some producers are getting too much help and others too little. Using science-based calculations would also help to bring some stability to the chaotic situation because producers would know what help they would be getting depending on the lack of moisture as it applies to their land and production capability.

In applying this concept to a drought fee assistance program, here are some of the basic qualities that should also be included in creating the formula. The program should include the livestock owners that have sold all or a portion of their animals. It should not commit any assistance to livestock owners that have managed for drought by maintaining an adequate supply of feed. It should target disaster assistance to producers of food and fiber by degree of impact, and it should assist livestock owners moving animals to feed and livestock owners keeping animals and buying feed.

It should not be a disincentive to purchasing crop insurance. It should help minimize the raising of the price of livestock feed. It should not result in income from drought disaster assistance that is greater than income expected during a normal year.

The overriding logic here is that moisture and production are directly related. A percentage deviation from normal moisture available can be used to assess percentage of lost productivity. Then assistance would be based on that lost productivity.

We believe this science-based drought assistance program would also be more acceptable to Congress because it would also include qualifications and limitations on assistance to make sure abuses are prevented and producers are treated fairly. For example, to qualify for drought disaster assistance, land must be located within a county that has received a primary drought disaster determination or declaration. Drought disaster assistance shouldn't begin until there is at least a certain percentage of lost productivity that Congress would need to put into law.

Producers who are entitled to drought disaster assistance would be persons who owned the right to harvest a crop or the right to graze land. In the case of persons who lease land for cropping or grazing, only those who rent land on a cost per acre or sharecropping basis would be entitled to drought assistance. Sharecroppers would be entitled to a pro rata share of lost payments according to their ownership interest in the crop.

Producers who purchase animal unit months of grazing would not be entitled to compensation based upon a decline in animal unit months available for purchase. Such a decline is a loss incurred by the owner of the land.

These are some of the details that would need to be determined, and I've asked Secretary Gabriel to provide more details about options if you wish him to provide you additional testimony, but what we hope you will first consider is the basic concept that we are proposing.

We are proposing science-based drought assistance. We believe assistance to livestock and crop producers should be provided in proportion to the reduced production caused by the absence of moisture. Then the payments to help producers would be calculated based upon the deviation from normal moisture as it affects the productivity of the land. Thank you very much for listening to this concept.

There are two other critical points that I would like to mention for your consideration. First, the Conservation Reserve Program or CRP has been a critical component for South Dakota agriculture. Our producers have utilized CRP to enhance soil and water quality, provide key wildlife habitat, and significantly add to our economic diversity related to hunting and tourism. Hunting, fishing, and outdoor recreation are important to our quality of life in South Dakota, and these activities also provide nearly $400 million annually to our economy with much of this economic activity occurring in our rural farm and ranch communities.

CRP is very popular with our landowners because it's a voluntary program that allows them to partner with other Government programs and private interests to diversify their income while achieving soil and water conservation on their lands. In addition, CRP has provided much needed emergency aid in drought years, and this has made a big difference to our ranchers' ability to survive in times of extended drought such as we're experiencing right now. We support strong conservation titles to the 2007 farm bill which reauthorizes the current CRP program.

Second, I hope you will help your fellow representatives who don't come from rural areas to understand a key point that makes our farmers and ranchers very different from all of the other producers in our national economy. Unlike manufacturers, service providers, retailers, wholesalers and everyone else, the farmers and ranchers of America cannot pass on their increased costs to the consumers. Farmers and ranchers don't control the price that they receive for their products. In agriculture, buyers and transportation providers determine price. That makes agriculture and our farmers and ranchers uniquely vulnerable in our national economy. I hope you will help the other Members of Congress to understand this key point.

Again, we appreciate the holding of this hearing in South Dakota. You and all of the other members of the House Agriculture Committee have a very difficult task and an awesome responsibility in writing the 2007 farm bill. Throughout your deliberations, please don't hesitate to call us for State and local information that can be helpful for you. Mr. Chairman and members of this committee, thank you very much for your time, for taking this opportunity to listen to all of these producers, and to show your support for them in this very serious time of need in the upper Midwest. Thank you.

Mr. MORAN. Governor, thank you very much. We will take your testimony very seriously. I would suggest that if you want to provide us and our staff a written copy of your testimony and that of your secretary of agriculture, we'd be happy to hear more details in writing. I look forward to working with you. Members of Congress and governors in this part of the country and really around the Nation are seeking some good happenings in regard to disaster assistance. Thank you, sir.

Governor ROUNDS. Thank you, Mr. Chairman and Mr. Goodlatte.

[The prepared statement of Governor Rounds appears at the conclusion of the hearing.]

Mr. MORAN. Governor, we again thank you.

We'll now invite our first panel to the table. Mr. Doug Sombke is a grain producer from Conde, South Dakota. Mr. Scott VanderWal is a corn and soybean producer from Volga, South Dakota. Mr. Mike Martin is a corn, soybean, wheat and sunflower producer from Forbes, North Dakota. Mr. Robert Carlson is a wheat and barley producer from Glenburn, North Dakota. And Mr. Lynn Broadwine is a dairy producer from Baltic, South Dakota.

Gentlemen, thank you very much for joining us. We're delighted to have you here, and I'll turn our attention to recognize Mr. Sombke as our first witness.

**STATEMENT OF DOUG SOMBKE, PRESIDENT, SOUTH DAKOTA FARMERS UNION**

Mr. SOMBKE. Thank you, Mr. Chairman.

Mr. MORAN. Mr. Etheridge has asked me to remind you all that your written statements will remain a part of the record, so if you don't necessarily read your statement, that's fine. And you have a clock in front of you. We will give you a warning when approximately 5 minutes is about to expire. We were reluctant to do that to the Governor.

Mr. SOMBKE. I understand. I guess for me, I want to thank you first for inviting me. I'm glad you're all here. Stephanie, thank you very much for including us and myself to testify.

I am a farmer who farms in the northeastern part of the State of South Dakota. My family of three sons and a daughter, three sons going to college now who want to return to farming and my daughter who is on the farm with my wife and me. We raise cattle, and we also feed livestock, and we also raise corn, soybeans and wheat.

I want to reiterate what the Governor said about the drought. I think permanent disaster aid is probably the biggest thing facing us right now, and I think that you all understand the seriousness of this. In South Dakota we are feeling it immensely, and the corner of the State that I'm in is not quite as bad as here, but we are feeling it. It's only a couple of miles away. This thing gets bigger and we lose more crop every day.

The 2007 farm bill, I think, needs to follow the template of the 2002 farm bill. The 2002 farm bill has been extremely good. I had the pleasure of visiting with former Senators Daschle and Dole last week and they both reiterated how important this next farm bill is, and we all take it very seriously and I hope you all do, too. It is our livelihoods. And they both stated that this farm bill is probably the best one that they've ever worked on. For 28 years Senator Dole told us that this is probably the most important one and, he felt, the best one so far.

So I hope we can take out the glitches of that and come out reminded that agriculture is important to the State of South Dakota and across America because, as the Governor stated, we are being misunderstood when it comes to how important the farm bill is to our economy. We don't give a price. We are price-takers, not price-makers.

And I really appreciate the fact that you are all here today because as past President Eisenhower stated, it's easy to farm a field when you're a thousand miles away from the nearest cornfield and your plow is a pencil, and I think that you should remember that we really do appreciate that you are here. It's not only important to me and the other producers behind me, but also to my family and the future of my generation. There's five generations of the Sombke family that farm in our area, and my children still want to continue that great generation of farming in our family, and I don't see how it can be done without the Government involved.

First of all, the 2002 farm bill is very important for the fact that we had COOL implemented, but as of today, it's still not being applied and I think that we need to remember this. I just ate a plum yesterday that was labeled "U.S.A." Well, I can't find a State in the U.S.A. that produces plums.

I'd like to make four points. The Governor, I guess what he talked about, the conservation payments are very important to the State of South Dakota. The energy title, I think, needs to be included in the next farm bill and also CRP. Now conservation measures are vital to the State of South Dakota for economic development. They provide small towns like my hometown of Ferney with another stream of revenue that just exists because of the CRP programs before they were developed by promoting the vast variety of hunting in the State.

However, we do realize the need to continue and develop farmland for commodities to meet the growing needs of feeding America and the rest of the world. Farmers Union feels Rural America can and will come together to harmonize the needs of conservation and production agriculture to have a moderate balance that works for all Americans.

The disaster aid, as the Governor had stated, last year alone, 70 percent of our counties in the United States were declared disasters. In South Dakota right now, we're on the brink of another one. Yet, this is only something that catches attention when something happens in Florida or Louisiana when South Dakota seems to get any help. We don't need to have an ocean on our border to have a disaster, as you know. I know of many families in the midpart of our State that have sold their livestock in sale barns and I've been to the sale barns and seen them and seen the tears in their eyes, wondering if their children are going to be able to ever pick up where they left off. This is very catastrophic to our families and our small towns. Not only are these small towns affected, but then, of course, the schools are affected as well.

I think that enforcing the antitrust laws for trade and transportation of our products is very important. As the Governor stated, they dictate a lot of what our costs are for our product. Right now in the State of South Dakota, we really only have one rail line that does the majority of the transports. We have another rail line by the name of DM&E that is trying to get established, but right now they're being held up because of one community not within our State borders. I think we need to address this issue, and also we need antitrust laws that have teeth in them, and we need people like yourselves who are willing to stand up and take on the big corporations that are controlling the monopoly of our prices that we receive.

I think the last thing that I'd like to state is the fact that we as agriculture producers are united in this fight. There's less of us now, and of course we need to come together closer and closer all the time.

I would like to point out that Mr. VanderWal that sits to my left, although he may be from the Farm Bureau side, he has the same concerns and feelings that I have. He wants to see his family succeed, too, and I respect Scott. I consider him a very good friend. So thank you very much.

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

Mr. MORAN. Mr. Sombke, thank you very much, and I now turn to the gentleman from Volga, South Dakota,

Mr. VanderWal.

**STATEMENT OF SCOTT VANDERWAL, PRESIDENT, SOUTH DAKOTA FARM BUREAU**

Mr. VANDERWAL. Thank you, Chairman Moran, Chairman Goodlatte, Representative Herseth, and members of the committee. I want to thank you for the opportunity to come and visit with you about farm policy today. I also want to welcome you to South Dakota.

My name is Scott VanderWal and I'm an agricultural producer from Volga, South Dakota. We have a family owned and operated corn, soybean and cattle feeding operation. I serve as the president of the South Dakota Farm Bureau, and my wife Michelle and I have two sons who intend to make their careers in agriculture.

Our members feel that the current 2002 farm bill has been overall a good thing for American agriculture. The current structure with direct payments, counter-cyclical and loan deficiency payments and the Federal Crop Insurance Program can all be used together by producers to create a good risk management program for their operations.

We support the continuation of the Conservation Reserve Program, but as we go forward, we need to have a little caution and make sure that only land that's truly fragile and truly deserves to be in the CRP is enrolled and ensure that the program is really used as it was intended. The reason I say that is because the CRP has caused some economic distress in our small towns and for our small businesses in South Dakota and out in the rural areas, and it also competes with young farmers who try to get started in agriculture. They have to compete with it for land.

So where do we go from here with the 2007 bill? First of all, in light of the news last week that the go-around in the WTO negotiations are suspended, we believe that the current farm bill should be extended for at least another year.

We do also believe that there could be some minor changes to take into account for trade rulings that have been handed down recently in the WTO. We do need to maintain a strong safety net for America's farmers and ranchers while we determine what direction the world trade climate is going to go. We've received a clear signal from other countries that they're not interested in opening their market to reduce terrorism in return for us reducing our domestic subsidies.

If we unilaterally reduce domestic support, we'll leave a lot of leverage for further for negotiations in the future. We also strongly favor extension of the trade promotion authorities so our negotiators can have credibility in future trade talks.

I'd like to mention energy now very quickly. The cost of fuel and fertilizer products for our operation has doubled and even tripled in the last 2 to 3 years. The answer to that problem partly is right here in our own country and that's renewable fuels. We need to continue exploration and development of our domestic resources such as oil and gas, wind, hydrogen, and lots of different things, but we also need to pick that up along with renewables such as ethanol and biodiesel. There is no one silver bullet, but all these things working together can become pieces of the puzzle.

I would also like to echo Mr. Sombke just a few minutes ago. I wanted to mention the Dakota, Minnesota, and Eastern Railroad expansion. It's critical to our State that that not get bogged down in lawsuits and further games that are being played. The loan application is pending before the Federal Railroad Administration, and we'd certainly appreciate any support you could provide to expedite that process. And I'd like to thank Representative Herseth for her support up to this point with that project because it is very vital to South Dakota.

Another area that deserves a sharp focus is enhanced money for research and development and modernized technology. Just two examples of products that are being developed right now are drought-tolerant corn, and we can all see what the value of that would be, and also corn that fixes its own nitrogen, and that would somewhat help alleviate the nitrogen costs that we're having to deal with at this point.

One of the things I really want to focus on today is risk management. That's become one of the most important concerns in modern agriculture. Rather than combining disaster programs with crop insurance as we do now, we could use the funds that would have been used for disaster assistance to create a whole new farm revenue insurance program. That would combine Federal subsidization and make it affordable and still add personal responsibility to the mix. And this could be designed to include livestock operations, encompass drought relief and other disasters.

I would just comment here about the disaster assistance that until we can create some type of a concept like this, we also are in favor of the disaster support for our State.

Another problem with insurance that we now have is that in cases of multiple-year droughts, a producer's proven yield history average decreases substantially causing coverage to be lower and more expensive. So a possible solution could be to provide an option where the drought year would not be included in your average if you were in a disaster-declared county. That's just one of the ideas that's come up.

On wildlife and environment, we need to work with conservation and wildlife groups to find ways to provide compensation for ag's positive impact on the environment and wildlife and habitat.

Just very quickly on livestock, the Environmental Quality Incentive Program has been a positive thing for our livestock industry and for the environment, and we favor continuing and enhancing that program.

On packer ownership of livestock, we believe that the Packers and Stockyards Act should be strictly enforced. Antitrust laws should be used to ensure that captive supplies are not used to manipulate the market. However, we would stop short of banning packers from owning or controlling livestock. The reason for that is in our free enterprise-based market-oriented system, the Government should not be deciding who can own or control property or other assets.

On animal ID, we favor a national ID system for livestock. We do have concerns about costs, confidentiality, and liability, but we believe those concerns could be taken care of. An animal ID system would open up several opportunities which would include the following things: Not only disease tracking, but also voluntary Country of Origin Labeling and documentation and production data for use in management by producers.

In summary, our members favor a program that looks much like the current one with reduced complexity and the flexibility that allows farmers to respond to market demand. We should maintain and enhance a safety net which compensates for poor market conditions and provides useful risk management tools to producers. We need a solid energy title in this farm bill that provides incentives to produce renewable energy sources that complement our country's other renewable and fossil fuel supplies. Energy independence in this country is as vital as food independence, make no mistake about it.

The health and welfare of American agriculture is a national security issue and is of paramount importance to the freedom we enjoy and so often take for granted.

I consider it an honor to have been asked to testify before you today, and I certainly appreciate your time and attention to the issues that affect our industry and our country so greatly. Thank you very much.

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

Mr. MORAN. Thank you very much, Mr. VanderWal.

We now turn to Mr. Martin. Welcome to South Dakota.

## STATEMENT OF MIKE MARTIN, PRESIDENT, NORTH DAKOTA GRAIN GROWERS ASSOCIATION

Mr. MARTIN. Mr. Chairman, my name is Mike Martin. Along with my wife and daughters, I operate a diversified farm near Forbes, North Dakota, and our operation includes land in North Dakota and in South Dakota. I currently serve as the President of the North Dakota Grain Growers Association. I'd like to thank you again for giving me this chance to provide testimony on the upcoming 2007 farm bill. I've limited my comments to the topics requested by the committee. Also I have made the assumption that there will be no WTO agreement.

In preparation for this testimony, I solicited comments from our previous three association presidents, all of whom were very active in the formulation of the farm policy for this 2002 bill. All agreed that the farm bill has worked well, but all agreed it needs some technical corrections. I concur with both points.

I would like to address one of those technical corrections. My reference material for supporting this need is contained in the December 2005 publication from the USDA ERS Service entitled "Wheat Backgrounder." The publication makes comparisons of farms where different cropping practices are followed. These cropping practices pit specialized wheat farms against other wheat farms. The research comparisons were based on farm data from Kansas and North Dakota. I'd like to draw your attention to a disparity in net farm income found in a table from this publication.

Net farm income from specialized wheat farms at 27,500 is a whopping 58 percent lower than other wheat farms which showed a net of 65,500.

The disparity between the two wheat farm groups is quite apparent. It cannot be attributed to any one factor. However, it does indicate that direct payment and target price levels for wheat need to be reevaluated in the upcoming 2007 farm bill.

This year, like many in the past, farmers across the Nation are enduring production losses caused by extreme weather occurrences. Crop insurance improvements in the past have definitely helped to alleviate much of the financial loss caused by these problems. However, producers are still left with the problems of "shallow loss." One of the ways for producers to reduce that amount of shallow loss is to "buy up" their insurance levels. The problem with doing so is the high cost of increasing coverage from 70 to 85 percent.

An increase in the level of subsidization from the Government on coverage up to the 85 percent level could possibly be more economical than what seems to be continual requests for ad hoc disaster assistance.

Mr. Chairman, my biggest concern for the future farm bill is the direction it takes concerning environmental policy. Many in my State have benefited from conservation programs, and I personally have benefited from private funding incentives regarding my no-till farming practices. What I fear in placing greater emphasis on conservation title programs is the tremendous costs to our Federal treasury if all programs are fully implemented. The financial costs to the future farm bill may well mean that commodity title programs will not be adequately funded. Conservation program benefits to producers are typically capitalized into a farmer's holdings in the form of reduced land and machinery debt. As a result of this capitalization, these funds are not liquid to the producer when market factors requiring additional funding for cash flow needs are needed. I feel that the safety net that past farm bills have provided may well be lost in conservation programs. Commodity title programs such as LDPs and CCPs provide a safety net that is sorely needed by producers when negative market fluctuations and aberrations occur. They not only provide financial stability to producers, but also allow agricultural export trade and infrastructure to perform more efficiently. Also when market prices are relatively high, they can provide huge savings in actual dollars to the Federal Government. I feel that this safety net is the most important part of agricultural policy and should be defended, if at all possible.

In conclusion, the North Dakota Grain Growers Association offers our help in any way it can help make your job easier on this upcoming farm policy debate. Thank you, Mr. Chairman.

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

Mr. MORAN. Thank you, Mr. Martin.

Mr. Carlson.

**STATEMENT OF ROBERT CARLSON, PRESIDENT, NORTH DAKOTA FARMERS UNION**

Mr. CARLSON. Thank you, Mr. Chairman. Thank you for the opportunity to appear before you. Thank you for coming. It's particularly an honor for us to see Chairman Goodlatte here. He's come some distance from his home State, as well as Mr. Etheridge, and of course, representatives from the States that are surrounding, Ms. Herseth and Mr. Peterson.

So thank you all for being here and listening to us today.

I will stay within my time. I have submitted written testimony, and while all of the points that we've made in that testimony are important to our members in the North Dakota Farmers Union, I'm going to focus on three areas.

My name is Robert Carlson. I'm president of the North Dakota Farmers Union and a grain producer from Minot, North Dakota. The three areas I would like to focus on are areas where we have some new ideas. One is the permanent disaster program, and No. 2, loan rates as the main component of the safety net, and No. 3, an energy component to the new farm bill.

On disaster assistance, let me say that our members would generally think that the 2002 farm bill was a pretty good bill. The biggest deficiency in that bill is its lack of a permanent disaster program. It seems that since 2002, we've had more than the average share of natural disasters in this country from hurricanes to drought to wildfires and floods. Widespread parts of the country have been affected, and thus, we've been able to get some ad hoc disaster programs partially because we were able to offset funding from within the farm bill in the last couple of them, but we've been somewhat successful in getting some ad hoc farm payments, but those ad hoc farm payments really aren't fair to producers because you need two things to get an ad hoc disaster program passed. One, it seems to me, is obvious, I guess, and that is that you've got to have a widespread disaster. We have just in western North Dakota, for example, our own Congressman, although he is capable, probably isn't going to get the Nation to support a disaster program. We need a widespread disaster.

And No. 2, this may be an observation which you may dispute, but it seems to me in my observation that a looming election never seems to hurt when it comes to getting a disaster program either. So there is a need for a permanent disaster program.

How do we fund that? We would propose that you consider and will do a study on this, and perhaps that's one of the suggestions—consider taking a portion of the direct deposit payment and dedicate it into a fund for a permanent disaster program. Right now we're spending annually right around $5 billion a year in decoupled payments. A disaster program, our economist estimates, would run between an average cost of $1 to $2 billion per year. We think that's worth consideration. Obviously it would be much better if we could just have them provide an extra appropriation and certainly there would be no opposition to that, but perhaps it's somewhat realistic to talk about some diversion, too, given the fact as well that our decoupled payments tend to capitalize into land values.

Number 2, farm payments and programs, the counter-cyclical mechanism is very important to continue in the farm bill, and the main component of the counter-cyclical program is the loan deficiency payment which is triggered by prices falling below the loan rates. We think loan rates should be increased. In fact, our members are proposing increasing loan rates to 100 percent of the possible production.

I would like to draw your attention to discrepancies in the cost of production ratio to loan rates in various commodities. In my State of North Dakota in Sutton County, 70 percent—Spring wheat's loan rate is at 70 percent of cost of production, soybeans are 102 percent of cost of production, and corn is at 95 percent of cost of production.

While I recognize that changes from county to county, it seems to me that there is a fairness issue there that does need to be investigated, but we do need higher loan rates as our main safety net, especially when we've had such increased costs from energy.

Finally, I would urge that an energy incentive program be a significant part of this farm bill. Specifically we need to reduce our dependence on fossil fuels. We need to develop renewable sources of energy as a priority, and I think our farmers need some economic technical assistance for transitioning into increased application of alternative forms of energy, especially with some of the cellulosic ethanol products, for example, and biodiesel.

In conclusion, the major success of any farm bill has to be a level of net income for producers. Farm policy should not be developed by multinational corporations, processors, exporters, integrated livestock producers and firms who profit from low commodity prices. We expect higher loan rates, better targeting and oversight of farm program payments to family farms, and we define family farms as a unit using land and other capital investments operated by a family who provides stewardship and management, take the economic risks, and provide the majority of the supervision and work on the farm and ranch. That family farm is the keystone of a free, progressive and democratic national society, as well as a strong America, and farm policy needs to recognize and build on that strength. Thank you very much.

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

Mr. MORAN. Thank you, Mr. Carlson.

Mr. Boadwine.

**STATEMENT OF LYNN BOADWINE, MEMBER, LAND O'LAKES BOARD OF DIRECTORS**

Mr. BOADWINE. Thank you, Mr. Chairman. I appreciate the committee's invitation to be here to present my views on the dairy industry in regard to the 2007 farm bill. I'm Lynn Boadwine, and I serve on the Corporate Board of Directors for Land O'Lakes. I began farming 20 years ago with my parents. I started out milking 50 cows and that's grown to more than 1,500 cows today. Currently my wife, Trish, and I manage the dairy and crop operation.

Besides my service on the Land O'Lakes board, I'm also involved in several other organizations, one of which is the South Dakota Animal Industry Board. Land O'Lakes is a co-op with a lot of investments in processing plants. One thing that I would ask is we are getting plagued with higher energy costs right now, and all these plants and manufacturing, especially in the upper Midwest, is taking a hit, and the Federal make allowance is kind of out of whack. We filed a petition with the USDA, but they've been slow to react, and for this part of the world in processing, it's extremely important to us. If we could have any help from Congress on speeding the USDA up on this issue, we'd appreciate it.

Now turning to the farm bill, dairy farmers are in the process of working together toward a consensus on policy items that we'd like to see addressed in the 2007 farm bill. Having used our Dairy Producer Conclave meetings and the National Milk Producers Federation, we have obtained input from dairy producers across the United States. My main message here today is that there is a strong consensus of some form of economic safety net for dairy farmers. While we are open to further dialog with members of this committee about the specific future form of that safety net, let me suggest a few general themes.

The safety net should not discriminate between farmers of different sizes. It should not discriminate between farmers in different regions of the country. The safety net should not result in price enhancement, meaning that it should not be an inducement to produce additional milk. The Government safety net should be just that: A device that prevents a collapse of producer prices without stimulating milk output or sending inappropriate signals to the marketplace.

Our perspective at Land O'Lakes is that the farm bill Dairy Program ought to provide a safety net for producers to promote the growth of the industry through a vigorous marketplace. While the farm bill Dairy Program is important to America's dairy farmers, it's not the only program that exists to create stability in milk markets.

Three years ago producers created a self-help economic program called Cooperatives Working Together, otherwise known as the CWT Program. We have enjoyed above-average prices most of the time since 2003, thanks in part to CWT's impact in helping stabilize the balance between supply and demand.

But it is important to remind you that CWT was never intended to replace the Federal farm programs. Rather, our self-funded program is a supplement to what the Government already has in place. The dairy price support program is our current safety net, and CWT has helped enhance prices above the very low prices maintained by our Dairy Price Support Program. The two complement each other, but CWT would be extremely difficult to sustain without knowing that our Government has a role to play in managing programs to help foster the health of our national dairy industry.

Let me touch back on the producer conclave process. One clear theme emerged from producers. Producers see their future being impacted by more than just a narrow interpretation of what the farm bill has covered in the past. Some things high in the list of priorities to producers: Science-based environmental regulations that encourage compliance rather than stressing harsh penalties. Just like all of the air emission standards things we go through, CIRCLA, and we just feel that the impact would be very detrimental to our industry.

Also comprehensive immigration reform like that contained in the S. 2611, particularly its plan for AgJOBS 2006. We don't hear a lot about that, but a lot of the milk in the United States is harvested by immigrant labor as with a lot of other harvesting done in agriculture. It's become very important to our industry.

And also we would like to promote a mandatory national animal ID program.

Let me close in mentioning the importance of another self-help program that the dairy farmers funded, a 15 cent dairy checkoff. We're having a little bit of trouble—in the 2002 farm bill there's a provision that allowed for imports to pay into that checkoff. That has not happened. It's been 4 years. The catch is that we've got to have all 50 States or the trade negotiators feel that it would be a potential trade violation. We would like help in getting that fixed. It's not fair to dairy farmers. We have $270 million invested in that program. We would like the importers to have some stake in it also.

Thank you. I just appreciate you being here and listening to my comments.

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

Mr. MORAN. Thank you very much. Just a couple questions. One of the things that Mr. VanderWal talked about is crop insurance, and I'm reluctant to point out that the subcommittee has jurisdiction over crop insurance; reluctant maybe that it will cause a conversation with every farmer about how something didn't work or could work better. And one of the primary focuses of this subcommittee for the last couple years—and I'm reluctant to say that because it's taking so long—is to encourage ultimately risk management and the USDA to develop a multi-year disaster program because, as you describe, what happens in the average history is yields go down, coverage increases, and premiums go up, and we're anxiously awaiting a couple of proposals from our experts to tell us how best able to address this issue. Of course, their criteria is an actuarially sound manner, so we're anxious to see what they have to say, and we're anticipating that yet within the next few weeks. So it is an issue that we care about and have a lot of experience working on time and time again in Kansas.

One of the differences between what I'm hearing today and what Kansas, particularly wheat farmers, will tell me at home is they are very much supportive of the direct decoupled payment, and I think in large part that's because of the lack of production. And therefore, the direct decoupled payment has been really the only thing they've received based upon wheat production in our State. It's an interesting suggestion of Mr. Carlson to take part of the decoupled payments and use it for a disaster program.

Perhaps that meets Kansas' needs, but I wanted to get your stance on it; if you think, as Mr. Carlson talked about, the effects on land values, that we're capitalizing payments on land values. Is it true that a decoupled payment versus a payment based upon production is more likely to increase land values? Is there a basis for that or is that just intuitive or——

Mr. CARLSON. Chairman Moran, there's a study from Kansas State University that I don't have in front of me, but I can forward it to your staff, if you would like, or the link to it that indicates by State what percentage of total farm program payments are capitalizing the land. In my State, the estimate is 40 percent, and that study postulates that your average payments are more readily capitalizing the land when they receive—the landowners in this case receive cash rent or rental payments and sees that as something that they want.

Mr. MORAN. I would appreciate seeing your study.

Mr. CARLSON. Sure.

Mr. MORAN. Our States, your State and mine share the distinction of receiving the most payments under the 2002 farm bill, and so Mr. Pomeroy and I are often singled out as being very selfish. I do think we can do better. I've been urged to simply extend the current farm bill, but we can't afford to turn our fate over to the 147 negotiators in Geneva as to what the next farm bill should look like. I know people criticize Congress in many ways, but I have a lot more faith in the House Agriculture Committee and the Senate Agriculture Committee to determine what the policy is than I do the negotiators in Geneva, so I expect our negotiators to support the decisions of this committee. I guess with the demise of the current round of negotiations, clearly the next farm bill is going to be devised by us.

In having a hearing on the farm bill, I think the initial difficulty we face, the first fight we have ahead of us is to gear up for a budget battle, and I think it's going to be important for all of us across the Congress who care about rural States to certainly get the necessary budget for this. That's the fight that's the most important one. Then we can sit down and work together to try and figure out how to make certain this is advantageous to farmers.

One of the witnesses in the next panel—we will hear generally from livestock and ranching folks in the next panel. One of the comments that's made in the testimony is that we're experiencing, mostly in the Dakotas, the farm bill encouraging the breakout of pastureland for cultivation, and I'm curious if that is the case, is there that incentive based upon what we did in the 2002 farm bill, encouraging people to produce and thereby destroy a very valuable asset of the Dakotas, pastureland? Do you have any comment to that suggestion?

Mr. SOMBKE. Mr. Chairman, I believe in South Dakota there is that incentive basically because there is no livestock program and they see that as somewhat of a safety net.

Mr. MORAN. And your point being that they can—I guess what we would consider land that shouldn't be broken out is being broken out because of the payment that will occur on the farm?

Mr. SOMBKE. Correct. If you come through the middle of South Dakota around Oneida and that area, Gettysburg, years ago, 10 years ago, 15 years ago that was all pastureland.

Now it's been broken up and the livestock is left behind, and unfortunately with this drought, you'll probably see that again. It's a lot easier to have someone who has the big equipment to come in and farm that pasture than it is to rebuild a cow herd.

Mr. MORAN. And, Mr. VanderWal, you talked about crop insurance and suggested that if we put the money that we're utilizing in this Act for crop insurance that we might get a better bang for our buck. Clearly, with the uncertainty of whether there's ever going to be ad hoc disaster, as certainly farmers face, we can get that program in place. I think it was Mr. Carlson that talked about elections and geography, and clearly those things are true. But I'd be interested in your belief that if we have the right crop insurance, if we could come up with the right program, let me ask you, is that possible? Is there a crop insurance program that will eliminate the need for ad hoc disaster assistance?

Mr. VANDERWAL. I think it's a good question. I think it would take somebody that's probably smarter than me, but what makes a lot of sense to me is, No. 1, you do away with the politics surrounding disaster declarations. And disaster declarations have an inherent flaw in themselves due to the fact that the weather is inconsistent within the borders of counties. So we've obviously had disaster declarations in South Dakota where maybe a rainstorm came over my place and the neighbor didn't get it and my crops were pretty good, but I was still in that designation. So that's a problem.

What I would like to see is something in the statute that would be an objective measurement, as I mentioned in my testimony, where you would treat it much like the current program for crop insurance that we have now where you prove your losses, and the governor had, I think, a very similar concept to that. So you just take the subjectivity and the politics out of it and you go to some kind of program like that. It would bring a personal responsibility into it. If it's a program where you buy revenue insurance, so to speak, it's up to the producer then to determine the level of protection that he wants.

Mr. MORAN. Every once in a while we hear suggestions to eliminate crop insurance or at least to modify the title, and your suggestion isn't too far off on that. Let me now turn to the gentleman from North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Most of the issues you have talked about are issues that are very, very important such as disaster assistance, but let me just ask you a little different question. It's been alluded to and the secretary talked about that getting, engaging and keeping young people in farming is a real challenge. I think that's especially true now when they see part of something they love destroyed by a disaster, and they see jobs off the farm as being more attractive.

My question to you is—and I'll give each of you the opportunity to touch on this, but do you think this is something we ought to look at in the farm title, as the secretary has alluded to, and if so, how do we do it or should we do it? Is it important that we engage young people and encourage that? I'd be interested in your comments on that.

Mr. SOMBKE. I'm glad you brought that up because in South Dakota Farmers Union, education is one of the sides of our triangle. It's the base of our triangle, and education, of course, starts with you. It's not cheap. Fortunately when I started farming, I was able to take advantage of some of the programs to get started farming with low interest loans. That is no longer the case through the FHA at least. It's getting harder and harder to, of course, find the funds and replenish the funds, and with the budget restraints that we're facing, I think it's going to be a lot tougher, but yes, I think it's something that we definitely need to explore.

The average age of the farmer in South Dakota is 57 years old. Now I'm 46 and 57 doesn't seem that old to me, but you can ask my boys and they think I'm ancient. And it's going to be a struggle. I think the one thing that we are in South Dakota trying to do is, of course, we're looking at value-added industry. We're looking at research in that industry. I think there is some opportunities for that type of specialty farming, but it's going to take some education to do that. And, of course, education is not cheap.

Mr. VANDERWAL. Thank you, Congressman, for your question. That's very important to us in Farm Bureau. Young ranchers and farmers are the future of our organization and the future of our industry in the United States and, like I said before, the security of our Nation depends upon our food supply.

The nature of young farmers and ranchers is that they're very optimistic, they're very aggressive, and if they decide that they want to get into agriculture, they're going to do it, and basically they're saying, "Government, if you'd get out of my way and remove the roadblocks to success, I can make it in agriculture," and I think that's what most of our young people say. So I don't know that they need any special treatment other than the fact of maybe beginning farmer loans. You can make it so they're maybe a little easier to qualify for because obviously in modern agriculture, the cost of the capital to get into a business is just unbelievable. But otherwise, the removal of roadblocks and the creation of the environment to succeed and a community spirit in this country, I think, will help.

Mr. MORAN. Mr. Martin, before you answer, no one in the bleachers has complained that they can't hear the Members of Congress, but they are complaining that they can't hear all of you. So if you all would move the microphones so they're close, people might be able to hear you better, and you need to talk directly into the microphones. Thank you.

Mr. MARTIN. Thank you. Our State is not unlike any other State. I would have to be honest with you in pointing out that in North Dakota, as I'm sure in many other States, new farmers, beginning farmers are only appearing if their family, uncles, aunts, or grandparents are allowing them to join in with their operation.

Now the current values of land across the Nation, the high cost of hiring to put in a crop, the high cost of fuel limit the chance for any young farmer to get their start. Sure, a farmer can start on 50 acres and maybe grow some vegetables and make some money, but we have to be realistic. Consolidation agriculture is taking place, and it is a difficult issue, one that is not easily solved and very very hard to find a way to solve. Thank you.

Mr. CARLSON. Well, I think that my colleague Mr. Martin from North Dakota got it about right that many of the farmers you see that are in farming today are children or relatives of successful existing farmers. That's because we don't have, as somebody else mentioned, an FHA program that fully funds new operators. We have some people, my neighbors, who have retired very successfully. They began farming with a battered old pickup and they got an FHA loan, and today they're successfully retired and spend the winters in Florida, believe it or not.

And so I think farm income is the key. I remember in the early 1970's when we had high prices and people came back to the farms. They got into debt in the energy crisis—or the debt crisis in the 1980's. I think you have to give young farmers favorable treatment through a loan program or something if you want to get them started.

Mr. BOADWINE. Thank you. One of the things that I look at in answering this question, I grew from 50 to 1,500 cows. Again, a lot of visitors to my farm, father-son teams trying to figure out how you do it. You kind of need to go back to the question that they always ask: How did you do this? One of the No. 1 questions: Where do you get labor? I mean, milking cows is a tough game, and one of the first things, are you looking for sources of labor, how do you keep your labor, and that brings me a little bit to that immigrant issue.

Also the next thing: How have you made it through the environmental regulations? We're faced with building a waste system that's EPA compliant. We didn't have that. We went to our engineers. It costs $250,000. Should the producer bear that whole burden? I don't know. Those are the questions that I see. Thank you.

Mr. MORAN. Thank you. Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Chairman. I just had one question I'd like to ask, actually two questions related to each other, and I guess, Mr. Boadwine, you may or may not want to answer. But given the fact that when we wrote the last farm bill in 2002, we were coming off the first budget surplus in decades in Congress, and while the situation has improved recently and the size of our debts is diminishing, it appears that we will be facing a tighter set of circumstances in the near future.

I wonder if you would rank for me the importance of the direct payment and the counter-cyclical payment and the marketing loan payment. And then relative to the permanent disaster program that has been much discussed here this morning and that my colleague, Mr. Peterson, has introduced legislation in regard to that, and I think it's supported by your representative in South Dakota and perhaps by your North Dakota representative as well, how you would rank the importance of having that payment program, that permanent disaster program relative to the current commodity programs? Mr. Sombke?

Mr. SOMBKE. Thank you. Ranking it compared to the permanent disaster, that's a good question. I guess permanent disaster, I feel, is probably one of the strongest things we need. Every year when there's a disaster in South Dakota, whether it's drought, flood, hail, whatever, we end up with members coming to us producers asking, what can we do? We need to go to Congress. We need to get help. And so we come to you, and here we are again. I don't think we need to be meeting like this, Congressman.

The CHAIRMAN. If you had to give something up to pay for it, what of those other three would you give up first?

Mr. SOMBKE. To me, the LDP payment probably is one of the most controversial payments for the simple reason if you had a drought, you don't have enough production for the LDP payment, and therefore, you won't receive as much payment as someone who hasn't had a drought, as Scott indicated in his county, where someone would have a drought and you wouldn't.

The CHAIRMAN. OK. Mr. VanderWal, how would you rank the three current programs and how would you rate them relative to a permanent disaster program?

Mr. VANDERWAL. I appreciate the question. We've had a lot of discussion on this, as you can certainly guess. I would say that a permanent disaster program or some kind of a concept where we could go to a whole farm revenue product of some kind would be a high priority, and I would say that our members would be willing to give up one of the three aspects of the current program to pay for that.

Now I can't give you an exact answer on which one of the three because our members are kind of divided on that. We've been out for the last year talking about that and asking what people would give up, and a lot of times the direct payment option comes up. Well, let's let go of that because the LDP is what protects us against low prices. However, the direct payment is the only one that really qualifies under WTO rules, so it's really a contradictory exercise in that respect.

The CHAIRMAN. Tough decisions, no question about it. Mr. Martin?

Mr. MARTIN. Very difficult question indeed. There are different kinds of disasters. There are weather-related disasters. There are market aberrations, as I indicated before. If we would go to a disaster program in place of the commodity type programs, we would have such a very difficult time writing that bill trying to include all the possible disasters. So it's a toss. I really feel you need a mix of both.

The CHAIRMAN. Mr. Carlson?

Mr. CARLSON. Well, in terms of ranking the importance of each of the three kinds of farm support payments, if you look at the numbers in North Dakota, and I expect this is true in most States in terms of the safety net payments, the LDP is first with the most dollars coming into North Dakota in terms of LDP. Second is counter-cyclical, and third is direct payments. So just looking out for the economic interests of members of my State, I would say—farmers in my State, we want a disaster program, and to shave off a portion of the direct payment to fund a permanent disaster program would be their priority.

The CHAIRMAN. Thank you.

Mr. MORAN. Ms. Herseth.

Ms. HERSETH. Thank you, Mr. Chairman. I know that Chairman Goodlatte's question is a difficult question, but I'd like to refer to the comment Mr. Moran made about how strong this committee in a bipartisan way is going to fight for a fair budget for this next farm bill. We know the budget situation in Washington is not a good one. However, we also know that what we'll spend on this farm bill is a fraction of what the entire Federal budget is and how important it is not only for energy independence, but our food supply. And if the American consumer wants to continue to expect cheap, affordable, safe food, that these are investments that we make under each title of the farm bill.

But what we can also do better, as you've all mentioned, is to make permanent disaster commitments for all of our producers, whether they're in eastern South Dakota, western South Dakota, throughout the Great Plains or other regions of the country.

I'll have an opportunity with most of you in the upcoming weeks and months to ask some of these questions in follow-up and we do have another panel, so I'm just going to pose one question, but we certainly appreciate your responses to the questions posed previously and your support of the robust energy title that we hope to maintain in the next farm bill as we initiated in the 2002 farm bill and your thoughts on the permanent disaster program that Mr. Peterson has been working on, and, of course, our bipartisan support of renewable energies from our folks in Virginia and North Carolina and throughout our region, and the importance of what we've already done here in the Great Plains.

But I'm going to pose a question that I've posed at other panels in farm bill hearings in different parts of the country and the responses that I get continue to surprise me. But the question stems from not only the 2002 farm bill debate and the issue of payment limitations that became part of that debate that stemmed particularly in some of the discussions on the Senate side, but more recently, the administration's proposal as part of the Deficit Reduction Act, part of the budget reconciliation we went through last year which was to open up the farm bill and put the issue of payment limitations back on the table, and this committee, again in a bipartisan way, said, "Hold on. We can renegotiate and reevaluate payment limitations in the next farm bill, but do not divide us amongst ourselves and throw the financing options for our different producers in different regions of the country into such uncertainty in your effort to achieve a budget reconciliation," that in my opinion, didn't even do much to reduce the deficit.

So let me ask each of you your thoughts on payment limitations. Do you think that that should be a discussion of the next farm bill? Many of the producers I hear from think they're either too high and need to be lowered, or there are too many loopholes and we have to have stricter enforcement of both. So I'd be interested in each of your thoughts on that question.

Mr. SOMBKE. Another very difficult question. Thank you very much. When you look at the costs of what it takes to operate a farm nowadays, for instance on my farm, the limitations—if I could get some limitations, which I don't, I don't know that per ratio that it really makes a difference, and the reason I say that is because our cost of production is just so high and the challenge of making a profit with that cost, I mean, you really put yourself out there. And now you have families that are—like my family, the boys want to come back to the farm. You want to incorporate or you need to incorporate to really take advantage of every opportunity.

So that's a real difficult question. If you could make it that each individual by his tax number or his tax ID or Social Security number was limited to a certain amount, a good example of—say in South Dakota, I don't know what the average income is, but let's say it's $40,000. Every farmer was entitled to $40,000 with a limited payment. That would make it pretty simple, wouldn't it, but I can't say that it would be realistic. So I mean, it's a real tough question.

And I think if you limit it to just a farm, it makes it tough because how many farms—for instance, we have a board member on our South Dakota Farmers Union board who has five sons farming with him. Imagine what that limitation would do if it was just one limitation per farm for that family, and these five individuals are all part of that same community, and they are serving on the school board and serving on the co-op board and they're serving on the electrical board. They're making that community go, so it makes it real tough.I don't know the true answer to that, but I sure would be willing to be a part of any solution that we can come up with for that.

Mr. VANDERWAL. Thank you for the question. This is certainly something that we've had a lot of discussion about in our organization. Our organization does not favor payment limitations, and there's really three reasons for that and Mr. Sombke stole one of them so I'll just reiterate here real quick. Risk is related to size. Any given farmer, whether he be a corporation or an individual, depending on the number of acres he has, he's got a similar amount of risk out there because your cost per acre is very similar no matter how big you are.

The other thing is, like Doug mentioned, families are a lot of times incorporating for tax reasons and simplicity of working together and not having to keep things separate when they're actually farming together. And his example is very good about the member that they have that has seven members. We have between five and seven members in our own operation, and we have a corporation as well, a family corporation. We don't get the top limitations, but that wouldn't be at issue if we were very much bigger, so that's a very good estimate to it.

And the other thing is if you start putting payment limitations in and making rules and regulations, there's always somebody out there who's going to find a way around it, and that's just the way things work. Thank you.

Mr. MARTIN. Thank you for the question. In North Dakota 74 percent of the farmers have gross farm income of $100,000 or less. In other words, those farmers are not economically viable farmers. The farmers that are producing the food and fiber for this country are commercial farmers, and in many cases, they are going to be running into payment limitations. For that reason, the North Dakota Grain Growers is not in favor of payment limitations.

Mr. CARLSON. Payment limitations really are an issue of north and south where you really see the egregious examples of very high payments that are hard to justify. And when 60 Minutes or somebody else does a story on an absentee landlord living in a mansion overlooking San Francisco Bay receiving hundreds of thousands of dollars in farm program payments, I think it damages all farmers' reputations and I think it damages the farm programs.

So we've got to find a way to effectively weed out those who aren't really engaged in farming, but are receiving payments from those who actually are, and I don't think there's anybody in this room or probably in these States and the surrounding States who are abusers of the farm programs, but there are people who are, and it makes us look bad. I think getting rid of the entity rules would be a good start.

With regard to the President and his proposal to reduce payments by reducing payment limits, I've seen numbers. You have to reduce payment limits substantially to really achieve any savings. I think what we're going to see—and this goes off the point a little bit, but what the heck. I think what we'll see, helping income-producing farm payments in the future, there's going to be a booming demand for crops that produce fuels, and I think that's the one great bright spot in agriculture, and I want to abuse my privilege in answering the question by saying I hope you guys respond to that.

Mr. MORAN. You may have a comment, Mr. Boadwine.

Mr. BOADWINE. As dairy farmers we don't think the payment limitations have—the MILC Program limits that, just to refresh your memory, to about a 120-cow producer, and I don't think across the country larger producers were so upset about it, but when milk prices got low and it really forced us as an industry to start this CWT program where we take control, kind of, of our own destiny somewhat because the market forces weren't reacting to it. Now when we come forward to you, one of my points is don't discriminate between farmers of different sizes, and I think that speaks to payment limitations. Thank you.

Mr. MORAN. Thank you. I wanted to ask you about MILC so I appreciate you bringing it up. Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. I'm the longest-serving member of the House Agriculture Committee, and my good friend Vern Gosdin said it best when he wrote the song and sang the song, "This Ain't My First Rodeo."

On this disaster thing, I just want to caution you, I know you've had your problems, but I have an area where they've lost nine crops out of 11, and I introduced a bill 14 years ago to go to whole farm insurance and I tried to make a pilot. I tried three different times. I've tried every different variation I could think of. I'm a CPA and I tried a new Schedule F. And unless you repeal the actuarial soundness part of the crop insurance law, it ain't going to happen.

And after sitting and watching this for a long time and trying to fix this, I finally came to the conclusion that you can dump money into crop insurance till the cows come home and you aren't going to fix this disaster program. That's why I introduced this bill, because I think it's cheaper to put it in the back end than trying to put it in the front end.

I would also caution you when you talk about this whole farm insurance and go talk to your friends up in Canada about how they like that program up there, and I would caution you that there are a lot of people in this country that want to get rid of farm programs and put you on a crop insurance program through the crop insurance companies for your entire safety net, if you will, which hasn't worked too well some places where they've tried that.

So, what I've tried to do is address a couple things. Well, first of all, when we do these add-ons, which we're going to do at some point, if we have any kind of disaster, we're going to have to do it at some point, in my opinion, it costs twice as much as it should. We pay people that don't deserve it. We don't pay people that do deserve it, and I think it costs us way more money in the end. Plus farmers don't know what's going on, bankers don't know what's going on and have to worry about what we're up to. I mean, it just doesn't make a lot of sense and I don't think it's going to go away.

There is concern in our urban colleagues that we not just have a giveaway, so I've included a provision that says you have to buy up front and get rid of cash payments which was put in basically for the Southerners who never buy crop insurance to be able to say that they never had crop insurance so they can get disaster. And I've talked about this in Arkansas and Mississippi, and I think they're ready to do this now.

But I think if we can show them that the farmers are paying part of this cost, and we're going to have this safety net on the other end and are going to require that you have insurance or you're not going to get help, I think we can hold that out in Congress. If we've got a program there that says you have a disaster, but you have to pay something and you didn't do it, you're going to be hard-pressed to get Congress to go along to bail you out after you had a chance to do something for yourself.

I wish we could fix crop insurance so we can get at some of these issues, but I haven't figured out how to do that. I think the 2002 farm bill is a good bill and it worked pretty well, but that's one place we missed the boat. And I see you're all nodding. Does anybody out here disagree with what I've just said? OK. Then I'm done, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Peterson.

Thank you panel very much. I've been exceptionally impressed with the quality of your testimony. We very much appreciate the input you've provided us and my guess is we'll have a continuing dialog as we go into 2007. Thank you very much.

I'd like to now call the second panel. Mr. Rick Fox who's a cattle producer from Hermosa, South Dakota; Mr. Scott Jones, cattle producer in Midland, South Dakota; Mr. Steve Clements, sheep producer, Philip, South Dakota; Mr. Judge Jessop, grassland producer, Presho, South Dakota; and Ms. Wendi Rinehart, rancher, Highmore, South Dakota.

Thank you all very much. We'll come back to order and recognize Mr. Fox for his testimony. Mr. Fox.

**STATEMENT OF RICK FOX, PRESIDENT, SOUTH DAKOTA STOCKGROWERS ASSOCIATION**

Mr. FOX. Thank you, Mr. Chairman. Welcome to South Dakota. Thanks a lot for coming. We asked for this meeting last January, starting with Chairman Goodlatte and Representative Herseth's office, and I'm glad that it kind of came to be. We needed this hearing in western South Dakota to hear our concerns, and we're glad to have you here.

Brief family background. I'm a rancher from Hermosa, South Dakota. I own and operate a ranch there with my wife and three kids. I am the PR man and the labor man and everything. We don't have any full-time employees.

I'm currently president of the South Dakota Stockgrowers. We are an affiliate of R-CALF USA. In 2001 we joined R-CALF, and our membership went from 600 to 1,800 members. As of today, we are the largest cattle producer organization in the State. Our membership base is mainly on the cattle ranchers whose primary income is from the live cattle sales. Our association's goal is to represent the live cattle industry in marketing, trade, animal health, and land use issues, just to name a few.

We believe in the next farm bill we need a cattle chapter again. The 2002 farm bill was the first time we had a cattle chapter put in there. A competition title, you might call it. We believe that a strong live cattle market is the key to keeping the producers, young and old, in the business. Government subsidies, we don't believe, is the answer for a strong production agriculture. Subsidies, we believe, primarily benefit the buyers of an ag commodity.

The farm bill should be written more towards the production agriculture markets or U.S. production agriculture markets. The trickle-down economics of corporate ag, it doesn't seem like that has worked in the past. We've seen some price volatility because of that. We believe the Government's role in this is to write the rules, more or less like a basketball game. You have the rules of the game, and we also need the Congressmen and women, Senators to kind of be the referee, and maybe the agencies follow the rules that you've laid out for them.

With that, we believe that packer conservation is a big issue in the livestock industry. Four packing houses control 83 percent of the live cattle slaughter in this country and that makes quite a bottleneck and a lot of control come out of that. We believe the farm bill should reinforce the Packers and Stockyards Act, but starting with the Captive Supply Reform Act, packers, they can still contract cattle, their live cattle, but it would have to be in an open and competitive transparent market.

Mandatory COOL, we know that was passed in the 2002 farm bill. Never been implemented, as you've heard today. We kind of feel this is a no-brainer. The producers and consumers have really—every poll has been 80 percent or higher. It's already been accomplished through the School Lunch Program. Imported cattle carry an out-of-area brand. Boxed beef is labeled when it comes across the border. So it's almost all there, but we just need to get it to the consumer.

One of the things in some of our trade deals with the BSE is South Korea is not going to open their border yet to us mainly because of the Country of Origin Labeling. Mainly they're fearful that because of the mingling of Canadian beef in our country right now, they want to make sure that they get U.S. beef. So for our U.S. consumers, it's huge. For our consumers overseas, it's an issue.

National animal ID. The Stockgrowers are not supportive of a mandatory national animal ID. We believe this is more coming from the bureaucracy within the Government than it is the industry, and we kind of feel that it's more of a trade issue than it is an animal health issue. We feel that the U.S. have always—the first line of defense on foreign animal disease is prevention, and now when we get—we almost feel that they're trying to say, "Well, if we can tag everything or get this mandatory ID and track everything, we can manage a disease once it comes into the United States instead of preventing it." We still feel the strongest is prevention. Wildlife, they spread disease. Maybe the Government could ID the wildlife as part of the program, for a thought.

Who will be blamed? If some kid gets sick or dies, who will be blamed when it's traced back? It kind of looks like it could be a lawyers' heyday. They might not be able to sue me and get away with it, as a producer, but I still would have to hire a lawyer to protect myself, and that may cost me my whole ranch in lawyer fees.We feel it's an unfunded mandate similar to the No Child Left Behind which we feel did not come from the grassroots either.

Identity theft is another issue with ID, too. I mean, we've seen it in credit cards and whatnot, and when you start talking about computers, identity theft is a good possibility.

On the interstate shipment of beef, we really strongly believe in the bills, the legislation introduced in DC on interstate shipment of beef. We feel it is necessary that we get this done right now. Beef from foreign countries such as Canada can come into the United States with an equivalent inspection.

The packages are inspected by the USDA, the FSIS, and then given a permit that they're equivalent to ours, but there is not a U.S. citizen there that's inspecting that, whereas with your State inspection plant, it might be a State inspector, but at least it is a U.S. citizen. We feel that they're not going to get away with too much stuff on a State basis that maybe could happen in a foreign country.

When you figure equivalent, that's not equal. Kind of one of the things I wanted to tell here as far as the equivalent inspector, the Pittsburgh Steelers, they're equivalent to the Wall High School football team, but I don't think they're quite equal.

So one other issue that maybe could be addressed in the farm bill, I know it's never been in there before in prior years, but the Endangered Species Act. This has become more of a tool for the radical groups, the way cattle producers look at it, and I don't think there's too many cattle producers would even want to call these groups environmentalists. They're using the ESA, Endangered Species Act, to kind of remove farmers and ranchers from the land, and I think a good place to look is right straight south of Wall here in the Canata Basin, and I think, from what I heard, is some people are going back to Rapid that way by the Badlands. Take a look at the devastation that is done by the prairie dogs there because of the black-footed ferret.

We wouldn't manage our land the way the Government is managing that land down there, and that is Government land. We need to take a stand on this and hopefully just quit funding the whole act, get it to where it's back to production agriculture.

All these things I've mentioned above, basically can go back to Homeland Security. We're fighting wars for oil overseas and look what it's done to the price of gas and diesel and our expenses. We should not put our home-grown food in jeopardy by not allowing U.S. producers to profit in feeding our Nation.

Thank you.

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

Mr. MORAN. Thank you, Mr. Fox.

Mr. Jones.

**STATEMENT OF SCOTT JONES, PRESIDENT-ELECT, SOUTH DAKOTA CATTLEMEN'S ASSOCIATION**

Mr. JONES. Mr. Chairman, my name is Scott Jones, fourth generation rancher from Midland, South Dakota, president-elect of the South Dakota Cattlemen's Association.

I would like to thank you and Representative Herseth for the opportunity to testify today on behalf of our 1,000 members statewide, and I'd like to welcome all the committee members to South Dakota.

In developing the 2007 farm bill, the South Dakota Cattlemen's Association supports the reduction of the Federal deficit while assuring funding for farm bill priorities and ensuring that agriculture does not bear a disproportionate share of the reductions.

We also advocate minimal direct Federal involvement in agricultural production methods and believe in the preservation of an individual's right to manage land, water, and resources. Most importantly, farm policy should maximize opportunities to compete in foreign markets.

While the long-term goal of a national farm policy should be to promote a free market, private enterprise farm economy, and maintain a viable domestic agriculture industry, it is essential to recognize that U.S. producers compete in a global economy. Commodity programs must include thorough consideration of the impact of subsidies on other commodity sectors and on domestic and foreign markets. Recognizing the high degree of Government intervention in agriculture and the potential economic disruption of an immediate end to commodity programs, South Dakota Cattlemen's Association supports a phase-out period for programs that may be eliminated. SDCA does not support programs that invest the Government with authority to set prices, underwrite inefficient production, or manipulate domestic supply, demand, cost or price.

SDCA feels strongly that the 2007 farm bill negotiations should focus on maintaining current conservation programs to reduce the producers' dependence on disaster payments. Most importantly, SDCA encourages Congress to fully fund conservation programs that are authorized to ensure adequate participation and maximize conservation benefits.

SDCA members have identified EQIP, CSP, GRP, and CRP as programs most useful to livestock producers. SDCA recognizes the opportunities to improve these priority conservation programs and recommends enhancements to EQIP funding including maintaining at least 60 percent of authorized program funds for livestock projects, streamlining the application process by decreasing the amount of paperwork required for program participation.

SDCA also reaffirms our support for managed hay and grazing on CRP acres, and recommends targeting CRP to get the most conservation benefit for the money spent and acres enrolled. Release of CRP acres for emergency haying and grazing must be done in a timely manner, and we also recommend a timely release of CRP in areas adjacent to declared disaster areas to provide increased forage availability.

SDCA specifically opposes the CRP CP 30 buffer program due to the disincentive it creates for landowners to allow grazing on adjacent areas.

With regard to disaster assistance, we reiterate that SDCA supports the use of conservation programs for sustainable natural resource management. However, we suggest the development of public/private programs that establish a comprehensive framework for disaster-specific assistance to help producers in a timely manner.

SDCA members support changing the Noninsured Crop Disaster Assistance Program, known as NAP, that allow for graduated premiums based on numbers of acres enrolled, loss payments based on the amount of loss, and the lower coverage threshold for yield loss.

In disaster years where there is zero production on LDP-eligible crops utilized for corn production, SDCA advocates allowing producers to collect LDP, when it is available, on those acres based on their crop insurance yield.

SDCA feels that national agriculture policy should be based on a free, private enterprise, and competitive market system. We support producers' ability to market cattle however, whenever and to whomever they choose and will not support policy that guarantees profit, restricts the operation of a competitive marketplace, or dictates who can or cannot own cattle.

We do encourage incorporation of Mandatory Price Reporting in the 2007 farm bill to ensure continued transparency in the markets. We stress that animal agriculture is based on the humane care for our livestock and the farm bill must not be a platform for extremist organizations to push their anti-meat and anti-agriculture agendas.

Finally, in creating and managing a national animal identification system, the South Dakota Cattlemen's Association policy supports a privately held database to minimize the concerns with confidentiality of producer information. Most importantly, SDCA supports an identification program that includes individual animal identification that is electronically transferable to accomplish the goal of 48-hour traceback for disease surveillance. We advocate a voluntary market-based system and will oppose any effort by Government to create a public database that is duplicative of private industry efforts.

In closing, the South Dakota Cattlemen's Association supports equitable farm policies that will emphasize the use of conservation programs to achieve an economically and environmentally sustainable ag economy. Thank you again for the opportunity to testify on behalf of the cattle and beef producers in South Dakota.

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

Mr. MORAN. Thank you, Mr. Jones.

I now recognize Mr. Clements.

**STATEMENT OF STEVE CLEMENTS, VICE-PRESIDENT, SOUTH DAKOTA SHEEP GROWERS ASSOCIATION**

Mr. CLEMENTS. Thank you. On behalf of the 2,000 sheep producers in South Dakota, I'm very appreciative of this opportunity to discuss the Nation's ag policy with the agriculture leadership of the U.S. House of Representatives.

I am Steve Clements, district 6 director, vice-president of the South Dakota Sheep Growers. My wife and I are third generation sheep producers. I'm pleased to provide my thoughts on the priorities in the next farm bill that will assist the sheep business. I can report to the committee that these priorities are shared by my fellow sheep producers in the South Dakota Sheep Growers Association and the American Sheep Industry Association.

The sheep industry of the United States is comprised of 68,000 farm and ranch families producing lamb and wool in every State of the country. The industry provides a half a billion dollars to the American economy and is a mainstay of many rural communities in which sheep grazing is a key use of grazing and pastureland.

Sheep producers have been aggressive and creative in their approach to national initiatives that strengthen the domestic industry.

In 2005 the sheep industry approved a national referendum to continue our American Lamb Board Checkoff Program. This lamb promotion program is entirely funded by the industry, and I am pleased to say that of those who voted, 80 percent voted in favor of the referendum. We collect over $2 million annually from sheep sales with producers, feeders, and lamb companies all paying a share of the checkoff.

The American Wool Council launched a wool production, information and marketing program for American wool in early 2001. Our national initiatives have improved competition for American wool. International marketing programs have exposed U.S. wools to the world and exports have grown rapidly to over 60 percent of our annual production today. Total exports represented less than a third of our production prior to our programs. We now sell into eight or more international markets each year. In addition to expanding market opportunities to our producers, the Wool Council has developed new fabrics and treatments for textiles with U.S. companies and America's Armed Services.

We are proud to help provide clothing and uniforms for the men and women of our military. Fully one-fourth of our wool production is consumed by the U.S. Military.

The year 2004 marked the first growth in the U.S. sheep inventory since 1990. We grew our industry again in 2005, the first year-on-year increase achieved ever since 1987–88. Industry growth improves competitiveness for all segments of the industry from lamb feeders to lamb meat companies, wool warehouses, wool mills, feed suppliers, trucking firms, and shearing companies.

The Marketing Loan and LDP Programs for mohair that were included in the 2002 farm bill have been helpful in stabilizing wool and mohair production.

The Wool Loan Deficiency Program provides the only safety net for producers in our business. I encourage the committee to re-authorize the wool LDP and at a base loan rate of $1.20 per pound in order to provide the benefit of the program as intended. While nine loan rates are available, essentially all wool LDP applications are in one non-graded rate category. The research and industry testimony provided in 2002 supported a $1.20 per pound base loan rate and authorization of the wool LDP at this rate should provide opportunity for all producers to participate in the program as intended.

Industry research by Food and Agriculture Policy Research Institute and testimony by the American Sheep Industry Association documented a base loan rate of $1.20 per pound; however, the legislation lowered the base rate to a dollar per pound with a cost score of $20 million annually. The total payments for each of the 2002 through 2005 crop years is $7.8 million, $7 million, $7.3 million, and $6.1 million respectively. The significant difference between the annual cost estimate and the actual payment total each year combined with the fact that nearly all participation has been in only one loan category out of nine total categories supports the request that the program be authorized at the base rate of $1.20 per pound rather than $1 per pound in the current legislation.

This program has been reasonably simple for FSA to administer and has worked as a safety net that producers can rely on.

Additionally, on the international wool marketing efforts, our industry actively participates in the USDA Foreign Market Development, Market Access Program and Quality Samples Program and encourages inclusion of these in the farm bill. These export programs are very important to the sheep industry.

I urge the committee to support re-authorization of the National Sheep Industry Improvement Center.

As established in the 1996 farm bill in the Rural Development program of USDA, the National Sheep Industry Improvement Center provides loans and grants to business ventures for financing programs which commercial credit or funds were not available. This program does not provide funds for individual producers nor purchase of sheep or land, but rather for projects to strengthen the sheep business including loans to wool warehouses, lamb slaughter and processing ventures, and wool processors. An excellent example of the Sheep Center here is the San Angelo Bowman Wool Scouring which obtained a loan to purchase and install a state of the art scouring train.

The Center has provided 56 loans to 38 entities in 21 States. The total volume of dollars that have been loaned since 2000 totals approximately $15½ million. The Center has also made 58 grants totaling more than $20 million.

The United States has no barriers to lamb meat imports and as such has become the market of choice for lamb exporters from around the world. Lamb was never part of the Meat Import Law so other than a brief period of temporary restrictions in late 1999–2001, lamb meat is freely traded. However, the playing field is not equitable for U.S. sheep producers. The European Union continues to provide over two billion annually in Government price support and subsidies to their sheep producers. The European Union maintains strict and effective tariff rate quotas on lamb imports. Our industry looks to both the Agriculture Committee's role in industry programs in the next farm bill and the committee's role in pushing for aggressive reform of the European Union's agriculture programs and barriers to assist the domestic sheep business.

The South Dakota Sheep Growers Association is very active in the education and promotion of lamb and wool and the sheep industry. As one of the top sheep-producing States with over 250,000 head of sheep, we are very interested in the debate and outcome of the farm bill and the effect it will have on the sheep producers of South Dakota. Thank you.

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

Mr. MORAN. Thank you, Mr. Clements.

Mr. Jessop.

**STATEMENT OF JUDGE JESSOP, GRASSLAND PRODUCER, PRESHO, SD**

Mr. JESSOP. Thank you. Good morning. I'm Judge Jessop, a grasslands producer in Presho, South Dakota. My wife, who is in the crowd, and I have raised two children, cow-calf pairs and some yearlings on 1,400 acres of leased private land in south-central South Dakota. We are fortunate to live close enough to my parents and my brothers so that I can help one of my brothers custom graze 2,500 head of yearlings on 5,500 acres. This year it's going to be 1,300 and they're going to leave even earlier because of the drought.

In addition to our cow-calf production, I am also a technical consultant to other grasslands producers. The first thing I do when I arrive at a producer's place is ask them, "What are your goals? Where do you want to be? And what are you willing to change?" 90 percent of the time they ask for technical assistance both for production and environmental benefits. Cost-share is secondary to their need for information. These days, they want water development and then grazing techniques to improve production in grass quality.

I understand where they're coming from. When I first started participating in USDA conservation programs, I had already decided I wanted to improve my grazing management and had started fencing on my own, but I needed help with the water. I sat down with the NRCS staff to learn about my options. When I went into the office, I was not thinking about which cost-share program to sign up for but more for the advice they could offer. Today I'm involved in an EQIP contract, a CRP contract, and a GRP contract, so I think I understand the conservation programs.

I've found these conservation programs help me improve my production about 20 percent. They also help my landlord and me manage our risk. The financial incentives helped me make my annual payments. In years like this when it is droughty, it also helps to know because there is a safety net when de-stocking is our only option. I'm able to keep my cattle longer because I have reliable water sources and my grass is healthier and able to last longer than if I did not have a grazing plan. If this was a shorter drought, I could outlast it through what I've implemented, but I know I'm not the only producer that's learned this. Because USDA has provided technical assistance the past 60 years, we are not in a dust bowl during this drought.

The Grasslands Reserve Program could be a great program if properly funded and authorized. In the 3 years South Dakota was able to fund the program, I know there were over 1,200 applications and the NRCS was only able to fund 20 to 25 of them. The interest is there and they are from good applicants who could really use this program. I personally enrolled 350 acres in GRP in Lyman County which pays about 10 bucks an acre.

One-thousand acres of my operation are enrolled at about $30 an acre in CRP, which I split that with my landlord. They are due to expire in 2007, but we got it extended for 2010. When it does expire, my landlord and I would like to keep it in grass. Economic conditions will determine if I have to break it up again. We would be interested in enrolling that in the GRP if that program was available for expiring CRP.

Since my EQIP contract started in 2003, I've installed pipeline and cross-fencing, all to improve my grazing management and protect the land. In addition to our improved grass and livestock production, we are seeing more wildlife, including pheasants and a doe and fawn who have moved onto our property.

As I've stated before, the cost-share and financial incentives help, but I find most producers think the technical assistance is the most helpful. They realize they need to take "baby steps" as they work up to implementing their grazing management system and the financial assistance comes next. Through my consultant work, I have helped organize educational opportunities for producers to learn more about proper grassland management techniques. South Dakota NRCS, U.S. Fish and Wildlife, and South Dakota Game, Fish & Parks strongly support our efforts to find out what works in different parts of the State and maybe I or another producer can use that information or share it with someone else.

It doesn't make sense to me that we have some conservation programs established, and "conservation" is a key word. It's supposed to be part of the farm bill, but we have commodity programs that encourage record sod busting in parts of the State. I encourage you to look at Fish and Wildlife's "thunderstorm" map of north-central South Dakota to see the grasslands being broken in the heart of our prairie pothole region, all to receive commodity payments and LDPs. 56,000 acres of grass have been converted to cropland in a five-county area. Maybe if USDA were able to expand programs like the GRP, producers would not feel forced to give up their grass. Our local bankers and loan officers influence our conservation program choices and livestock doesn't benefit under any commodity programs.

Thank you for this opportunity to appear before your subcommittee. While there are some problems, we have some good programs in place and I encourage you to keep that in mind as you build the next farm bill. It is important that we all recognize what happens here on the land will affect those downstream and those who eat, wear, and consume what we produce. I want the opportunity for my children to be able to continue our family's legacy. Like most producers, I want the land to be better than when I received it.

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

Mr. MORAN. Thank you. Ms. Rinehart.

## STATEMENT OF WENDI RINEHART, RANCHER, HIGHMORE, SD

Ms. RINEHART. Thank you to the subcommittee for inviting me to be here and welcome to South Dakota. My name is Wendi Rinehart. My husband Brady, who is in the crowd today, and I presently own and operate approximately 6500 acres in northern Hyde and Sully Counties in central South Dakota. We are very proud of the American beef and quarter horses we raise there. Good American beef and they're good horses. And we also have been very blessed to watch our three children grow into fine young people on our family ranching operation.

The 2002 farm bill has had unintended harmful consequences; consequences that have made it difficult to maintain the livelihood and the way of life for us and many other ranching families across South Dakota. As my husband Brady puts it very simply—every time someone rips up prairie, the price of grass goes up.

For those who choose to convert the virgin prairies to crop production, provisions of the 2002 farm bill provide them with generous financial incentive to do so. For those of us whose income depends upon the grasslands and livestock production, there's no such support.

It is well-documented that in the last 20 years, more than 1 million acres of South Dakota forage lands alone have been converted to grain production at the current estimated cost to the Government of $40 million annually. This directly affects our ability to rent or buy additional grazing lands, and in a severe drought year such as this, this problem is even more acute.

Quite frankly, I'm very disgusted with the misuse of the tax dollars. The ranching community has found they are paying the Government to fund these programs to basically put us out of business. Our tax dollars are being used to compete against us, supporting crop production on newly broken range lands that are completely unsuitable for that purpose. When you see rocks the size of Volkswagens being ripped out of the ground, there's something wrong with this picture. And I tell you, it just rips at your heart when you see more and more loss of short grass prairie. Tall grass prairie is all but gone. I mean, it's gone. We have the short grass prairie here and we need to think about keeping it. It forces ranch families to play the FSA game. You're cutting off your nose to spite your face if you don't play the game. They end up selling off their cattle so they can collect Government-guaranteed checks for farming or they go under.

Can we fix it? Can we level that playing field? I believe so. We were encouraged in 2002. The Senate passed an amendment that would restrict USDA payments on lands without previous cropping history. This provision would have in no way prevented the landowner from breaking or clearing their land. However, incentives would not be paid to do so. Now that more or less sits those folks where the livestock people have been, where the ranchers have been. We've been at the mercy of Mother Nature and the markets for a very long time, and to tell you the truth, we pretty much like the Mother Nature part usually. The only thing ranchers want is a fair market value. We don't want subsidies; we want a fair market value.

Senator Durbin has said, "The farmers can still drive themselves to the new croplands, but the Government would no longer drive them there."

In 2002 Senator Durbin concluded that an amendment to deny farm payments on newly broke lands would save $1.4 billion—I'm going to repeat that, $1.4 billion over a 10-year period. Now this is money that could be well-spent on other programs such as the Grassland Reserve Program, and I haven't even mentioned the other benefits, the conservation benefits. We're taking stable soils, clean water and more wildlife. Honestly, when was the last time you saw terraces on the prairie, on the native prairie?

I don't have to tell any of you that we are in the midst of a 4-year drought that some say is reminiscent of the 1930's. This only exacerbates the plight of ranchers who are already short of grass. Isn't it time to level that playing field? Isn't it time so that ranch families who struggle to compete for those grasslands have a shot?

Our prairies provide our way of living. Like other ranchers, we work long hours with little financial return anymore, but we wouldn't trade our lifestyle or our values for anything else.

There is a hill above our home that I visit, and it gives a very commanding and a very panoramic view of the countryside. There isn't very many days that go by that you can look out there and you can see tractor and plow tearing up the native ground.

Now I encourage you, please, consider the provisions in the new farm bill that will no longer support conversion of native prairies to crop production at the taxpayers' expense.

And there's something a little more to it. We're not only losing a commodity of short grass prairie and the beef that we graze there and the sheep and all the livestock that we have that are on this short grass prairie. We're losing another commodity that's very very precious to me and that's our youth. You can't get the young people to come back. You can't, not to ranch. It's too tough on them. We have to think about that. We need to keep people in South Dakota, and there's kids out there that want to come back and they want to be on the ranch. Let's try and make it better for them.

And if you would like to see this firsthand, how this issue is threatening ranch families, I invite you, each and every one of you and any other member of your committee, to come out, get off the oil, hit the gravel. Get out there to the folks and talk with them, and you can see how the ripped-up prairie is threatening them, but you're also welcome to come and visit our beautiful prairie. Thank you very much.

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

Mr. MORAN. Thank you very much. I recognize Mr. Goodlatte.

The CHAIRMAN. Thank you, Mr. Chairman. Ms. Rinehart, that testimony was very compelling. I appreciate that. I'd like to ask all of you, in looking at where we are with the various programs and the interest that has been expressed—and, in fact, I have interest in it as well—in the permanent disaster assistance program that Congressman Peterson has introduced. We asked some tough questions of the last panel, but I want to note, there's some good benefits to a program like that.

First of all, ad hoc disaster assistance, as you know right now from the experience that you have with what's happening in grazing lands here in South Dakota, is a very haphazard thing. You never know if you're going to get disaster assistance, but twice since I've been chairman of the committee, we have been successful in getting assistance to farmers including livestock assistance. But since it's been ad hoc, it's been attacked and criticized, and sometimes it's managed better than other times. Another thing about Mr. Peterson's program is that it would potentially benefit all farmers because of the nature of it.

So I'd like to ask you if you might address your thoughts on this, keeping in mind the other questions that arise. How do we pay for it? One of the things that I've discussed with Mr. Peterson on a number of occasions, and we both understand this problem well, is how do you keep the money that you set aside for these disasters from being taken by the Appropriations Committee which appropriates funds every year and spending it before you ever get it applied to a disaster?

And how do you handle the risk management aspect of it as it comes to animal agriculture? This is an area where we have worked for a long time to try to build out some insurance type programs. We haven't been making as much progress as I would like to see, but in order to make something like this work, you have to have an incentive for the person to participate. In other words, they've got to be covering themselves with some kind of insurance. Otherwise nobody will bother to worry about anything and they'll just have their hand out for the permanent disaster program.

So he has built into his legislation some measures on that. I'd just like to know from you what you think about that and what we ought to do. Mr. Fox?

Mr. FOX. Thank you. In 2002 we went through this here, a drought similar to this, and at that time I think there was a program that we had a little bit of influence on, and we just told our representative—at the time it was Representative Thune—and we said, "Keep it simple, and go back to when the drought began." Like it was spoken about by the Governor earlier today that producers sell off early in a drought year. They need you and you can't forget them.

One thing about it as a cow-calf producer here in South Dakota and across the Nation, what I see as one of our best things about the cow-calf producers and one of the worst is that we're pretty independent. In 2002, I think it was $18 a head for a cow-calf—or a cow. On June 1, going back to the start of the drought, they asked for $18.

We've said all along, keep this thing market-driven. Back when it was $18 a head, and to give you a figure, if you had a 1200-

pound cow that you would sell in the fall, if you had got an extra $1.50 per hundredweight, there was your $18. Yes, that check was good. It helped somebody buy hay and whatnot, but if they would have got that extra $2 a hundred from the marketplace, that would have been better yet, I mean, on the overall.

The CHAIRMAN. My time is running out. Can we move on to Mr. Jones?

Mr. JONES. In regard to permanent disaster assistance, I think that probably is a good idea. I especially like Governor Rounds' comments. I think the conservation programs are very important as a pre-condition to get us ready for the disasters. This disaster here now that's going on, this drought, we were behind the eight ball before we ever really got in this drought, so if we knew ahead of time that we're at a certain stage of a disaster, no matter what type it is, if we knew that one, two, and three was going to happen at this stage, four, five and six in the next stage, I think we'd be better prepared for it.

You asked how to safeguard the funds. I understand that would be a huge challenge. I think that we need to look at maybe shifting some of the, perhaps, direct payments into a disaster program. One of my pet peeves is spending a lot of money on foreign aid to countries that are not friendly to us, and maybe if there was some way to get that money into the market, well, that would be great.

The CHAIRMAN. My time is expired, but let me ask you just very briefly to tell me what your opinion is, Mr. Clements.

Mr. CLEMENTS. The thing that would help or I think would help, one thing, like our forage insurance. This year we have forage insurance on our hay ground. The adjuster's been there and everything has pretty much been done, but we were also told that we weren't going to get no check until later in the year because they were afraid we were going to grow a hay crop. I don't think it's going to happen. I don't know how long they're going to make us wait, but those kinds of things, and then the water and the CRP. If you put a pipeline in, you could cost-share. They will not do it.If it's going into CRP or, like in my case, the hayfield, it's going into my own hayfield, I can't do it if it's crop residue. I have to do that all on my own.

The CHAIRMAN. Thank you. Mr. Jessop.

Mr. JESSOP. I would agree with about if the plan is there, that would be great, but also, we know these disasters are going to happen in one form or another, and these conservation programs that we have, EQIP, CSP, GRP, CRP are all tools that a producer can use as another option. That is my opinion.

The CHAIRMAN. Thank you. Ms. Rinehart.

Ms. RINEHART. Ditto. I simply don't—I think I'll just leave that to the experts.

Mr. MORAN. We appreciate brevity, Ms. Rinehart. I recognize the gentlewoman from South Dakota, Ms. Herseth.

Ms. HERSETH. Thank you, Mr. Chairman, and thank you for your very insightful responses to Chairman Goodlatte's questions relating to permanent disaster relief and conservation programs as tools that all of you, it sounds like, have effectively used. I also appreciate your thoughts on the importance of fair market value, the importance of transparency. I do hope that we will all take a close look at a competition title in the next farm bill as opposed to the last one which didn't make its way into the final version, just in terms of showing our producers they have the transparency in the markets that operate in a way that are good for them and not just geared toward those who benefit from the low-cost commodities on the market and also who benefit from some of the international trade agreements more than our country's producers do.

I do appreciate, Scott, your suggestions on revisions to the NAP Program, the Noninsured Crop Disaster Assistance Program. I think that's a little bit of what you're getting at, too, Mr. Clements, some flexibility in that program along with some conservation programs, especially in the water needs that we have, that we have a long-term benefit when we have these cycles of severe weather like a drought.

I would, though, if the three of you could comment on some of the thoughts that Mr. Jessop and Ms. Rinehart shared on the Grasslands Reserve Program as well as what may happen in certain parts of the State if a disincentive—well, the first incentive that was built into the 2002 program to have—the farm bill that have caused this tearing up of native prairie, and I feel that the Grassland Reserve Program is a new program, a very good one, but like many of our conservation programs, it isn't adequately funded. Do you feel that if we were to be able to increase funding for that program, it would help alleviate some of the problems that Ms. Rinehart, in particular, discussed?

Mr. FOX. On the Grassland Reserve Program, that basically puts a Government easement on your place for a specified amount of time, hopefully a specified amount of time. The Stockgrowers are very concerned with the easements, especially conservation easements because they do devalue your land somewhere down the road. No one can see into the future what your situation is going to be on your place where you might have to sell some land or something.If you've got an easement tied to it, it can devalue the land. So make sure that these Grassland Reserve Payments or Programs, whatever it is, make sure that there is a deadline on them easements. That they are not like some of these easements in some of the other places that are perpetual. We do not need perpetual easements on the land because there is value that is taken away from that. So that's what I can tell you about that. I don't know of any certain individuals with Grassland Reserve Program. It's not in my area, anyway.

Mr. JONES. Thank you. I guess I don't see any of that happening on a large scale basis in my area, but I do recognize that it is happening in especially the east-central part of the State. The Cattlemen do have a policy. We don't support permanent easements. We do support GRP funding. That's between an individual and a government, so we'd like to leave some of those choices up to the individual. I think that would probably help with some of that. I realize there is some disincentives to keeping that in grass.

One, I guess, thing that I was thinking about as the previous question was brought up, a big thing that we're facing, especially in western South Dakota, is the outside money coming into the State to buy farms and ranches for recreational purposes. It's not breaking our grass, but it's also related to the competition.

Mr. CLEMENTS. As far as myself and the Grassland Reserve, we haven't enrolled any, but I've talked to producers who have, and my concerns would also be the easements that they have to sign. And I've used the EDP and the EQIP Programs to distribute water on our place and it's been a saving grace now. Not huge, but I wish there were more flexibility with where you could go with it because the places we need it right now, I can't take it unless you do it all on your own.

Mr. MORAN. Mr. Peterson?

Mr. PETERSON. Thank you, Mr. Chairman. I'll try to be brief. I just want to get out of the weeds a little bit on this issue. Where is this happening? I've been to Presho.

Is that where this is going on or where this 56,000 acres——

Mr. JESSOP. That would be more in the prairie area of Highmore.

Mr. PETERSON. Where is that?

Ms. RINEHART. Right on 14, straight east of Pierre, then you go north.

Mr. PETERSON. Yes, I see it. And how long has this been going on?

Ms. RINEHART. Oh, for the last 10, 12 years really, but since 2002, it's really escalated.

Mr. PETERSON. And are these the same people that have been on this land all the time and all of a sudden, they wake up one day and decide they're going to do this or is this new people coming in or what?

Ms. RINEHART. Some people have been on that land and have sold down their cattle and then they've gone ahead and got into the farm programs. Others have moved in and it's older ranchers, and they've sold off their places to the new blood coming in, people who are investors, and what happens is they sod-bust that native prairie, they farm it, and then they rent it out.

Mr. PETERSON. What I don't get is we've had some of the best cattle prices we've had in a long time over the last few years, so why would this be going on at a time when we've had such good cattle prices as opposed to back when we didn't have such good cattle prices?

Ms. RINEHART. You're still guaranteeing a check, Congressman. You're still guaranteeing a check with the farm programs. You're not guaranteeing people——

Mr. PETERSON. Well, I understand that, but I'm just trying to get into their head a little bit and figure out what these guys are up to.

Ms. RINEHART. I mean, when you're sitting there, OK, they're talking down here about not putting any easements or anything on the grass but when you're sitting on grass, and in our part of the country, people are coming in, they're offering anywhere from $600, $800, nearly $1,500 an acre. Now the banker's got it down at maybe $300. Well, what are you going to do? Are you going to sit there and you scratch your head, do I get totally out of debt? Because it' a misconstrued deal when people think that these family operations are handed down from generation to generation. They aren't handed down. Ma and Pa have to retire on something so you've got to turn around and you've got to buy from them.

Mr. PETERSON. Now I remember—I was on the committee and I remember some discussion about this. We did change the laws in regard to CRP, if I remember right, because there were people breaking this up, getting it under the program and then they were putting it in CRP, and we changed the rules and I think largely that was stopped. Am I right or wrong?

Ms. RINEHART. It helped.

Mr. PETERSON. OK. But we didn't address this other issue. And so what they're doing is they're spraying Roundup on this grass and planting it in order to grow beans; is that what's going on?

Ms. RINEHART. They're ripping up the soil and taking it out.

Mr. PETERSON. They're actually plowing it?

Ms. RINEHART. Oh, absolutely.

Mr. PETERSON. I didn't think they could do that.

Ms. RINEHART. Oh, yes.

Mr. PETERSON. I thought that you had to—in order to get in there, you couldn't plow it. You just had to no-till it. Am I wrong about that?

Mr. CLEMENTS. Probably as long as you file a management plan and you're not busting up a wetland or something like that, but——

Mr. PETERSON. But I thought—the Sodbuster didn't have some rules? I thought there was something in there.

Mr. CLEMENTS. As long as you have to file a plan, three or four——

Mr. PETERSON. So the problem is they were allowed a plan to break this stuff up, I think is what you're saying. And so the solution is to basically say, "If you do this, you don't get any farm payments"?

Ms. RINEHART. On additional lands. On newly broke lands, and you almost have to put a provision in there somehow that you put a time limit on that because you don't want—if something like this gets some teeth in it, OK, you're going to have people going in there and they're going to be ripping up as much native prairie as possible to get it grandfathered in. So you're going to have to put some kind of provision in there that, and I'm not saying there isn't good farm ground, but——

Mr. PETERSON. Before I run out of time, what do you think about switchgrass? I'm serious. Switchgrass produces twice as much ethanol an acre as corn. What do you think of people putting that into switchgrass?

Mr. JESSOP. It wouldn't bother me if there was cattle grazing on it.

Mr. PETERSON. Yes. No, you'd be able to use it, and I think it has some real possibilities, and I think 20 years from now, you're going to see as much switchgrass as you see corn and soybeans. I think really think that's a possibility and it might solve a lot of problems. Thank you.

Mr. MORAN. Mr. Peterson, thank you. Obviously, Ms. Rinehart, we've struck a cord. We're all trying to figure out just what's going on. My understanding was in order to get program payments, you've got to have a base, and I don't understand why grassland has a base, but I'll sort that out and get some more information on it so I understand what you're describing to us.

We appreciate very much the testimony of this panel.Both panels have provided us with very useful information spoken from the heart by people who care a lot about what they do and about the future of their communities, their families, and their State. And we'll work hard to see if we can't develop the right kind of farm policy for the producers in this country. Ultimately it seems to me we'll know we have a farm bill when the average age of the farmer in South Dakota is someone less than 70 or 80 years old and that young folks who very much want to return from college or working after high school have that opportunity, then we'll know we've got the right policies in place.

Let me recognize the gentlewoman from South Dakota for concluding remarks.

Ms. HERSETH. Thank you, Mr. Chairman, and again, I want to thank all of our witnesses as well as those who attended today. I want to thank you and Chairman Goodlatte, both the ranking members here, Mr. Peterson and Mr. Etheridge, for taking the time to be here.

I want to assure everyone here that in addition to the testimony we've taken on ideas for the next farm bill, we'll continue to work, as we already have been, in putting together a targeted and focused disaster assistance package particularly starting with our livestock producers whose needs are most immediate, and we will continue to work on that as we hear from our constituents to our district work here in August and when we head back to Washington in September.

There are a number of people to thank, but before I thank them as they helped organize today's hearing, I do have a couple of people I think that deserve recognition. In addition to Governor Rounds testifying and in my official capacity here on the committee, we have some folks who have joined us who are very interested in meeting all of you and hearing your thoughts and sharing their ideas on what they hope to be able to do in their serving on the path of the future.

We have with us also today Jack Billion and Eric Abrahamson. Jack Billion is running for Governor, and we also have Mr. Bruce Whalen who's running for the United States Congress who's joined us here today as well.

We have some folks to thank here at the Wall High School. Our new superintendent here, Dennis Rieckman, Stacy Elshere, Dan Hauk, Kim Morgan, Josh Schulz, and Randall Poste for setting this up and opening up the school for us today.

We were joined earlier by our sheriff here, Don Holloway. And of course, we want to thank the Wall Chamber of Commerce, Ted Hustead and Wall Drug for providing refreshments for us.

We want to thank our Agriculture Committee staff, Tyler Wegmeyer, Scott Martin, Clark Ogilvie who works with Mr. Etheridge and the full committee and for Mr. Goodlatte and Mr. Peterson as well. I would like to thank the mayor of Wall, Mr. Dave Hahn, for welcoming us here.

And finally I would like to thank members of my congressional staff which many of you have had a chance to meet and visit with. From my Washington, DC office, Mr. Ryan Stroschein who's back here. My State director, Tessa Gould, and the three dedicated women who work in my Rapid City office, Lesley Kandaras, Laura McNaughten, and Erin McCarrick.

Mr. Chairman, thank you again for being here, for hosting this, giving us an opportunity here in South Dakota to make our perspectives and ideas known, and I appreciate your willingness and your time. Thank you.

Mr. MORAN. Thank you to you and the people of South Dakota for making us feel so welcome. Those of you who would like to submit written testimony to the Agriculture Committee, we will take that and consider it.

In addition to that, you may go to the House Agriculture Committee's Web site and provide that by the Internet at *www.agriculture.house.gov.* If you'd like to provide us with your e-mail input, we'd be glad to receive that on our Web site.

With that, I'll just say a couple of magic words for this hearing to be concluded and those words are without objection, the record of today's hearing will remain open for 30 days to receive additional materials and supplementary written responses of witnesses to any questions posed by a member of our panel. And with that, the hearing of this Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 12:16 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

## STATEMENT OF SCOTT JONES

Thank you for the opportunity to submit comments on behalf of the South Dakota Cattlemen's Association (SDCA) regarding current farm bill programs and possible changes for the 2007 farm bill. SDCA is a membership-based organization representing 1000 cattle and beef producers throughout South Dakota. We are also an affiliate of the National Cattlemen's Beef Association (NCBA).

SDCA's priorities for the 2007 farm bill are to:

1. Support a reduction of the Federal deficit while assuring funding for farm bill priorities, without agriculture bearing a disproportionate share of the reductions. Spending reductions could come from foreign aid to countries that do not share our values.
2. Minimize direct Federal involvement in agricultural production methods.
3. Preserve the individual's right to manage land, water, and other resources.
4. Provide an opportunity to compete in foreign markets.
5. Support equitable farm policy.

In addition, SDCA supports long-term farm bill authorizations, such as five years, to provide continuity for producers. Specific areas of interest for SDCA and program recommendations are outlined below.

Natural Resource and Conservation Policy

Government policy should enhance the individual's right of free choice in land use, soil conservation, water conservation, energy use, and development utilizing working lands conservation methods that are based on sound science and economics. State laws and individual private rights should be preeminent in the use of water and other natural resources.

To achieve these priorities, SDCA believes the 2007 farm bill negotiations should focus on the following key issues:

1. Creating and implementing conservation programs to reduce producers' dependence on disaster programs and direct payments.
2. Fully funding the conservation programs that are authorized to ensure adequate participation and maximize conservation benefits.
3. Increased availability of the Environmental Quality Incentives Program (EQIP), Conservation Security Program (CSP), Grassland Reserve Programs (GRP) and Conservation Reserve Program (CRP). In addition, we support increased funding for EQIP, CSP, and GRP to meet the high demand for these conservation programs.
4. Eliminate overlap or redundancy in current programs.
5. Improve efficiency of existing programs.

SDCA recognizes some opportunities to improve the priority conservation programs listed above and recommends the following enhancements:

EQIP

- Maintain at least 60 percent of authorized program funds for livestock projects.
- Streamline the application process by decreasing the amount of paperwork required for program participation.

CRP/CREP

- Maintain managed haying and grazing on CRP acres.
- Target CRP to get the most conservation benefit for money spent and acres enrolled.
- SDCA specifically opposes the CRP CP 30 program due to the competition it creates for producers seeking pasture.
- Program should support the producer on the land, and support a specific natural resource or habitat program. The program should also be designed to keep and encourage young producers to be involved in family sized operations.
- Control of noxious weeds must be mandatory for participation in the program. One agency should be identified to enforce a "no noxious weed" policy.
- Legal transactions and commitments to foundations and organizations that transfer land to benefactors should not be allowed if any part of the land is included in the contract.
- All seeding of cropland must be native species of grasses, forbs, and shrubs that are considered native to the ecological site included in the contract.
- The program should be a tool to provide a transition to sustainable natural resource management.
- Concerns with possible speculator involvement should be addressed when determining program eligibility.
- Program should include a mechanism to discourage competition between emergency haying and grazing and wildlife interests on CRP acres. To help reduce program expenses, landowners should receive CRP payment reductions, similar to emergency haying and grazing reductions, when wildlife interests compensate them to maintain unused forage on CRP acres.

Cattle Marketing Policy. National agricultural policy should be based on a free, private enterprise, competitive market system. We support a producer's ability to market cattle however, whenever, and to whomever they choose.

Farm policy should be discouraged that:

1. Guarantees profit,
2. Restricts the operation of the competitive marketplace, or
3. Dictates who can or cannot own cattle.

To ensure the continuation of competitive marketing practices, SDCA encourages the incorporation of Mandatory Price Reporting in the 2007 farm bill. Private enterprise alternatives in marketing and risk management should be developed and encouraged as the preferred alternative to government programs.

Beef Marketing Policy. SDCA advocates a Country of Origin Labeling (COOL) program that includes individual animal identification and pertains to all meat. We also believe a market-driven program will minimize the potential costs to beef producers and maximize its use as a marketing tool.

Commodity Programs Policy. While the long term goal of national farm policy should be to promote a free market, private enterprise farm economy and maintain a viable agricultural industry in the United States, it is essential to recognize that U.S. producers compete in a global marketplace. In this global market, our U.S. producers face competition from foreign producers who benefit from an incredibly complex mix of subsidies, tariffs, and state trading enterprises, as well as a broad range of other devices to deny market access to U.S. goods. In addition, many of these producers are not held to the same standards of regulatory compliance as U.S. producers and, thus, enjoy a significant cost advantage.

Any commodity program must include thorough consideration of the impact of subsidies and guarantees for given commodities on other commodity sectors and on domestic and foreign markets before the program is adopted. Recognizing the high degree of government intervention in agriculture and the potential economic disruption of an immediate end to commodity programs, SDCA supports a transition or phase-out period for programs that may be eliminated.

It is not in the national, farm, or individual producer's interest to vest the government with authority to:

1. Set prices,
2. Underwrite inefficient production, or
3. Manipulate domestic supply, demand, cost, or price.

SDCA leadership identifies loan programs as most useful to livestock producers, followed by counter-cyclical payments. Direct payments were prioritized as least useful to cattlemen. As previously stated, SDCA strongly supports conservation programs as alternatives to traditional commodity programs.

Nutrition Programs. USDA should maintain the preeminent role in establishing the human nutrition policy for the Federal Government and providing proper human nutrition, food security, research, and education for America.

Credit Programs. Federal agricultural policy should encourage the availability of capital to farmers and ranchers at competitive rates to maintain a healthy business environment, resulting in the continued viability of agricultural operations.

Trade Policy. Ninety-six percent of the world's consumers reside outside U.S. borders. We recognize that the growth and profitability of the U.S. cattle and beef industry is closely tied to our ability to market our products to those consumers. We support international trade policies that aggressively pursue expanded market access for U.S. beef, enforce trade agreements that are based on internationally recognized standards and guidelines, and hold our trading partners accountable for their international trade commitments. We support the modification of market promotion programs to meet current and future marketing trends and opportunities in worldwide beef trade.

Research Funding. Research on animal diseases, economics, production practices, nutrition, food safety, environmental impacts, and the impact of environmentally sensitive lands and species on agricultural operations is a critical component in advancing animal agriculture. Increased investment in this type of research is vital to the security and viability of our agricultural industry and food supply.

Specifically, SDCA supports continued research to validate the effectiveness of alternative performance standards for Animal Feeding Operations (AFOs) and Confined Animal Feeding Operations (CAFOs). We support the continuation of USDA's Conservation Innovation Grants program as a mechanism to fund important production research.

Energy Policy. Recognizing the value and growth of conventional and renewable energy, we want the ability to monitor and evaluate any energy source that is based on, or impacts, agricultural commodities, waste, and/or byproducts to determine their effects on the marketplace, land, water, and the profitability of cattlemen. SDCA supports additional research on alternative energy sources to reduce our dependence on foreign energy.

Disaster Assistance. SDCA supports the use of conservation programs for sustainable natural resource management. However, we suggest the development of public/private programs that establish a comprehensive framework for disaster-specific assistance to help producers in a timely manner.

SDCA members support revisions to the Noninsured Crop Disaster Assistance Program (NAP) that allow for graduated premiums based on number of acres enrolled. Additionally, we encourage consideration of graduated loss payments based on amount of loss and a lower coverage threshold for yield loss.

In disaster years, where there is zero production on corn acres cut for silage, SDCA advocates allowing producers to collect LDP (providing LDP is available) on those zero production acres based on their crop insurance yield.

SDCA members note that the Livestock Assistance Program, Milk Assistance Program and haying and grazing of CRP have been helpful to livestock producers during past disaster periods.

Emergency release of CRP acres for haying and grazing must be done in a timely manner to ensure forage quality. We also urge consideration of release of CRP acres for emergency haying and grazing in areas adjacent to disaster-affected areas to provide increased forage availability.

In the case of a bioterrorism event or animal health emergency, we recommend that we modernize the existing programs in place to indemnify cattle losses based on pre-event market conditions.

Animal Activism. Animal agriculture is based on humane care for cattle, horses, and other livestock, and the farm bill should not be a platform for extremist organizations to push their anti-meat/anti-agriculture agendas.

Animal Identification. SDCA policy supports a privately-held database system to minimize concerns with confidentiality of producer information. Most importantly, SDCA policy states this program must mandate individual animal identification to ensure the goal of 48 hour traceback for animal disease surveillance. We applaud the formation of the United States Animal Identification Organization (USAIO) early this year, and advocate a voluntary system to ensure no undue burden is placed on producers. We will oppose any effort by a government entity to create a public database that is duplicative of private industry.

SDCA advocates the following with regards to animal identification:

• Costs of developing the infrastructure should be borne by the government, and operational costs should be borne by both producers and the government.

• The system must be able to evolve with changes in technology and information without major costs or renovation.
• All information must be electronically transferable.
• We support tax credits for animal ID infrastructure.

Animal Health. SDCA supports animal health policies based on sound science that accommodate beef producers while ensuring a safe and economical product for beef consumers.

On behalf of the South Dakota Cattlemen's Association, thanks again for the opportunity to submit comments regarding farm bill policy. We appreciate your commitment to South Dakota's cattle and beef producers.

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## STATEMENT OF LYNN BOADWINE

I appreciate the committee's invitation for me to come here today and present my views on dairy in regards to 2007 farm bill. I am Lynn Boadwine, and I serve on the Board of Directors of Land O'Lakes.

I began farming 20 years ago with my parents. We've made many changes over the years. Currently, my wife, Trish, and I operate a 1,200-cow dairy and we farm 1,600 acres of cropland. Besides my service on the Land O'Lakes board, I am involved in several other organizations. I'm on the board of the South Dakota Animal Industry Board and the Dairy Development Board of the South Dakota Ag Producer Ventures. I've been involved with dairy promotion as a past chairman of my local America Dairy Association board.

I mentioned that I'm on the Board of directors of Land O'Lakes. While Land O'Lakes has grown and become a cooperative with a national membership, it began here in the Midwest, and we are very proud of our cooperative's history and heritage. Producers who become members of Land O'Lakes do so because the company has an 85 year commitment to producing high quality dairy products from our milk.

Currently, action by USDA is threatening our investment in our cooperative's dairy processing. Actually, it would be more accurate to say inaction by USDA is the threat. Late last year, USDA received a petition to hold a hearing on the Federal make allowance. Dairy processing plants, like those operated by my cooperative, are being squeezed by higher energy costs. The Federal make allowance is out of step with the current costs of processing milk into cheese and other products. In response to the petition, USDA held a hearing early in 2006. We hoped and expected that they would issue a decision and revise the make allowance at the end of June. But that did not occur.

Instead, USDA announced that it was extending the period of time to receive proposals and data and that it would reopen the hearing in September. From our standpoint, this is an unacceptable delay. We strongly urge USDA to immediately issue an interim decision on the make allowance. This will provide some relief to our processing plants while the Department continues its deliberative process. We would welcome Congress' help in urging USDA to take this step.

Now, turning to the farm bill, I can tell you that Dairy farmers are in the process of working toward a consensus on the policy items we would like to see addressed in the 2007 farm bill, having used our Dairy Producer Conclave meetings earlier this year to obtain input from dairy producers across the country. My cooperative will be working with the National Milk Producers Federation to collaborate on this process as it continues.

My main message today is that there is strong consensus that the dairy portion of the next farm bill should contain some form of an economic safety net for dairy farmers. While we are open to further dialogue with members of this committee about the specific future form of that safety net, let me suggest a few general themes that are advisable, regardless of the final outcome of the farm bill's creation:

• The safety net should not discriminate between farmers of differing sizes;
• The safety net should not discriminate between farmers in different regions of the country;
• The safety net should not result in price enhancement, meaning that it should not be an inducement to produce additional milk. The government's safety net should be just that: a device that prevents a collapse of producer prices, without stimulating milk output or sending inappropriate signals to the marketplace.

Those are some of the important criteria that I feel should help guide the upcoming farm bill discussion. Our perspective at Land O'Lakes is that the farm bill dairy program ought to provide a safety net for producers and to promote the growth of the industry through a vigorous market. While the farm bill dairy program is important to America's dairy farmers, it's not the only program that exists to promote stability in dairy markets.

As you are aware, three years ago, dairy farmers created their own self-help economic program called Cooperatives Working Together. We have enjoyed above-average farm prices most of the time since 2003, thanks in part to CWT's impact in helping stabilize the balance between supply and demand.

But it's important to remind you that CWT was never intended to replace Federal farm programs. Rather, our self-funded program is a supplement to what the government has in place. The dairy price support program is our current safety net, and CWT has helped us enhance prices above the very low price level maintained by the dairy price support program. The two complement each other, but CWT would be extremely difficult to sustain without knowing that the government also has a role to play in managing programs to help foster the health of our dairy industry.

That is particularly important where the Dairy Export Incentive Program is concerned. CWT has been busy lately helping export commercial sales of butter and cheese. But CWT's Export Assistance program is not intended to replace the Dairy Export Incentive Program that is also part of the current farm bill. So long as the WTO allows the use of export subsidies, we should use our DEIP program to the fullest possible extent, to help counteract the heavy dairy subsidy use of the European Union. We did not utilize this WTO-authorized program at all last year, nor has USDA used the program this year, despite dwindling milk prices. Dairy producers accepted a number of responsibilities as part of the U.S.'s WTO commitments; it is only fair that we be able to exercise the rights that agreement granted to us as well.

Let me also make a point about the relationship between the 2007 farm bill and the Doha Round of WTO negotiations. There is a "chicken and egg" dilemma that Congressional agricultural leaders must consider: namely, that it's hard to write the next farm bill with one eye on whether there will be a successful round of trade talks that is actually concluded and signed by the U.S. government in the next year or two. Both are important to America's dairy farmers; both represent opportunities as well as concerns.

We support a successful multilateral round of trade talks if it helps level the very uneven playing field in dairy export subsidies, tariff protections, and domestic support programs. But we won't support any final agreement that doesn't represent a net increase in our opportunity to better compete against our more heavily-subsidized and protected competitors in the EU, Canada and Japan, as well as more balanced trading opportunities with key developing countries.

Because of the uncertain nature of WTO discussions at the moment and the potential key role new WTO mandates could play in influencing the next farm bill, dairy producers would agree to extend the current farm bill, should Congress decide to take that step. If it would provide greater clarity to the authors of the next farm bill, Land O'Lakes would also support extending the same levels of funding that exist under the farm bill that is now scheduled to expire in 2007. Such an extension of funding not only will help preserve an appropriate level of baseline funding for agriculture, it will also give our trade negotiators additional leverage, and may hasten, not lengthen, the WTO negotiations process.

Further, I can tell you that if dairy farmers would have to decide today what our safety net should be for the next farm bill, we would support the continuation of the dairy price support program with or without a successful Doha round. We strongly disagree with those who claim that the price support program must be phased out or eliminated upon completion of the Doha Round.

Finally, let me touch back for a moment on the Dairy Producer Conclave process and the input we are seeking from our members about the next farm bill. One clear theme that emerged from the Conclave process is that America's dairy farmers see their future success as being impacted by more than just a narrow interpretation of what the farm bill should cover.

High on the list of priority concerns for dairy producers include:

- Science-based environmental regulations that focus on encouraging compliance rather than stressing harsh penalties;
- Comprehensive immigration reform like that contained in Senate Bill 2611, particularly its plan for agriculture, AgJOBS 2006;
- A mandatory national animal identification program.

Let me close by also mentioning the importance of another self-help program that dairy farmers fund, but this is one that was created by Congress in 1983: the 15 cent national dairy checkoff. 10 cents of that money goes to a qualified promotion program at the state or regional level and the other 5 cents goes to the National Dairy Board. The checkoff dollars are invested in research, promotion and in partnership with cooperatives, processors and other industry leaders to overcome the barriers to increased sales and consumption of dairy products.

To ensure that all that benefit from this greater demand for dairy products in the U.S. help to pay for it, Congress included in the 2002 farm bill a provision allowing collection of the dairy checkoff on dairy products imported to the U.S. Here we are four years later, and there still has not been any collection of the dairy checkoff on imported products. Our understanding is that until the checkoff assessment is applied to farmers in all 50 states, our trade negotiators feel that applying it to importers represents a potential trade violation. So, we need legislation to provide for the collection of the checkoff from dairy farmers in Alaska, Hawaii, and Puerto Rico—where there aren't many farms, but there is a handful—before the checkoff can be collected on imported dairy products.

Mr. Chairman, we need this additional legislation even now, before the 2007 farm bill. Other commodities that have checkoff programs assess imports, so this is a matter of basic fairness. We are seeing more dairy imports in our market, and they should not enjoy the benefits of our $270 million promotion program, and our enormous consumer market, without contributing to that effort.

In closing, I want to thank the Committee and Subcommittee for having this series of field hearings. We welcome you to our state and hope your short time here was enjoyable. I will be happy to answer any questions, or provide any additional information that you might want.

## Statement of Robert Carlson

My name is Robert Carlson. I am a producer from Glenburn, North Dakota, and also serve as the president of the North Dakota Farmers Union, the state's largest general farm organization. Today I am here to representing the 250,000 farm and ranch families of National Farmers Union. Thank you for the opportunity to appear before you and your committee, and for focusing on the critical task of writing the next farm bill.

We, as family farmers and ranchers, are at a critical juncture in our profession. With more spouses than ever having to turn to off-farm income to make ends meet, farming has become an uphill battle that producers are still committed to fight. State and Federal programs must be targeted to benefit and protect the family farm. On the behalf of National Farmers Union, I submit the following suggestions for the 2007 farm bill:

### Disaster Assistance

Since the 2002 farm bill, natural disasters have been on the rise. Farmers and ranchers in 2005 alone faced drought, wildfires, hurricanes, and flooding with nearly 80 percent of counties in the United States receiving a disaster designation. In North Dakota, 100 percent of our counties last year were declared disasters due to flooding and drought. This year our producers, like much of the country, are facing a statewide drought.

We believe the 2007 farm bill should include a permanent disaster assistance program. The last farm bill did not include a weather-related provision. Disaster relief provides an economic lifeline to those who have sustained a massive reduction of income that weather-related losses cause.

In order to fund disaster aid, we realize there must be some "give and take." A plausible funding solution for offering a permanent disaster program would be to replace decoupled payments to producers with permanent nationwide disaster assistance.

### Farm Payments and Programs

Farmers Union members believe farm policy should provide meaningful measure of price protection, be targeted toward family farmers and ranchers, and ensure competition in the marketplace.

A popular urban myth is that farmers are essentially being taken care of by the Federal Government and are getting rich from government payments. This is not true. According to the USDA, average farm income for 2005 was more than $76,000. What wasn't considered was that 80 percent of that total was off-farm income, leaving just around $12,000 to account for actual farm income. We can do better. Farm policy should ensure that producers earn income equivalent to families in other sectors of our national economy.

In the current farm bill, the counter-cyclical safety net approach works and should be continued. A counter-cyclical mechanism is important to reducing program costs when commodity prices are high. Loan rates and Loan Deficiency Payments (LDPs) are essential to producers. Historically low commodity prices have forced producers to rely heavily on LDPs to supplement their income. According to the Center for Agricultural Policy and Trade Studies at North Dakota State University, the impact of the Loan Program is much larger than other parts of the farm program; about $9/acre for a small farm and $16/acre for a medium-sized farm. Almost as important is some sort of indexing of loan rates or payment rates to account for increasing costs of production, especially in times of high-energy costs. For example, indexed costs of 20 percent would be indexed at a higher loan rate.

In the past, loan rates were based on an average cost of past market prices. We believe this formula is out of date due to vastly higher production costs because of escalating energy prices and loan rates should be figured at a higher rate. In order to do this, we call for the loan rates to be based on cost of production in order to enhance net farm income and provide a safety net.

Farmers Union believes the conservation programs of this current farm bill should not only be continued, but also expanded. Conservation programs should be good for the environment, reward stewardship, discourage speculative development of fragile land resources, strengthen family farming and enhance rural communities. Expansion of conservation programs should include:

- Fully funding the Conservation Security Program, one of the most innovative attempts at rewarding producers for conservation practices on working lands.
- Continuing CRP only on the most environmentally sensitive lands, and offering shorter term CRP contracts for specific conservation needs. (The enrollment of whole farm CRP should be prohibited however, due to the detrimental effects on rural communities.)
- Encouraging conservation practices that reduce greenhouse gas emissions (e.g. carbon sequestration) through conservation tillage, wetland restoration/creation and grassland management.

## TRADE

Free trade and fair trade are incongruent terms in today's world. Farmers Union believes that the expansion of trade, especially agricultural trade, can only be achieved by first stabilizing current trading conditions and by long-term planning and commitments toward expanding the world's economy. Our current trade agenda does nothing to level the playing field or provide opportunities for farmers to make a profit from the marketplace. Trade negotiations must include labor standards, environmental standards and currency manipulation.

Free trade establishes a "race to the bottom." Fair trade ensures an adequate, high quality, safe and affordable food supply. We call for a thorough analysis of current agricultural trade agreements to determine their success at meeting their stated goals before any new bilateral or regional trade agreements are negotiated or approved. The measure of the success of a trade agreement has to be its benefit to agriculture and producers' net income.

## COUNTRY OF ORIGIN LABELING

COOL has been enacted since 2004, but it has yet to be implemented. Although we take pride in phrases like, "American as apple pie," can we really be sure that the apples used in the pie are from the United States?

We have seen the positive effects of country-of-origin labeling for diverse products, ranging from apparel to seafood. There has been much ado about the high costs of implementing this program, which have not occurred. As one Farmers Union member puts it, "At my local grocery store, they are now carrying seafood with the COOL label. Consumers are still buying seafood, retailers are still selling it and fisherman are still catching seafood. The sky didn't fall when COOL went into affect for seafood and consumers are given a choice."

Despite this, packer and processors with deep pockets still have a larger influence on congress than the surveys that show both consumers and farmers want it implemented. According to a 2004 National COOL Poll, 82 percent of consumers think food should be labeled with country-of-origin information, and 81 percent would be willing to pay a few cents more for food products grown and/or raised in the U.S.

## ENERGY

Energy is vital to securing out nation's needs for food and fiber. NFU and NDFU support a balanced, comprehensive energy policy which seeks energy independence for the United States, protects our nation's environment and recognizes the special needs of America's agricultural sector.

In order to reduce our dependence on fossil fuels, development of renewable sources of energy must be a priority. This must include economic technical assistance for family farmers wanting to transition into increased application of alternative forms of energy.

Not only should the future farm bill contain an energy title to build upon the progress already made in the arena of renewable fuels, it should also promote exploration of the unlimited potential that exists in alternative sources such as wind and solar energy. Harnessing these renewable energy resources and mandating their increased usage is a much needed paradigm shift from our current petroleum-dependent society.

### Our Vision of Farm Policy

The measure of success of any farm bill has to be the level of net income for producers. Farm policy should not be developed for multinational corporations, processors, exporters, integrated livestock producers and firms who profit from low commodity prices. We expect higher loan rates, better targeting and oversight of farm program payments to family farms, defined as a unit using land and other capital investments operated by one family who provides stewardship and management, take economic risk, and provide the majority of the supervision and work on the farm or ranch. A vertically-integrated or multinational grain and food conglomerate is not a family farm.

The family farm is the keystone of a free, progressive, democratic national society, as well as a strong America. Above all, farm policy needs to recognize and build on the strength of our nation's agriculture, not throw it on the altar of globalization and the trade agreements that put our producers at an economic disadvantage.

## Statement of Steve Clements

On behalf of the 2,000 sheep producers in South Dakota, I am very appreciative of this opportunity to discuss our nation's agricultural policy with the agriculture leadership of the U.S. House of Representatives.

I am Steve Clements, District 6 Director and Vice President of the SD Sheep Growers. My wife and I are third generation sheep producers. Our family has been in the sheep business since my grandfather purchased the Oneill Sheep Ranch in 1908.

I am pleased to provide my thoughts on the priorities in the next farm bill that will assist the sheep business. I can report to the Committee that these priorities are shared by my fellow producers in the South Dakota Sheep Growers Association and the American Sheep Industry Association.

The sheep industry of the United States is comprised of 68,000 farm and ranch families producing lamb and wool in every state of the country. The industry provides half a billion dollars to the American economy and is a mainstay of many rural communities in which sheep grazing is a key use of grazing and pasture land.

Sheep producers have been aggressive and creative in their approach to national initiatives that strengthen the domestic industry.

In 2005, the sheep industry approved a national referendum to continue our American Lamb Board checkoff program. This lamb promotion program is entirely funded by the industry and I am pleased to say that of those who voted, 80 percent voted in favor of the referendum. We collect over $2 million annually from sheep sales with producers, feeders and lamb companies all paying a share of the checkoff.

The American Wool Council launched a wool production, information and marketing program for American wool in early 2001. Our national initiatives have improved competition for American wool. International marketing programs have exposed U.S. wools to the world and exports have grown rapidly to over 60 percent of our annual production today. Total exports represented less than a third of production prior to our programs. We now sell into eight or more international markets each year. In addition to expanding market opportunities for producers, the Wool Council has developed new fabrics and treatments for textiles with U.S. companies and America's armed services. We are proud to help provide clothing and uniforms for the men and women of our military. Fully one fourth of our wool production is consumed by the U.S. military.

2004 marked the first growth in U.S. sheep inventory since 1990. We grew our industry again in 2005, the first year on year increase in sheep numbers since 1987–88. Industry growth improves competitiveness for all segments of the industry from lamb feeders to lamb meat companies, wool warehouses to wool mills, feed suppliers, trucking firms and shearing companies.

The Marketing Loan and LDP programs for wool and mohair that were included in the 2002 farm bill have been helpful in stabilizing wool and mohair production.

The Wool Loan Deficiency (LDP) program provides the only safety net for producers in our business. I encourage the Committee to re-authorize the wool LDP and at a base loan rate of $1.20 per pound in order to provide the benefit of the program as intended. While nine loan rates are available, essentially all wool LDP applications are in one non-graded rate category. The research and industry testimony provided in 2002 supported a $1.20 per pound base loan rate and authorization of the wool LDP at this rate should provide opportunity for all producers to participate in the program as intended.

Industry research by Food and Agriculture Policy Research Institute (FAPRI) and testimony by the American Sheep Industry Association documented a base loan rate of $1.20 per pound; however, the legislation lowered the base to $1.00 a pound with a cost score of $20 million annually. The total payments for each of the 2002 through 2005 crop years is $7.8 million, $7 million, $7.3 million, and $6.1 million respectively. The significant difference between the annual cost estimate and the actual payment total each year combined with the fact that nearly all participation has been in only one loan category out of nine total categories, supports the request that the program be authorized at the base rate of $1.20 per pound rather than $1.00 in the current legislation.

This program has been reasonably simple for FSA to administer and has worked as a safety net that producers can plan on.

Additionally, on the international wool marketing efforts, our industry actively participates in the USDA Foreign Market Development, Market Access Program and Quality Samples Program and encourages inclusion of these in the farm bill. These export programs are very important to the sheep industries.

I urge the Committee to support re-authorization of the National Sheep Industry Improvement Center.

As established in the 1996 farm bill in the Rural Development program of USDA, the National Sheep Industry Improvement Center provides loans and grants to business ventures for financing programs which normal commercial credit or funds were not available. This program does not provide funds for individual producers nor purchase of sheep or land, but rather for projects to strengthen the sheep business including loans to wool warehouses, lamb slaughter and processing ventures, and wool processors. An excellent example of the Sheep Center here in San Angelo is Bowman Wool Scouring which obtained a loan to purchase and install a state of the art scouring train.

The Center has provided 56 loans to 38 entities in 21 states. The total volume of dollars that have been loaned since 2000 totals approximately $15.5 million. The Center has also made 58 grants equaling $20,754,529.

The United States has no barriers to lamb meat imports and as such has become the market of choice for lamb exporters from around the world. Lamb was never part of the Meat Import Law so other than the brief period of temporary restrictions in late 1999–2001, lamb meat has and is freely traded. However, the playing field is not equitable for U.S. sheep producers. The European Union continues to provide over $2 billion annually in government price support and subsidies to their sheep producers. The European Union maintains strict and effective tariff rate quotas on lamb imports. Our industry looks to both the Agriculture Committee's role in industry programs in the next farm bill and the Committee's role in pushing for aggressive reform of Europe's agriculture programs and barriers to assist the domestic sheep business.

As evident in the listening sessions on the farm bill that Secretary Johanns conducted last year, a number of comments were provided by producers in support of a retained ewe lamb program in the next farm bill. The growth of the U.S. sheep industry can in part be credited to the USDA retained ewe lamb program that was in effect for 2002–04. The incentive payment to producers to keep ewe lambs in their breeding herd rather than sell them for slaughter encouraged producers to expand breeding herds which, in the longer term, will provide increased market lambs to help U.S. producers maintain and increase their share of the American meat case.

The South Dakota Sheep Growers Association is very active in the education and promotion of lamb, wool and the sheep industry. As one of the top sheep producing states with over 250,000 head of sheep, we are very interested in the debate and outcome of the farm bill and the affect it will have on the sheep producers of South Dakota.

As I'm sure you know South Dakota is in the worst year yet of a seven-year drought. While I realize this is not an issue for the next farm bill, it is certainly something that the Agriculture Committee should be aware of and consider disaster assistance for all parts of South Dakota agriculture production.

## STATEMENT OF RICK FOX

Thank you for the opportunity to testify on behalf of the South Dakota Stockgrowers Association in regard to the 2007 farm bill. We are proud and honored to host you and other members of the subcommittee in one of the best cattle-producing regions in the country—western South Dakota.

As a rancher, I derive nearly all of my family's income from cattle production. I do not farm nor do I have an "outside" job. I am a cattle rancher, who relies on the weather and the market, along with my own management endeavors, to provide my annual income. My wife and I own and operate our ranch East of Hermosa, S.D. Our teenage son is a necessary component and our two grown daughters worked on the ranch during their years here as well.

I currently serve as the president of the South Dakota Stockgrowers Association (SDSGA), the state's largest and fastest growing cattle organization. We represent about 1,800 cattle ranchers with backgrounds similar to mine. We are ranchers who raise cattle as a main source of income, not a hobby or a tax write-off. The SDSGA is committed to representing the cattle industry's needs in regard to animal health, trade, marketing and land use issues.

SDSGA appreciates the opportunity to provide meaningful input regarding the 2007 farm bill.

Comments

The SDSGA believes strongly in the need for a healthy and competitive cattle market, one that allows America's good cattle producers to be profitable. We do not believe that government subsidies are a long-term solution to low markets, drought, disease or any other difficulty that cattle producers face. We acknowledge that there are a number of hardships in the cattle business, but a strong, vibrant cattle market allows cattle producers to take advantage of market highs and make preparations for the inevitable downturns in the market.

- The SDSGA strongly supports the addition of a competition chapter—the Captive Supply Reform Act, to the 2007 farm bill.

The problem that has occurred in the past 15 years is an artificial suppressing of the cattle market, which has not allowed the natural law of supply and demand to work properly, and has denied America's cattle producers that necessary "high" cattle market. Until the unexpected event of Canada's BSE discovery in May of 2003 and the subsequent closure of the Canadian border to cattle and beef, America's cattle producers had been enduring a 12 year "low" in the cattle market. This wasn't because of poor beef demand or because of an overproduction of cattle. Beef consumption was high and cattle numbers were dropping steadily. The reason for the unprofitable market was downward pressure by the big packers who used captive supplies in both the United States and Canada to manipulate the cash market. They would virtually refuse to buy cattle on the cash market if the price began to rise. By collectively refusing to buy cattle, they forced the price downward and then eventually bought at a price they determined to be "low enough."

This practice didn't stop as the result of the Canadian border closer. However, it became inarguably obvious that it was happening because, without access to their Canadian captive supply cattle, packers and processors were being forced to buy more American cattle on the cash market, thus driving up cattle prices and allowing America's cattle ranchers to be profitable for the first time in over a decade.

In short, the meat industry's use of captive supplies to control the market negatively affects profitability for America's cattle producers. It certainly increases profits for the packers and processors, but only at an extreme cost to the independent producer.

- The SDSGA strongly supports stronger enforcement of GIPSA

For many of the reasons mentioned above, GIPSA must be scrutinized and adhered to in a serious effort to determine and remedy illegal behaviors. If USDA is unable to enforce GIPSA in a manner satisfactory to America's cattle industry and to Congress, the Department of Justice should take over.

- The SDSGA strongly supports implementation of Mandatory Country of Origin Labeling.

Mandatory country of origin labeling became law upon passage of the 2002 farm bill but has been effectively stalled by opponents including the packing, processing and retailing industries. The current "USDA inspected" stamp misleads consumers into thinking they are buying USA produced beef. According to USDA, about 18 percent of the beef consumed by American consumers is imported, yet until mandatory country of origin labeling is implemented, US consumers will not be able to choose USA born, raised and processed food. Survey after survey has concluded that over 80 percent of consumers would pay more for USA raised beef. Currently, without a labeling mechanism, beef demand in the US can maintain record highs, but with imported beef meeting that demand, the importing companies experience profits, not the American cattle producer.

In order to compete effectively in a global market, our beef must be labeled as to country of origin. South Korea for example has their border closed to US beef because of co-mingling of Canadian beef, with no label to differentiate. The customer is always right. As an industry, it is our job to provide the product that the consumer wants to buy.

- The SDSGA strongly urges immediate abandonment of the NAIS

There are numerous tracking systems already in place across the country, including brand inspection programs in Western states. To force a mandatory animal identification program onto producers would be a severe infringement of constitutional rights, private property rights, and would burden the U.S. cattle industry with unjustified expense, creating a more severe imbalance in cost of production as we attempt to compete in the global marketplace with other beef producing nations. Other countries such as Canada and Australia who have differing versions of a "one-size-fits-all" animal identification program are experiencing severe difficulties in administering their systems. Australia recently miscounted their cattle herd by 11 million head of cattle!

Please bear in mind that a tag will never prevent a disease and it will never make a dishonest person honest. Please set aside all the promises made by technology companies and take a hard look at the situation. Costly and burdensome tagging requirements will not stop foreign disease. Stricter border patrols and inspections will stop the importation of foreign disease. Implementation of the NAIS is, in effect, a weakening of our trade laws. Rather than adhering to our time-tested and proven policy of preventing disease by disallowing importation of beef from countries with certain diseases, USDA would rather try to manage disease after it is introduced. This is unfair to America's food producers and even more unfair to America's consumers.

Additionally, please keep in mind that wildlife is often the carrier of disease. Even with a perfectly functioning animal id system with no human errors or unethical behaviors, diseased wildlife (deer, antelope, birds, prairie dogs) will continually be in contact with livestock, unknowingly spreading disease to healthy livestock. Who will be blamed for this?

The U.S. has too many cattle and too many different production methods to allow for one universal tracking method, or for one tracking agency. The key to managing our cattle herd and keeping good records about movement is to allow for local control at every level. Allow state brand inspection programs to keep working as they are. Work with state animal health agencies that have brucellosis or other animal disease tracking systems in place. These programs have been proven throughout history to be extremely effective. New technology is untested and unproven and costly. It might promise to be fast, easy and inexpensive but as they say, the proof is "in the pudding." If electronic identification is the most effective method of tracking cattle, the private marketplace will prove it to be so.

Do not slap an unfounded mandate on the least profitable sector of the beef industry—the U.S. cattle producer until you prove to us that the benefits should outweigh the costs. If there are niche marketing profit opportunities available now through individual animal identification such as electronic tags, all those opportunities will be lost with a mass generic nationwide system.

- The SDSGA strongly supports ESA reform or repeal

For years the Endangered Species Act (ESA) has been used by anti-agriculture groups to wreak havoc on natural resource and agriculture production industries. Cattle ranchers have been forced off of Federal lands as well as private lands all in the name of an obscure mouse, prairie dog, fish, butterfly, salamander and numerous other species that are never proven to be in danger of extinction. In fact, in many instances, the species is actually thriving, but the ranchers are never compensated for loss of forage, water or access. Ranchers are true stewards of rangeland who tend to provide a beneficial environment for wildlife to thrive. Their protection and management of America's resources often goes unappreciated. In study after study, wildlife biologists discover that areas grazed responsibly by cattle allow numerous other species to exist in unison. Often when the cattle are removed, the rangeland is not properly cared for and wildlife species begin to suffer. History has proven such. Ranchers should be rewarded, not punished, when a rare species is discovered on private or Federal range land.

Wildlife will not survive to a healthy degree in large cities or even suburbs or subdivisions. Private ranch property and Federal grazing lands are America's hope for protection of our diverse wildlife. The ESA should not be allowed to be used as an excuse to reduce or eliminate grazing arrangements or to force private landowners to manage their land as the governments directs.

• The SDSGA believes BSE standards should be implemented to protect animal health and consumer safety, not corporate profits

USDA should adhere to global BSE standards rather than showing favoritism to certain countries in which the packing companies are deeply rooted. For example, according to OIE standards, the Canadian border would not have been opened nearly so quickly, yet USDA wrote "special rules" that gave Canada preference over other countries affected by BSE. Unfortunately a precedent of changing rules "midstream" has now been set. It is imperative that USDA discontinue this practice because other diseases such as foot and mouth would be even more detrimental to the U.S. cow herd than BSE. USDA and Congress must adhere to the strictest standards in regard to imports—it is much more prudent to prevent the importation of disease than to try and manage a disease after it's been introduced. Subscribing to a "cheap food" policy over the health and safety of America's consumers is immoral and should stop immediately. Any perceived benefits of importing cheap beef and cattle from diseased countries are strongly outweighed by the risks to America's consumers and America's cattle herd.

• The SDSGA believes a strong and healthy ag production industry is a matter of Homeland Security

The continued trend toward a more severe trade imbalance makes the U.S. more and more dependent on other countries, many of them undeveloped countries, for our food supply. While we believe that dependence on foreign oil has caused serious problems, depending on other countries to provide our most basic need—food—is absolutely hazardous to the American public. At any moment, political matters could create negative relations and a foreign country could deny shipments of food, taint food or dramatically raise food prices. We're living with this problem due to our foreign energy dependence. Let's prevent a similar but worse case involving food. Congress and USDA should ensure that America's food producers have the opportunity to compete in a healthy market place, one that allows good producers to be profitable. Without profitable food producers, our food production will continue to move outside of America's borders, increasing our dependence on a foreign food supply. This is perilous territory. No country could win a war with an empty stomach.

• The SDSGA believes that imported food should adhere to standards that meet or exceed U.S. standards

USDA does not even inspect most imported food. They form agreements with production and processing entities outside of this country who agree to follow standards "equivalent" to U.S. standards. "Trust but verify" was a quote made famous my Ronald Reagan. Inspecting all food at the border, and ensuring that the food is produced under conditions that meet or exceed US production standards is the only way to ensure that Americans are being treated fairly. Do not allow global food companies to jeopardize the health of the American public buy importing cheap, un-inspected food that was grown under standards that would be illegal in this country. Not only does this put consumers at risk, it forces American food producers to compete in an unfair trade environment. Our producers who comply with EPA standards, minimum wage requirements, pay property taxes and use only those chemicals and fertilizers that meet the strictest standards must try to compete with producers in Brazil, Argentina and other under developed countries who don't have any of those factors figured into their bottom lines.

• The SDSGA strongly supports interstate shipment of beef with state inspection

USDA inspections should not be required for interstate shipment of beef. State beef inspections that meet or exceed USDA standards should be sufficient to allow beef to be shipped nationwide. Imported food travels from state to state with no inspection, yet our own state inspectors—American citizens—are not trusted to inspect meat for shipment across state lines.

Again, SDSGA does not believe that government subsidization of agriculture production is a long-term solution to any of the concerns we've laid out. We believe that creating a fair and healthy marketplace is the answer.

We hope to continue this dialogue and look forward to being an integral part of the writing of the 2007 farm bill.

## Statement of Justin (Judge) Jessop

Good morning, I am Judge Jessop, a grasslands producer from Presho, South Dakota. My wife, Lisa, and I raise our two children, cow-calf pairs and some yearlings on 1,400 acres of leased private land in south central South Dakota. We are fortunate to live close to my parents and brothers so that I can help one of my brothers custom graze 2,500 yearlings on 5,500 acres.

In addition to our cow-calf production, I am also a technical consultant to other grasslands producers. The first thing I do when I arrive at a producer's place is to ask "What are your goals, where do you want to be, and what are you willing to change?" Ninety percent of the time they ask for technical assistance both for production and environmental benefits; cost-share is secondary to their need for information. These days, they want water development and then grazing techniques to improve production and grass quality.

I understand where they are coming from. When I first started participating in USDA conservation programs, I had already decided I wanted to improve my grazing management and had started fencing on my own but I needed help with water. I sat down with the NRCS staff to learn about my options. When I went into the office I was not thinking about which cost-share program to sign up for but more for the advice they could offer. Today, I am involved in an EQIP contract, a CRP contract and a GRP contract, so I think I understand the conservation programs.

I've found these conservation programs help improve my production about twenty percent. They also help my landlord and me manage our risk. The financial incentives help me make my annual payments. In years like this when it is droughty, it also helps because we know there is a safety net there when de-stocking is our only option. I am able to keep my cattle longer because I have reliable water sources and my grass is healthier and able to last longer than if I did not have a grazing plan. If this was a shorter drought, I could outlast it through what I've implemented. I know I'm not the only producer who has learned this. Because USDA provided technical assistance the past sixty years, we are not in a dust bowl during this drought.

The Grasslands Reserve Program (or GRP) could be a great program if properly funded and authorized. In the three years South Dakota was able to offer the program, I know there were over 1,200 applications and the NRCS was able to fund only 20 to 25 of them. The interest is there and they are from good applicants who could really use the program. I enrolled 350 acres in Lyman County for GRP which pays about $10 per acre.

One thousand acres of my operation are enrolled at about $30 per acre in the Conservation Reserve Program. They are due to expire in 2007 but were extended to 2010. When it does expire, my landlord and I would like to keep the land in grass. Economic conditions will determine if I have to break it again. We would be interested in enrolling it in the GRP if that program was available for expiring CRP.

Since my EQIP contract started in 2003, I've installed pipeline and cross-fencing, all to improve my grazing management and protect the land. In addition to our improved grass and livestock production, we are seeing more wildlife, including pheasants and a doe and fawn who have moved onto our property.

As I've stated before, the cost-share and financial incentives help but I find most producers think the technical assistance is the most help. They realize they need to take "baby steps" as they work up to implementing their grazing management system and the financial assistance comes next. Through my consultant work, I help organize educational opportunities for producers to learn more about proper grassland management techniques. South Dakota NRCS, US Fish & Wildlife Service and South Dakota Department of Game, Fish & Parks strongly support our efforts to find out what works in different parts of the state and maybe I or another producer can use that information or share it with someone else.

It doesn't make sense to me that we have some conservation programs established and "conservation" is supposed to be an important feature of the farm bill, but we have commodity programs that encourage record sod busting in parts of the state. I encourage you to look at US Fish & Wildlife Service's "thunderstorm" map of north central South Dakota to see the grasslands being broken in the heart of our prairie pothole region—all to receive commodity payments and LDPs. Fifty-six thousand acres of grass have been converted to cropland in a five county area. Maybe if USDA were able to expand programs like the GRP, then producers would not feel forced to give up their grass. Our local bankers and loan officers influence our conservation program choices and livestock doesn't benefit under commodity programs.

Thank you for this opportunity to appear before your subcommittee. While there are some problems, we have some good programs in place and I encourage you to keep that in mind as you build the next farm bill. It's important we all recognize that what happens here on the land will affect those downstream and those who eat, wear, and consume what we produce. I want the opportunity for my children to be able to continue our family's legacy. Like most producers, I want the land to be better than when I received it.

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## STATEMENT OF DOUG SOMBKE

- My statement will brief and to the point.
- My name is Doug Sombke and I am the president of the South Dakota Farmers Union. I farm in Brown County, South Dakota with my wife and our three sons, who are attending college this fall with all intentions of returning to the family farm. Which will make them the 5th generation in our family to farm in South Dakota.
- I am not only here for agriculture producers of today, but more importantly for the next generation of producers.
- The best safety net for American Agriculture is a secure and consistent program to assist America's family producers
- The 2007 farm bill
- As we look ahead to the talks surrounding the 2007 farm bill, it is important to take a look at what this current farm bill did right, and where it failed. One of the great failures of the current farm bill was not a failure of the legislation, but a failure of politics. In 2002, America's producers were promised mandatory Country-Of-Origin-Labeling, and that promise was broken.
- As we look to the 2007 farm bill, stability is an important factor, and as we keep our promise to the American people to deliver the best and safest food supply in the world, we expect the US Government to keep its promise to family producers
- We also need to examine how the market place in which we operate is governed. One of the critical aspects that the next farm bill must examine is the ongoing lack of competitive markets.
- It was a mistake that the 02 farm bill did not include the competition title that was contained in the Senate version of the bill. Without real competition in the marketplace, many more of our family farms and ranches will vanish, and turn our strong rural economies into low-wage employees on their own land.
- The 07 farm bill absolutely needs to contain strong price reporting language, as well as enforcing the Sherman Anti-Trust act, and the Packers and Stockyards Act.
- What worked in the 2002 farm bill
- Counter-Cyclical payments: This safety net approach has made a huge difference for the cash flow of producers during years when commodity prices have been depressed, it has kept many a family operation afloat, which in turn has helped to keep some of our small towns afloat. There is not a producer out there who would rather get their income from a fair market price, but until we see some reforms in how our food and fiber markets are structured, the counter cyclical safety net is needed.
- The press in America the last few weeks has been reporting the abuse of the disaster funds made available to the livestock producers. What they failed to mention was the money that was saved through the 02 farm bill as market prices rose to a level that producers didn't need the government assistants through LDP payments.
- The Energy Title: One of the most important aspects of the 2002 farm bill has been the energy title. Looking forward we need to see the energy title built on and expanded to give America's family producers the resources that they need to lead our nation into the renewable fuel age. Whether this is the expansion of wind energy, renewable fuels, or other green programs such as the carbon credit program.
- These are exciting programs that have the potential to help all of America.
- CSP: Conservation incentives have also been important to both producers, as well as the Nation as a whole. We would like to see this part of the farm bill increased and expanded. This is not just a financial benefit to producers, but spurs economic development in rural communities. Family farmers and ranchers are the best stewards of our environment and this give them one more tool.
- Conservation acres are a vital part of South Dakota's economic engine. They provide small towns like my home town of Ferney, SD. With another stream of revenue, which didn't exist before the CRP program was developed. By promoting the vast variety of hunting in the State.
- However we do realize the need to continue to develop farmland to grow commodities to meet the growing needs of feeding America and the rest of the world. Farmers Union feels rural America can and will come together to harmonize our

needs of conservation and production agriculture to have a moderate balance that works for all Americans.

- Permanent Disaster Aid
- Last year 70 percent of US Counties were declared disaster areas, and right now South Dakota is in the grip of yet another Drought, where we are looking at 85 percent of our topsoil being short of moisture. Yet it is only when something catastrophic happens in Florida or Louisiana that we get to see any kind of disaster aid. Just because we don't have a ocean bordering our State doesn't mean we can't have a natural disaster. We all know it takes water to sustain life, and right now South Dakota is on the short side of water.
- Include real life drought story from your area
- Family ranchers in South Dakota are having to sell their whole herds of cattle due to extreme drought conditions, which are also causing wild fires and burning hundreds of thousands of acres in central and western South Dakota.
- Grain farmers in South Dakota are also feeling the effects of the drought as each day goes by without rain they are faced with how they will pay for the high costs of raising their crops if they have nothing to harvest this fall.
- Crop insurance does provide some relief. But, when you can only afford to purchase 65 percent coverage for your crop you will be able to pay for only 65 percent of your costs also. Which will drastically affect the local rural business' like banks, implement deals, auto dealers, farm supply stores, and ultimately our nations economy as a whole.
- The simple fact is with a strong agricultural economy, America's economy as a whole is strong.
- We need to take the politics out of the disaster aid equation and create a permanent Disaster Program, one that allows a county to get the resources that it needs comeback after a disaster.
- We are not talking about backing up a money truck every time there is a disaster, but somewhere to turn to get the resources and the know how to repair the situation
- Stability is crucial in any business plan, and agriculture is no different, so until someone invents a weather machine, we are going to continue to see the fluctuations that we have been seeing.
- Making sure that America's agriculture system is the strongest and safest in the world should be everyone's priority, and it is something that we as family producers take very seriously. We need a Disaster program to insure that our producers have a place to turn when nature turns, and to insure that politics does not dictate who gets relief.
- In closing I commend you for coming to South Dakota to hear from real farmers and ranchers. It was President Eisenhower who quoted " farming is easy when you are 1,000 miles from the nearest field and your plow is a pencil". Your coming here today is a testimony of your willingness to work with American agriculture producers to build a new and better farm bill in 2007.
- Thanks again to the U.S. House Ag subcommittee on general farm commodities and risk management and other Ag leaders for inviting me to testify on behalf of South Dakota Farmers Union and its 12,000 members.
- I would like to reiterate the need of
- Unity in the Agricultural community
- We will not always speak with one voice, but we need to unite on the issues that we can
- The family producer is the backbone of America, and it behooves us to work together to make that backbone stronger
- Agriculture is not just the commodities that we sell, or the land that we work. It is about our rural values, and our small communities that all work together to make America strong, so we must insure that our rural economy is strong.
- Again I thank you and my children thank you as the future generation of agriculture is in your hands.

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## STATEMENT OF MICHAEL MARTIN

Mr. Chairman and members of the committee,

My name is Michael Martin. Along with my wife and daughters, I operate a diversified farm growing wheat, corn, soybeans and sunflowers. Our farm is located near Forbes, ND and our operation includes land in North Dakota and South Dakota. I currently serve as the President of the North Dakota Grain Growers Association. I thank you for this opportunity to provide testimony concerning the current farm bill and the upcoming 2007 farm bill.

I have limited my comments to the topics requested by the Committee. Also, I have made the assumption that there will be no new WTO agreement.

In preparation for my testimony, comments were solicited from three of our previous association presidents. These three were actively involved in the policy recommendations for the current farm bill. For the sake of brevity the comments are summarized below.

All agreed that this farm bill has worked but all agreed it needed some technical corrections.

Greg Daws who farms in northeastern North Dakota would like to see producers have the ability to lock in LDP's sooner. He felt that the southern wheat interests have taken away some of our ability to take advantage of LDP's because the market has already reacted to the southern harvest.

Bruce Freitag who farms in western North Dakota felt the basic farm bill structure is fine. However, he would like to see the disparities between crops equalized, especially in the area of loan rates and target prices. Bruce would like to see more money in the farm bill and he is concerned that the next farm bill will shift too much funding to conservation.

Bruce also felt that crop insurance should be addressed; 70 percent coverage on an average crop is not enough crop insurance coverage given the increased input costs we now have.

Al Skogen who farms in southeastern North Dakota is generally happy with the farm bill as well. He does think that CBO miscalculated future wheat prices, which upped the projected farm bill costs for wheat. This in turn artificially lowered wheat target prices. He feels that the average price for wheat should be calculated on a 5 and not an 11-month average. Al also stated that upping bases cost the farm bill $1 billion, which came out of Target Prices. The farm bill was also predicated on 2–2.5 percent inflation, which has not been the case in agriculture. Al also stated that farmers are the only ones who sell wholesale, buy retail and pay the freight both ways. He finally stated that agriculture should be complimented for not spending money when it was not justified, not punished for it.

I would like to expand on Al Skogen's comments. My reference material for supporting his comments are contained in the December 2005 publication from the USDA Economic Research Service entitled 'Wheat Backgrounder'. The publication makes comparison of farms where different cropping practices are followed. These cropping practices pit 'Specialized Wheat Farms' (farms that have at least half of their total value of production

from wheat in 2003) against 'Other Wheat Farms' (those with less than half of their total production from wheat in 2003). The research comparisons were based on farm data from Kansas and North Dakota.

I would like to draw your attention to a disparity in net far income shown on page 29 of the publication.

Net farm income for Specialized Wheat Farms, 2003 at $27,507 is a whopping 58 percent lower than Other Wheat Farms, which showed a net of $65,481.

The entire report can be found at the following link.

*www.ers.usda.gov/publications/whs/dec05/whs05K01/whs05K01.pdf*

The disparity between the two wheat farm groups is quite apparent. It cannot be attributed to any one factor. However it does indicate that Direct Payment and Target Price levels for wheat need to be reevaluated in the upcoming 2007 farm bill.

This year, like many in the past, farmers across the Nation are enduring production losses caused by extreme weather problems. Crop insurance improvements in the past have definitely helped to alleviate much of the financial loss caused by these problems. However, producers are still left with the problems of 'shallow losses'. One of the ways for producers to reduce the amount of 'shallow losses' is to 'buy up' their insurance levels. The problem with doing so is the high cost of increasing coverage above the 70 percent level. An increase in the level of subsidization from the government on coverage up to the 85 percent level could possibly be more economical than what seems to be a continual request for adhoc disaster assistance.

Mr. Chairman, my biggest concern with the future farm bill is the direction it takes concerning environmental policy. Many in my state have benefited from conservation programs and I personally have benefited from private funded incentives involving my no-till farming practices. What I fear, in placing greater emphasis on conservation title programs, is the tremendous cost to our Federal Treasury if all programs are fully implemented. This financial cost to a future farm bill may well mean that Commodity Title programs will not be adequately funded. Conservation program benefits to producers are typically capitalized into a farmer's holdings in the form of reduced land and machinery debt. As a result of this capitalization, these funds are not liquid to the producer when market factors require additional funding for cash flow needs. I feel that the Safety Net that past farm bills have provided may well be lost to Conservation programs. Commodity Title programs such as Loan Deficiency payments (LDP's) and Counter Cyclical Payments (CCP's) provide the Safety Net that is sorely needed by producers when negative market fluctuations and aberrations occur. They not only provide financial stability to producers, but also allow agricultural export trade and infrastructure to perform more efficiently. Also, when market prices are relatively high they can provide huge saving in actual dollars to the Federal Government. I feel that this Safety Net is the most important part of agricultural policy and should be defended, if at all possible.

Another factor I would like to touch upon today is the USDA and its many supporting agencies. We at the NDGGA have been very impressed by the willingness of the agencies such as NRCS, RMA, FSA and others to accept new ideas and interpretations that allow for better service and application of the Farm Program. We have successfully communicated to these agencies the need to focus on 'what can be done' rather than 'what can't be done'. They need to be applauded for their willingness to make changes when changes are appropriate.

In conclusion, the NDGGA offers our help in any way that can help make your job easier on this upcoming farm policy debate.

Mr. Chairman, thank you again for this opportunity to present testimony to the committee.

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## STATEMENT OF JOHN COOPER

I am John Cooper, Secretary, South Dakota Department of Game, Fish and Parks. I am also the President of the Association of Fish and Wildlife Agencies, and Habitat Chairman for the Western Association of Fish and Wildlife Agencies. I appreciate the opportunity to offer comments regarding the importance of hunting and fishing to our region, the role conservation programs have played in restoring a variety of habitats, along with the challenges and opportunities we will be presented with in the future.

Hunting, fishing and outdoor recreation are important to the quality of life in North and South Dakota. Many of us have fond memories of learning to hunt, fish and camp with members of our families and hope to keep passing that tradition on to our children and grandchildren. Hunting and fishing also contributes significantly to the economics of North and South Dakota. According to the 2001 National Survey of Fishing, Hunting and Wildlife-Associated Recreation conducted by the U.S. Fish and Wildlife Service, 179,000 & 214,000 anglers fished annually in North and South Dakota, respectively. Nearly as many hunters took to the field annually, with 139,000 & 209,000 hunters in North and South Dakota, respectively. Hunting and fishing generated significant income in South Dakota, with hunters spending $223 million annually and anglers spending $182 million annually in 2001, with much of this activity occurring in rural areas.

Hunting and fishing has been good in the Dakotas, in large part, due to good habitat conditions. Farmers and ranchers in the region are model stewards of the land, with private land providing most of the habitat used by fish and wildlife species. Conservation programs of the farm bill have played an integral role in providing farmers and ranchers with the financial and technical tools to enhance soil quality, water quantity and quality and wildlife habitat. Conservation programs of the farm bill are also very popular with landowners, because they are voluntary, incentive-base alternatives that promote partnerships among government, private interest and agricultural producers. Landowner demand for conservation programs like CRP, WRP, EQIP, CSP, WHIP, etc is far greater than the dollars or acres available.

A good example of a direct beneficial relationship between farm bill programs and wildlife and producer benefits is CRP. As you know, CRP was first authorized under the 1985 farm bill to remove environmentally sensitive land from crop production. When the first CRP contracts were signed in South Dakota in 1986, pheasant numbers were near record lows of less than 2 million pheasants. Soon after 1986, we saw pheasant numbers rise significantly, with quick rebounds after the harsh winter of 1996–97 and the drought of 2002 to a current population of over 8 million pheasants. With the dramatic increase of pheasant numbers, South Dakota has seen pheasant hunting blossom to a $153.1 million dollar per year industry in 2005. Reasons why pheasants rebounded quickly and were resilient to adverse environmental change were related to the large blocks of cover provided by CRP. Conservation programs like WRP, GRP, CSP, WHIP and EQIP also played a role in providing cost-share to establish habitat on private lands. While in my oral and power point presentation, I mainly spoke about the "pheasant renaissance" and CRP, farm bill conservation programs have also been instrumental in providing habitat for numerous other species on land and clean water for fish and other aquatic species which benefits water based recreation.

One of the important take home messages of my talk is one of "balance". While I mainly spoke about the benefits of conservation programs to habitat and recreation, I would be remiss if I didn't also speak about the direct benefits to our agricultural producers. As I mentioned earlier, our farmers and ranchers are concerned stewards of the land and conservation programs give them the tools they need to manage habitat on their land. In the case of CRP, it provides an addition $63 million to South Dakota farmers and ranchers in the form of annual CRP rental payments. Many agricultural producers have adapted well to the "pheasant boom" in the state by catering to pheasant hunters in the fall as a supplement to their farming and ranching income, which diversifies their operations and makes them less reliant on wide swings in the commodity markets. CRP also provides an emergency source of forage for producers in times of drought or flood. Clearly, CRP, like most of the farm bill conservation programs, is an example of a "win-win" solution for producers and conservation.

While the present farm bill offers significant opportunity for producers to manage wildlife, the next farm bill and other conditions cause us great concern. Native grassland loss in North and South Dakota continue to be a challenge for wildlife and ranchers dependent on large blocks of intact grasslands. While most of the tall-grass prairies have been converted to agriculture long ago, we are now seeing increasing pressure to bring mid-grass and short-grass prairies under cultivation as well. According to research conducted by Ducks Unlimited, the overall average rate of loss of native grasslands in the Missouri Coteau of North and South Dakota has been approximately 0.5 percent per year, with some areas approaching nearly 2 percent per year since 1984. According to their research, an annual rate of 2 percent per year translates into a loss of one half of the remaining grasslands in 34 years. Even more disturbing is that this trend in grassland conversion to crops has accelerated since 2000. Not only will the loss of native grassland be a challenge to wildlife management, but also to ranchers, who rely upon native grasslands for rangeland for their cattle.

The conversion of grassland to cropland has been catalyzed by rapid improvements in agricultural technology, most notably the creation of new crop varieties with higher drought and herbicide resistance. In North and South Dakota, these improvements have made farming marginal lands less risky and will further jeopardize attempts to preserve grasslands. In addition to technology, programs found in the Commodity Title of the farm bill have provided additional subsidies to convert grasslands to cropland. While the 1985, 1990, 1996 and 2002 farm bill contained a "Sodbuster" provision, agriculture producers have continued to convert grasslands on highly erodible lands, provided they had a conservation plan that required a sufficient residue to minimize soil erosion.

Related to this conversion concern is a point made by Conner, Seidl, VanTassell and Wilkins in their 2001 study entitled United States Grasslands and Related Resources: An Economic and Biological Trends Assessment. That study found that "in addition to qualifying for Loan Deficiency Payments, cropland is eligible for subsidized crop insurance and/or disaster payments that are significantly more effective in reducing negative financial impacts due to crop production losses compared to livestock production losses. Thus, due to the government support programs, keeping, or converting, land in crops can be both more profitable and less risky than production livestock on grasslands."

According to a 2004 survey titled "Wildlife Values & Beliefs of South Dakota Residents" conducted by the Western Association of Fish & Wildlife Agencies, 89 percent of South Dakota residents feel that maintaining healthy native grassland ecosystems are important. We are greatly concerned about future technological and policy directions and their potential for driving or accelerating further grassland conversion.

Another factor causing us great concern is the volume of CRP contracts soon to be expiring. About 2.8 million acres of CRP in North and South Dakota will soon expire. Of those acres expiring in 2007, 1.2 million acres were offered for re-enrollment in 10 or 15-year contracts. The remaining 1.6 million acres have been offered 2 to 5-year contract extensions. While interest in new CRP contracts and contract extensions has been high, we are concerned that there will be significant reversion of CRP back to cropland after these contract extensions expire. We are also concerned that funding for conservation programs will be tight in the next farm bill because competition for funding programs will be tied to reducing budget deficits.

In addition, biofuels development offers both challenges and opportunities for wildlife management in the Dakotas. Some have advocated using CRP as a biofuel source, which would result in a significant net loss of soil and wildlife benefits in comparison to the current way CRP is managed. Additionally, as more corn is required for starch-based ethanol development, there will be more pressure to grow even more corn on environmentally sensitive land like native grasslands and on expired CRP.

The conservation community realizes biofuels also have the potential to provide some wildlife benefits as well. As the technology for cellulosic ethanol continues to be developed, the demand for land to grow grasses, like switchgrass, for ethanol fuel stock will grow. If existing cropland were converted to biofuel production and managed in a manner that left 12 inch or higher stubble height and harvested the grasses biannually, with no more than 50 percent of the field being removed in a given year, management would favor long-term sustainability of the grasses and provide more wildlife benefits than found on existing cropland. Industry would benefit from a special biofuel program because special rules could be formulated to ensure an amount and type of fuel grown in proximity to the processing plant, which would be compatible with industry needs. Productive soil types could also be targeted towards the type of specific fuel stock that the processing plant needs. Farmers and ranchers would also benefit because they would grow biofuels like a specialty crop. Biofuels are a critical energy issue now and will continue to be so in the future. However, significant conservation planning must be undertaken to avoid substantial environmental impacts from uncontrolled cropping. As I mentioned in my presentation, this too will require working towards a balance.

While there are a lot of uncertainties going into the 2007 farm bill, conservation programs remain popular with producers and the public alike, and will likely be a high priority for funding. To ensure wildlife needs are met in the 2007 farm bill I offer the following draft recommendations to be considered as agriculture policies are considered:

- 1. Reauthorize CRP and raise the cap to at least 45 million acres.
- 2. Maintain annual allocations for WRP of at least 250,000 acres annually.
- 3. Include a provision (such as Ducks Unlimited's "Sodsaver") to remove incentives to convert grasslands or other land with no previous cropping history.
- 4. Maintain current wetland protection measures, as found in the current Swampbuster Provision.
- 5. Reauthorize GRP and expand the cap to enroll an additional 2 million acres.
- 6. Encourage more wildlife practices within CSP.
- 7. Reauthorize and fully-fund WHIP at $100 million annually.
- 8. Encourage EQIP enrollments to target practices that benefit wildlife, wetlands and grasslands.
- 9. Streamline technical service provider requirements to make it easier to enter into agreements with USDA to deliver farm bill conservation programs.

While agriculture policy is a complex issue involving many different points of view, I believe it can be boiled down to the matter of balance. As we begin to formulate agricultural policy for the future, we will have to do our best to balance the need for sound production agricultural policy and the public's desire for stable food, fiber, fuel and clean water, healthy soil and wildlife habitat. While achieving this balance will not be easy, future generations will be counting on us to make the right decisions now because they will be dealing with the good, bad and unanticipated outcomes of our actions for the next 5 years.

In summary, outdoor recreation on healthy lands and waters is important to the quality of life in the Dakotas. The outdoor recreational opportunities we have in the plains states are a direct result of the conservation provisions of the 2002 farm bill. Future economic pressures will likely make it hard to maintain the current outdoor recreation values and quality of life we currently enjoy. However, opportunities in the 2007 farm bill to maintain environmental benefits are at our doorstep and they will require significant negotiation to balance the wide variety of regional and national needs.

Thank you for the opportunity to provide comments as you make recommendations on agriculture policy.

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## STATEMENT OF SCOTT VANDERWAL

I would like to start by thanking you for the opportunity to visit with you today about farm policy. My name is Scott VanderWal, and I am an agricultural producer from Volga, SD. We have a family owned and operated corn, soybean and cattle feeding business. I am responsible for the crop production and management, as well as the overall financial management of the entire operation. I also serve as president of the South Dakota Farm Bureau, which is the largest voluntary producer-driven general farm organization in the state. My wife, Michelle and I have 2 sons who intend to make their careers in agriculture.

Farm policy over the years has evolved from supply management to a more market oriented program with incentives for producers to react to market conditions and economic forces. We have supported that and strongly believe it should continue.

I will quickly discuss the current farm program and its effects on agriculture, and then I will go into how we think future agriculture policy should look. 2002 farm bill

Our members feel that the current 2002 farm bill has overall been good for American agriculture. The current structure, with direct payments, counter cyclical and loan deficiency payments to counteract poor market conditions, and the Federal crop insurance program can all be used together by producers to create a fairly good risk management program. As a whole, our members like it. A possible drawback of the program is that it has encouraged inflation of land values, and that makes it more difficult for beginning farmers to get started. Another aspect of current policy that has both a positive and negative side is the Conservation Reserve Program (CRP). It has been excellent for wildlife and habitat and has taken marginal land that probably should not be farmed out of production. However, it has had a detrimental economic effect on small towns and businesses in our state.

I would suggest that overall, the CRP has been good, but as we go forward, we need to make sure that only land that is truly fragile and highly erodible should be enrolled, and ensure that the program is really used as it was intended.

Saying all that, we understand that there will be considerable pressure from several different directions to make changes in the farm program. The pressure to become more WTO compliant, budgetary issues that we did not have five years ago, and good old politics will all have significant effects on the process.

## 2007 Farm Bill

So, where do we go from here? As I mentioned, our members like the structure and concepts of the current farm bill. However, we recognize that there will most likely be at least some changes, and we will be very involved in the process of developing the next program. American agriculture is changing with lightning speed. Farms are getting larger and fewer as family operations grow and acquire the assets of neighbors who may want to retire or sell out. It is a function of economics just like every other industry encounters. Therefore, our needs are also changing. Risk management has become one of the most common and important concerns to modern agriculture producers. Compared to 20–40 years ago, the stakes are tremendously higher. Our industry has also gone from one that produces food and fiber, to one that produces food, fiber, and energy. I would like to discuss some of what we think are the major issues that need to be dealt with in the new farm program.

We also hear concerns from young ag producers who are trying to get started in an area where large amounts of acreage are enrolled in CRP.

Energy. The American agriculture industry is under tremendous pressure economically due to energy costs. The lack of a solid energy policy in this country has made us very vulnerable to foreign influences and events around the world. In terms of importance to a country's freedom and sovereignty, energy independence ranks right up there with food independence. The cost of fuel and fertilizer products for our operation have doubled and for some products even tripled over the last 2–3 years. The answer to the problem is right here in our own country. We are developing renewable fuels such as ethanol and bio-diesel very quickly. Federal funding for research, development and education is of utmost importance as we strive to look for ways to convert our renewable energy into fertilizer products and other energy forms. We also need to continue exploration and development of our other domestic resources such as oil and gas, wind, hydrogen and numerous other possibilities. There is no one silver bullet, but all of these aspects are pieces of the larger puzzle, and if we put them all together, we can greatly lessen our dependence on foreign energy.

Commodity Programs. We strongly believe that current planting flexibility provisions should be maintained. World Trade Organization rules also state that subsidies should not be directly linked to production, so as not to distort markets. Some have suggested that we should return to mandatory set-asides. We vigorously oppose that concept. You cannot idle your way to prosperity. We already have various programs that take marginal land out of production, so there is no need to require that in the farm bill. In addition to that, in our current world market economy, if we were to announce an acreage set-aside, it would simply be a signal to other competing countries to increase their acreage, and as we have seen in the past, they don't hesitate to do it.

Technology, Research and Development. Another area that deserves a sharp focus on enhanced funding for research and development is modern agricultural technology. We have access to global positioning systems and automatic satellite-based steering on equipment that allow us to engage in site-specific farming. This enables us to zero in on exact placement and rates of fertilizer and other crop inputs. Genetic technology is also very exciting. Products being developed right now include drought tolerant corn and corn that fixes its own nitrogen. Support for research and development will enable American farmers and ranchers to continue to meet the food, fiber and fuel needs of a growing population while at the same time taking even better care of the land and other resources.

Disaster Programs and Risk Management. Let us now focus for a moment on Federal disaster programs. When the 2002 farm bill was enacted, the message was that this is now a safety net, and there will be no more disaster programs. But then later on when a disaster of some type strikes, the political pressure again rises to appropriate funds to help. And the case can be made that it was still necessary. Take for instance the cattle industry in South Dakota. Some areas have had multi-year droughts, and there is no safety net or LDP on grass, rangeland, or cattle prices. I believe that we have an opportunity to take a look at our risk management program from the big-picture perspective in the next farm bill. Rather than combining disaster programs with crop insurance, we could use the funds that would have been used for disaster assistance to create a whole farm revenue insurance product. That would combine Federal subsidization to make it affordable, but still add personal responsibility to the mix, where individuals can make their own decisions on what level of risk protection to purchase or whether to purchase it at all. There are some private companies within the crop insurance industry that are looking at this possibility. This concept would also help alleviate the criticism of disaster programs and the way they are handled.

Environment and Wildlife. I would be remiss if I did not mention the environmental and wildlife aspects of farm legislation. Farmers are the first environmentalists. We depend on the land and water for our means of making a living. It only makes sense that we would care for our natural resources to the best of our ability and leave them better than we found them. We need to work with conservation and wildlife groups to find ways to provide compensation for agriculture's positive impact on the environment, wildlife and habitat. The carrot approach always works better than the stick, and this would provide incentives for people to do a better job and reward those who are already doing it. I would have a word of caution about transferring funding from commodity programs to conservation programs. The Conservation Security Program (CSP) is intended to do essentially what I just described. However, it was only available to producers on a very limited basis in the last two years, and the red tape and attached strings made it even more difficult for a producer to benefit. So if we take funding away from a program that is available to a lot of producers in the major commodities, and put it in a program that is available to relatively few, we have a fairness problem.

Livestock. The Environmental Quality Incentive Program has been a positive thing for livestock operations and for the environment. We favor continuing and enhancing that program. I would also like to address a couple of other livestock issues that have arisen in earlier discussions. Country of Origin Labeling (COOL) was part of the 2002 program but never received funding. We do not favor mandatory COOL because of concerns about cost, liability, and cost/benefit issues. We do believe that voluntary COOL has merit and can be a great marketing tool for businesses that want to use it. The other issue is packer ownership of livestock. We believe that the Packers and Stockyards Act should be strictly enforced. Anti-trust laws should be used to ensure that captive supplies are not used to manipulate the market. However, we stop short of banning packers from owning or controlling livestock. When packer entities are bidding on feeder cattle, it increases the competition for those cattle, presumably leading to higher prices. There are also many different contracting arrangements out there that cattle owners use to their advantage in their risk management programs. If the government were to take these tools away, it would be a disservice to the cattle industry. And the big picture issue for us is that in our free-enterprise based, market-oriented system, the government should not be deciding who can own or control property or other assets.

Taxation. Another issue that is not actually part of farm policy, but has a huge impact on American agriculture is the current tax system in our country. The current system embeds all sorts of taxes such as sales and payroll taxes into the prices of all goods and services. Capital gains and estate taxes are deterrents to successful passage of family farms to the next generation. We favor replacing the current tax code with a system that encourages success, savings, investment and entrepreneurship. It should eliminate all payroll taxes, self-employment taxes, the alternative minimum tax, capital gains, estate taxes, and personal and corporate income taxes. A perfect example of this concept is the FAIR tax, as has already been proposed in Congress.

International Trade. The issue that has an ever increasing influence on our industry is international trade. Ninety-six percent of the world's population lives outside of our borders, so the potential markets are huge for us. There are many countries such as China that are currently expanding their economic middle class, and when people have more money in their pockets to spend, one of the first things they do is improve their diets. The demand for our products will continue to expand, as countries such as China cannot possibly produce enough food for themselves over the long term. We believe that our involvement in the World Trade Organization (WTO) is a positive for American agriculture, and that our farm policy should be compliant with WTO rules. Our organization believes we should accept a reduction in amber box (trade distorting) subsidies, but only if we are allowed greater access to foreign markets through lowering of tariffs and other trade barriers.

In summary, our members favor a program that looks much like the current one, with reduced complexity, and the flexibility that allows farmers to respond to market demand. We should maintain and enhance a safety net which compensates for poor market conditions and provides useful risk management tools for producers. We need a solid energy title in the farm bill which provides incentives to produce renewable energy sources that complement our country's other renewable and fossil fuel supplies. We must reduce our reliance on foreign energy sources, as energy independence is as vital as food independence.

American farmers are very innovative. We will survive and thrive if the Federal Government does certain things. Among those things are assisting with risk management tools, reducing roadblocks to success, and enhancing international trade. The health and welfare of American agriculture is a national security issue and is of paramount importance to the freedom we enjoy and so often take for granted.

I consider it an honor to have been asked to testify today, and appreciate your time and attention to the issues that so greatly affect our industry and our country.

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## Statement of Ruth Beaver

Good morning, Mr. Chairman, Representative Peterson. I am Ruth Beaver, State president of the School Nutrition Association of South Dakota. I am submitting these comments on behalf of the 303 members of the School Nutrition Association of South Dakota and the 55,000 members of the School Nutrition Association (SNA.)

As you know, our members serve 30 million students each and every school day. The National School Lunch Program was 60 years old on June 4th and continues to serve our country very well. If we are going to compete effectively in the world, we must educate our children. And to do that, we must provide nutritious school meals.

With your permission, I would like to make the SNA's 2006 Legislative Issue Paper a part of the hearing record and focus on just two points.

- USDA provides 17 cents in commodities for each school lunch served, but none for breakfast. We believe that the farm bill may be the right place to address the issue and finally provide commodities for the breakfast program. Our suggestion is that USDA should provide an additional 10 cents for each breakfast. The commodities would help us keep down the cost of a meal and, of course, assist American agriculture.
- I would also like to bring to your attention an emerging issue growing out of the recent Child Nutrition Reauthorization. SNA strongly supported the new Wellness Policy and we are delighted by the attention it has put on the issue of obesity and implementing the HHS/USDA Dietary Guidelines. Unfortunately, however, the new section of law is leading to a patchwork quilt of different nutritional standards all over the country. The nutritional needs of a child in Virginia are the same as the nutritional needs in Minnesota or any other state. Perhaps you can clarify in the farm bill that the USDA nutritional requirements are a national standard so that we are all on the same page. Currently, different states seem to be interpreting the Dietary Guidelines in their own way. Greater clarity would be helpful.
- As a part of the nutrition issue, we do believe that USDA needs the authority to regulate the sale of all food on a school campus during the entire school day. This was a controversial issue a few years ago, but we believe the feeling is changing and would ask that you revisit the issue.

Mr. Chairman, Representative Peterson, thank you very much for holding this hearing and for allowing us to participate.

U.S. House of Representatives
Committee on Agriculture
Subcommittee on General Farm
Commodities and Risk Management
1301, Longworth House Office Building
Washington, DC 20515-6001

July 27, 2006

RE: Wendi Rinehart- rancher / field hearing testimony at Wall, SD July 31, 2006

Thank you to the Subcommittee for inviting me to testify at this historical event.

My name is Wendi Rinehart. My husband Brady and I presently own and operate approximately 6,500 acres in northern Hyde and Sully counties of central South Dakota. We are very proud of the good American beef and Quarter Horses we raise there, and have been blessed to watch our three children grow into fine adults on a family ranching operation.

The 2002 Farm Bill has had unintended harmful consequences -- consequences, that have made it difficult to maintain the livelihood and way of life for us and many other ranching families across South Dakota.

Let me explain. As my husband Brady simply puts it, "Every time someone rips up prairie the price of grass goes up."

For those who choose to convert the virgin prairies to crop production, provisions of the 2002 Farm Bill provide them with generous financial incentive to do so. For those of us whose income depends upon the grasslands and livestock production, there is no such support.

It is well documented that during the last 20 years, more than **1 million acres of South Dakota forage lands alone** have been converted to grain production at a current estimated cost to the government of more than **$40 million annually.** This directly effects our ability to rent or buy additional grazing lands, and in a severe drought year such as this, the problem is even more acute.

Quite frankly I am disgusted with the misuse of tax dollars. The ranching community has found they are paying the government to fund these farm programs to put us out of business. Our tax dollars are being used to compete against us, supporting crop production on newly-broken rangelands that are completely unsuitable for that purpose. When you see rocks the size of Volkswagens being ripped out of the ground, there is something definitely wrong here, and it rips at your heart to witness the destruction of short-grass prairie. It forces ranch families to play the FSA game. They end up selling off cattle so they can collect the government-guaranteed checks for farming, or they go under.

**Can we fix it? Can we begin to level the playing field? I believe so!**

We were encouraged in 2002. The Senate passed an amendment that would restrict USDA payments on lands without previous cropping history. This provision would have in no way prevented the land owner from breaking or clearing their land. However, incentives would **not** be paid to do so. Now, that more or less sits folks where the livestock producers have been....at the mercy of the fickle markets, at the mercy of Mother Nature.

As Senator Durbin has said," **The farmers can still drive themselves to new croplands, but the GOVERNMENT would no longer drive them there."**

I hope I have your attention now because I intend to be a burr under the saddle.

In 2002, Senator Durbin concluded that an amendment to deny farm payments on newly broke lands would save **$ 1.4 Billion** over a ten-year period, money that could be well spent on programs such as the Grasslands Reserve Program. And I haven't even mentioned the conservation benefits of grasslands versus cropland. We're talking here of clean water, stable soils, and more wildlife. Honestly, when was the last time you saw terraces on the native prairie?

I don't have to tell any of you that we are in the midst of a four-year drought that some say is reminiscent of the early 1930's. This only exacerbates the plight of ranchers who are already short of grass. Isn't time to level that playing field for the ranch families who struggle to compete for the use of grasslands?

Our prairies provide our way of living. Like other ranchers, we work long hours with little financial return anymore, but we wouldn't trade our lifestyle or our values for anything else.

There is a hill above our home that I visit that gives a commanding, panoramic view of the surrounding countryside. From there you can witness the dust of tractor and plow ripping up virgin prairie somewhere.

I encourage you to please consider provisions in the new Farm Bill that will no longer support the conversion of native prairies to crop production at the taxpayer's expense.

If you would like to see first hand how this issue is threatening ranching families, I invite you here and now to travel off the oil roads, hit the gravel, witness the destruction of virgin grasslands for crop production, and come see our beautiful prairie.

Respectfully,

Wendi Rinehart

Wendi Rinehart
32460-180th Street
Highmore, SD 57345
605-852-2321

**Dakotas Society of American Foresters**
2218 Jackson Blvd, Ste 10 • Rapid City, SD 57702 • 605-341-0875

July 31, 2006

The Honorable Bob Goodlatte
United States House of Representatives
House Agriculture Committee
Washington, D.C. 20515

Dear Congressman Goodlatte:

The Dakotas Society of American Foresters is a professional organization of foresters representing forest managers, researchers, and educators in a variety of employment sectors in North and South Dakota. On behalf of our members, I would like to express our thanks for your continued efforts to seek public advice on the implementation of the 2002 Farm Bill and the development of new ideas for the 2007 Farm Bill, including your visit to South Dakota this week with Representative Herseth to hold hearings on the subject

**Environmental Quality Incentives Program (EQIP)**
The states of North and South Dakota derive much of their income from traditional grain and livestock agriculture. Congress included the Environmental Quality Incentives Program (EQIP) in the 2002 Farm Bill to protect resources critical to those agricultural enterprises. EQIP replaced several existing cost-share programs and provides incentives to agricultural producers for protecting their soil and water resources.

More than two-thirds of our nation's forestlands are privately owned. These forests play a huge role in the health and well being of the nation by protecting the quality of the water and air, providing habitat for wildlife, and providing places of beauty for recreation and renewal. In North and South Dakota, forest resource needs are rarely addressed through EQIP because of the high proportion of traditional agricultural conservation demands. Currently, less than 1% of EQIP funds are spent on forest management as the priorities nationally are aligned with confined animal feeding operation needs.

Although EQIP has demonstrated forestry successes in some states, challenges remain. We recommend that the 2007 Farm Bill place an emphasis on improved coordination among State Foresters and State Conservationists through the State Technical Committee to improve opportunities for forestry within this conservation program.

**Forest Land Enhancement Program (FLEP)**
Congress authorized and funded the Forest Land Enhancement Program (FLEP) in the 2002 Farm Bill. FLEP replaced both the Stewardship Incentives Program (SIP) and the Forestry Incentives Program (FIP). FLEP is the only Farm Bill program focused on assisting family forest landowners in managing their forests.

FLEP was authorized for $100 million, but $40 million was "borrowed" to pay for USDA-Forest Service fire suppression costs and never repaid. Funding for the program was then cancelled altogether in order to meet other needs.

Most states have a backlog of applicants needing financial assistance for forestry practices. As a group of resource professionals who work with landowners in protecting and managing their forest resources, we ask that you address the funding as well as other concerns with FLEP to ensure forest landowners have access to cost share assistance aimed directly at them.

**CONCLUSION**

Farm Bill programs provide critical assistance to family farms and ranches throughout the United States. Farm Bill programs should be extended to include forestry where appropriate while encouraging the retention and perpetuation of forestland and minimizing the impacts of forest fragmentation and parcelization. They should also support forestry practices which protect soil and water resources and improve wildlife habitat.

We realize that decision-makers will be faced with some difficult Farm Bill decisions, and sacrifices and trade-offs will be made. The Dakotas Society of American Foresters encourages you to keep our priorities in mind when making these decisions.

Thank you for this opportunity to provide our thoughts on the 2007 Farm Bill.

Aaron Everett
Chair-elect
Dakotas SAF

# REVIEW OF FEDERAL FARM POLICY

**THURSDAY, SEPTEMBER 14, 2006**

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

The subcommittee met, pursuant to call, at 10:31 a.m., in room 1300, Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Lucas, Johnson, Neugebauer, Conaway, Sodrel, Goodlatte [ex officio], Etheridge, Salazar, Herseth, Butterfield, Melancon, Pomeroy, Larsen, Chandler, Scott, Costa, and Peterson [ex officio].

Also present: Representative Osborne.

Staff present: Tyler Wegmeyer, subcommittee staff director; James Cahill, printing editor; Bryan Dierlam, Craig Jagger, Callista Gingrich, clerk; Chip Conley, and Clark Ogilvie.

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

Mr. MORAN. Good morning, everyone. We expect a number of our members to join us. My guess is the Republican conference is on going. But this hearing of the Subcommittee on General Farm Commodities and Risk Management will come to order.

We are here today to review Federal farm policy, and I would like to thank everyone for joining us at this what I think is a very important hearing but one that is very unique. I think we are making history today. This is the first time that we are aware of in the committee's history that we have heard from a panel of former Secretaries of Agriculture and this is also, Secretary Glickman, the first time we have ever had a movie executive in front of the House Agriculture Committee.

It has been said that we have a lot to learn from past successes when we try to find out what the future should look like. It was a former Kansas State University history professor Stephen Ambrose who said the past is a source of knowledge, and the future is a source of hope. Love of the past implies faith in the future. So we are looking to some degree at the past, but my guess is that our witnesses will be looking into the future, and that is what this subcommittee is hoping to do, is to accomplish good things for agriculture now and in future years.

All of us in this room have a deep appreciation for agricultural policy, and we have an affection and appreciation for our farmers and ranchers who go to work every day trying to earn a living in a very difficult profession, and yet we produce the highest quality food and fiber in the world.

The Agriculture Committee prides itself on having an open process to seek input. Chairman Goodlatte and the full committee has conducted 11 field hearings across the country from east to west and north to south. This subcommittee has been in four locations including Jefferson City, MO; Valdosta, GA; Coolidge, AZ, where we conducted the first hearing of an Agriculture Committee in 48 years in Arizona; and Wall, SD at the end of July.

The information that we have gathered in these hearings will play an important role in writing the next farm bill. We sought out to see what is working and what isn't working in the current farm bill and what can be improved on. In general, we heard positive remarks about the current farm bill, and many farmers gave it high marks with exceptions coming from the specialty crop sector and folks who think that the commodity title is too heavily weighted.

It is very rare these days to have an occupation in which sons and daughters work side by side. I was at a Farm Bureau at home in Kansas last week in which a young farmer in Stafford County, Kansas, talked about the best day of his life, and the best day of his life was the day he looked across the farm and saw his grandpa on one tractor and his son on another, all three generations on the same quarter on the same day. That is what we look for in agriculture, is how to make that possible for another generation of farmers to work side by side with moms and dads and grandparents. And therefore the farm bill becomes very important as a tool to provide a safety net to those farmers.

Good farm policy that provides financial security in tough times is what is essential. That brings me back to why we are here today. We are here to learn from those who have walked the path before us. Cabinet members are responsible for implementing the programs that Congress creates, and we anticipate hearing a distinct perspective about future of farm policy based upon decisions that they have implemented from past congressional decisions.

Since many programs operated today are based on past programs or a result of changes or problems with former programs, we look forward to our panel shedding some light on the circumstances that have molded our current farm policy.

As we move into the next farm bill, factors such as budget constraints, farm economy, trade agreements, are going to influence how the bill will be written. The climate is much different than it was when we wrote the farm bill in 2002. Back then, the Nation was coming off its first budget surplus in decades. Today, that is different. In my opinion, we need to make sure we have the adequate resources before we begin the debate on the farm bail.

The outcome of the Doha negotiations is even more uncertain now with the talks on hold, but that clearly will play a role as we draft a farm bill client that is compliant with WTO rules. I do think it is important to note that the farm bill will be drafted by members of this committee and our Senate counterparts and I doubt that the 149 trade ministers will determine what farm policy is in the United States.

It is very much an honor for us to have you three here with us today, and we invited all former Secretaries of Agriculture, and these three were kind enough to accept our invitation, and we are delighted. We appreciate that they would take the time. And I have read your testimony. Not only did you take the time to be here, but you took significant time to prepare that testimony, and I am very grateful for that.

I now turn to my friend and colleague from North Carolina, Mr. Etheridge, the ranking member of our subcommittee.

**OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA**

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Let me thank each of you for being here today. The chairman has already said this is a historic today, but more important, it is a great day for America and American farmers and the consumers to have three distinguished leaders in agriculture because your knowledge and experience from having developed over three farm bills, and, Mr. Glickman, in your situation, having helped write a bunch of them as a Member of this Congress is especially important to us.

I know my colleagues on the subcommittee will welcome your opinions and your testimony as we look to future farm policies, and I know you have written testimony, and I appreciate that. I hope you will expound just a little on it as it relates to energy because even though it is not a part of written testimony, it is a critical part of farm policy, and it is going to have to be in the future if we are going to keep people on the farm because this year a lot of farmers may fold up their tent because of the spike in energy costs this year. So thank you for being here. Look forward to your testimony. This is a special day for us. Thank you. And I yield back.

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

We will turn our attention first to Secretary Block. Mr. Block was Secretary of Agriculture from 1981 to 1985, serving in the administration of President Ronald Reagan. Before that, you served as director of agriculture of Illinois from 1977 to 1981. More recently, Secretary Block was president and CEO of the Food Distributors International from 1986 to 2003. He is now a senior policy advisor at Olsson, Frank and Weeda. Welcome, Secretary Block. We welcome your testimony.

**STATEMENT OF HON. JOHN R. BLOCK, SENIOR POLICY ADVISOR, OLSSON, FRANK AND WEEDA, P.C.; SECRETARY OF AGRICULTURE, 1981–86**

Mr. BLOCK. Thank you very much, Chairman Moran, Ranking Member Etheridge and members of the subcommittee. Thank you for the invitation to testify here today.

The first farm bill that I had the pleasure of working on as Secretary of Agriculture was in 1981, 25 years ago. Then we wrote another farm bill in 1985 when I was Secretary of Agriculture.

As is the case today, there were many outside factors influencing the shape of those farm bills and if the vote—I might add this—on H.R. 503, the horse slaughter bill, is any indication of what is ahead for agriculture as you try to work on policies and legislation, I think we have got our work cut out for us because that was kind of a steam roller over what the committee did, and I just hope we can stand our ground in the future and build the coalitions we need.

When considering the changes that need to be made in the upcoming reauthorization of the farm bill, policymakers should keep in mind farm program reform is an evolutionary process, not revolutionary. That has been my experience through these 25 years.

Sweeping reforms should not be made all at once, but well thought out, meaningful reform can be made through cooperation and shared motivation to bring things for all sectors of United States agriculture. The agriculture environment shaping the farm bill reform today includes global trade, nutrition, energy, conservation and the budget deficit.

Global trade. First of all, as a Nation, we export approximately 30 percent of the agricultural goods we produce. This fact alone reminds us that we need to be thinking globally when we write the farm bill. The WTO has ruled that changes need to be made in the current farm bill to obtain compliance, and therefore, to avoid further WTO challenges, reform needs to be taken.

No matter what the WTO situation is, however, I don't believe a 1- or 2-year extension is in the best interest of American agriculture. We need to take care of our own business, and in the case there is a new WTO agreement written next year, whenever, we can make necessary adjustments then.

Nutrition. Nutrition programs in both domestic and foreign aid play an essential role in maintaining a strong and healthy United States while also promoting the U.S. and helping those in need all around the world. Food nutrition aid lays the groundwork for a stronger, healthier, more educated domestic population, and our foreign nutrition programs work towards turning underdeveloped nations into future export markets. Agricultural commodities provide nutritious food to our school children and provide emergency foods to those devastated by disasters.

I might say that bags of grain shipped to Africa, and we saw it during the tsunami in Asia, those bags are labeled, "gifts of the United States." they do a lot to build U.S. good will around the world. The nutrition budget is more than one-half of the USDA budget, so it is big, and it is important.

Energy. The agricultural community has always been on the forefront of innovation. We find ourselves there again to assist the country in solving our energy crisis. The increasing need for the use of our agricultural industry as a producer of energy is evident to everyone. Dependence on foreign sources of energy is detrimental to our Nation's security and economic well-being. As much support as possible should be given to this aspect of the farm bill. Further support of renewable fuel research and development will garner strong support from both the American farmer and the American taxpayer. Renewable energy is a very high national priority.

Conservation. I am an avid fan of conservation. The Conservation Reserve Program was written when I was Secretary of Agriculture in 1985, and that has been improved upon in subsequent farm bills. Thank you to some of my colleagues that are here today. That original conservation reserve program was announced on Senator Dick Luger's farm in Indiana in 1985, and later on, we worked with the Congress and got it passed, and Ronald Reagan signed it, and I am proud of it.

We need to conserve and preserve the environment and our national resources. Conservation programs not only help farmers, but these programs also benefit Americans as a whole.

Budget deficit. Current budget constraints will most assuredly affect the size of the pie available for the farm bill. The budget situation and the smaller size of the pie will force us to evaluate the merits of each program and set priorities; we are going to have to set priorities. It is a challenging task; however, we can find ways to reshape these programs to deliver more significant benefits in areas where needed.

The budget deficit will not allow us to spend as much on farm support as in the past. Also there are other areas that either need a slightly larger piece of the pie than they have received in the past such, as specialty crop producers, research and rural development. Some of them need continued support with some reform. I think crop insurance is important, but I think it needs to be looked at to make sure it works better.

I am not a great fan of disaster assistance every year. And every year, I know it is high priority in a lot of States and a lot of places, but I think we should find a way to rely on crop insurance some way and have an insurance program instead of having disaster assistance almost annually.

Summary. As I mentioned earlier, it is important to approach the reauthorization of the farm bill with a mindset that is inconclusive of all interests. Gradual change in farm program support to adjust to changing circumstances is good. Abrupt change is risky. I remember the 1980's when farm land prices collapsed by 50 or 60 percent and it was an absolute disaster. We lost farmers, lost farm banks and it hurt the rural communities. We have got to be careful we don't do something like that.

I still believe that a safety net is needed to maintain a healthy and vibrant farm economy. It is necessary to recognize that the United States has the largest, safest, most secure food supply in the world. Americans spend less than 10 percent of their paycheck on food, the lowest percentage of any developed Nation in the world. I want to add, spending such a small percentage on food frees up billions of dollars of take-home money to drive the rest of the economy, where people have all this money that they didn't spend on food to buy whatever. It may be a plasma TV. Might be sneakers. It might be books for the kids. It can be anything. They have got the money because they didn't have to spend it on food. This is a major consideration of agriculture in our industry which should garner the Nation's support. Thank you, Mr. Chairman.

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

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

Our next witness is Ambassador Clayton Yeutter. He was Secretary of Agriculture from 1989 to 1991, serving the administration of George H. W. Bush. Prior to that, he served as U.S. Trade Representative from 1985 to 1988. He was also president and CEO of the Chicago Mercantile Exchange from 1978 to 1985, and he is now senior policy advisor at Hogan and Hartson, LLP. Thank you for your testimony.

**STATEMENT OF HON. CLAYTON YEUTTER, SENIOR ADVISOR, HOGAN & HARTSON LLP; SECRETARY OF AGRICULTURE, 1989–1991; U.S. TRADE REPRESENTATIVE, 1985–88**

Mr. YEUTTER. Thank you, Mr. Chairman.

It is great to be here. It is especially nice to see my fellow Nebraskan, Congressman Osborne, here as well.

It seems to me that one of the things we ought to look at and the subcommittee should look at as you approach this task in the coming months are the fundamental objectives that we have for farm policy here in the United States. I believe most of us can agree in a bipartisan fashion on many of those. I have listed seven in my testimony. I will quickly reiterate those here. It is not intended to be an all inconclusive list.

My basic point for doing so is that as popular as the 2002 farm bill has been, and justifiably so, it still seems to me that there is room for improvement. I believe we can do a better job in meeting a whole host of these objectives, perhaps all of them, as you redesign farm legislation in an evolutionary way, not a revolutionary way.

Here is my list: Making it equitable, meaning equitable among farmers and equitable among crops in ways that do not appear to be the case today; making it more efficient than it is today, particularly less costly from an administrative standpoint; making it more transparent than it is today because taxpayers deserve that, farmers themselves deserve that; making it is more comprehensive than it is today. We have a very complex farm program that is difficult for everyone to understand including Members of Congress and farmers themselves. Making sure that it is WTO compliant, that is trying to make it less trade distorting as we move into the future. Making it so it will foster, rather than diminish, our international competitiveness. Today we capitalize some of benefits of this program in land values, and that has its up side, but it also has its down side. Finally, making it responsive to a lot of the 21st century challenges and opportunities in energy, environment and conservation, industrial uses of farm products, infrastructure and a number of other things.

As we sit here today, the Ohio River looks like the Washington, DC Beltway with barges and tow boats lined up attempting to get through. That is not the way to operate an efficient infrastructure for American agriculture.

Now, then, moving on from there to the 2007 situation specifically, it seems to me that this subcommittee will have at least three major drivers of legislation in the coming months. In the past, it has essentially been one driver, the traditional safety net, our commodity programs. Those will still be there as a driver. But I believe there will be at least two more, perhaps of equal importance this time around for the very first time ever in the history of farm legislation. One of those is energy generation or renewable fuels, however you want to denominate that category. The American public, in my view, is totally fed up with our dependence on crude oil imports from nations that are often unfriendly to the U.S., unstable and sometimes downright hostile. I believe the American people are prepared to pay the price to change that, and unless we are willing to open up a lot more for offshore drilling, drilling in Alaska or nuclear energy than we appear to be willing to do so today, that leaves renewable fuels as the only viable option to respond to this challenge.

I believe this subcommittee ought to take up that challenge, ought to make a major investment in the whole renewable fuels area in American agriculture, and I believe all of America will thank you if you do that. To me that is going to be one of the significant drivers of your legislation going into 2007.

The second one, which Jack alluded to already, is the environmental compliance arena. We should do a lot more there than we do today, for we have environmental programs today where the sign-up is several times more than the money allotted to those programs. But we ought to do more. We ought to have an environmental plan that applies to every farm in the United States of America, and we ought to be providing carrots rather than sticks in the environmental arena—rewarding farmers for environmental performance, raising the bar over time and continuing to reward farmers as they meet that raised bar. Not only will that be a wonderful commitment to make to future generations in America, including future farmers, but it will also be green box in terms of the WTO, and the committee and the United States as a whole can buy a whole lot of additional WTO flexibility in this farm program if you move more heavily into the environmental conservation arena.

Finally, the third driver is of course the basic or traditional safety net. The point I would make here is that if we do what I believe that we should do and must do in these first two drivers, that is going to call for some adjustments in our traditional safety net unless you folks can find a lot more money to move into rural America from taxpayer resources. If that is the case, if we need to get more bang for the buck out of our traditional safety net, then we have to look for ways to do so. I believe, Mr. Chairman, that is achievable.

I listened yesterday to a 2-hour presentation by Professor Zulauf of Ohio State on an income assurance program. He will be appearing before you in a few days. I hope you will listen carefully to that. Professor Babcock at Iowa State has done similar work that has been tried on farms in Iowa and Illinois. That one approaches the issue from a little different standpoint. But my personal view is that those offer very interesting possibilities to redesign our traditional safety net in such a way that we can provide adequate risk protection to American agriculture at considerably less cost than we do today—and thereby be able to do what I have been talking about in the energy generation and environmental compliance areas as well.

In conclusion, I would simply say that the challenge of this subcommittee, the committee as a whole and the Congress will be to look at those three major drivers, energy generation, environmental conservation and the traditional safety net, and try to combine them into a package that makes sense. If and when we do that, then it seems to me we are not likely to have a problem in the

WTO. If we do that properly, we are going to be WTO compliant even under existing WTO rules. And if we believe we have a justifiable package from a global standpoint then we can take it to the WTO and sell that package in terms of making any additional adjustments that are necessary in WTO subsidy classifications to satisfy this particular situation.

We need not be intimidated by the WTO. We need to do our job, do our job well and then make sure that what we produce is viable from a WTO standpoint. I believe, Mr. Chairman, that is achievable. Thank you.

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

Mr. MORAN. Thank you, Mr. Ambassador.

Finally, Secretary Dan Glickman. Secretary Glickman served from 1995 to 2001, serving in the administration of President Bill Clinton. Before that, he served as a distinguished Member of Congress from the fourth district of Kansas from 1976 to 1994. And during that time, he served on our own House Agriculture Committee from 1977 through 1992 and chaired what was then called the Subcommittee on Wheat, Soybeans and Feed Grains which subsequently became this Subcommittee on General Farm Commodities and Risk Management. He is now the president and chief executive officer of the Motion Picture Association of America.

Mr. Secretary, it is a particular pleasure for me as a Kansan to welcome you to our subcommittee.

**STATEMENT OF HON. DAN GLICKMAN, PRESIDENT AND CHIEF EXECUTIVE OFFIER, MOTION PICTURE ASSOCIATION OF AMERICA, SECRETARY OF AGRICULTURE, 1995–2001; MEMBER OF CONGRESS, 1977–94**

Mr. GLICKMAN. I am honored to be here. I am looking up at the panel, and I see a lot of my old friends: Earl Pomeroy, whom I served with; I think Frank Lucas and I served with one term; and I have been to Bob Etheridge's district on several occasions. It is just a great joy of coming back home and being with you, a good friend and a great Congressman. The only thing I resent is Pat Robert is looking down on me. He is the closest guy to me. He never leaves. He is always there.

Mr. MORAN. Believe me, I have the same feeling.

Mr. GLICKMAN. I would also just say, being on the panel with my two colleagues, I remember during the years of President Reagan and the first President Bush, I was sitting up there on the panels, and I used to give these guys a heck of a lot of trouble. I am reminded, you all heard the story when Mark Twain said, when I was 14, I couldn't believe how stupid my father was, but when I turned 21, how much he had matured in 7 years. I just want to say, after all these years, I want to look at these guys and say how much they matured in all those years, but I apologize for any grief that I gave them over the years. I know what it was like.

The one thing I want to start out just echoing my colleagues is, I would urge you to start with the presumption that you will not extend the current farm bill. Let me tell you why; there are a couple of reasons. One is the problems that both Clayton and Jack talked about, the issues that are so important. farm bills are going to be written in Congress. I served in both places, and administrations like to have the ball and run with it, but the truth of the matter is that farm legislation is largely in the congressional prerogative and should be. The more you defer decisions, the more you hold off on making judgments, the more likely other people will come in and take the legislative ball away from you. It will be either outside forces or administrations.

I am a firm believer, I have been in the executive branch, which is the article II branch, and I have been in the article I branch, and I think the Founding Fathers were pretty smart when they made article I the Congress. They felt maybe all branches were equal, one slightly more equal than others, and that is this branch.

So when it comes to farm legislation, assert your authority, because if you don't, I think your relevance will be challenged both here and around the country. That is a philosophical perspective I would argue from a nonpartisan point of view, and I also believe that one of the opportunities you have is, this committee tends to be the least partisan committee in the Congress, and you tend to opt collaboratively, and it often is more regional than ideological. But take advantage of the opportunity to assert yourself and to lead on some of these issues.

It is almost as if all of our testimony were written along the same lines, but I would talk about what I call my issues, kind of the 5 *R's*. The first *R* is, resources to make sure that we protect our land base which is being challenged by urban sprawl and development and climate change and creeping environmental problems. So, for now, almost five farm bills we have tried to focus resources on the issue of farm land protection, land preservation. And I would encourage you to maintain that commitment in those areas.

I would only offer the comment on energy, there is no question that the impact of energy will be profound on the agriculture sector both in terms of input costs as well as great opportunities to participate in the development of energy for the transportation business primarily. And that is a welcome change, but I urge you to consider, when gas tanks begin competing for corn as earnestly as the feed mills upon which our multibillion dollar animal agriculture system depends, the equation takes on a vastly different perspective.

Animal agriculture is very dependent right now on the market for feed grains based on the current economic model, and so you can see the enormous competition that that would have, particularly since animal agriculture is responsible for one-half of the proceeds of American agriculture. So this is a fundamental issue.

And as you look at the energy issue as well, we don't want to get in a situation where we have market forces propelling agriculture and energy moving ahead, and it could potentially compete with the fundamental need for food security. I think this is a big challenge that you all have, is to deal with this rapidly growing energy issue and how it competes with both animal agriculture and food for human consumption out there. I think it is manageable, but it is a complex issue that ought to be at the top of your agenda.

The second issue of course is research. When I got to USDA, I did not fully understand this massive, complex research department within the Department of Agriculture. Some of the—most discoveries in not only traditional agriculture and human health have been done at USDA laboratories, and it has yielded tremendous results. That investment has to do with the fact that a very small minority of Americans produce the most abundant, most affordable safe supply in human history. I mention this because the research part of the budget is one that I think is in need of constant review. Most people don't know anything about it except they hear about the examples that the press, politicians and others cite in criticizing pork barrel spending. That is when the research budget begins to get a lot of attention.

And so I would say look at the research budget, look at the fact that maybe not every agricultural school and wheat-growing State needs a multimillion dollar research program on drop resistant dwarf strains of Spring wheat. While competition, particularly competition in science and research is beneficial, not every State agricultural college in the country needs a program on new and innovative uses of agricultural products that automatically replicate each other.

I am not so naive to believe that the political necessity is there for some of these programs, but we have an agricultural research system that is second to none, and it is so critical in protecting animal, crop and human health in the future, and I don't want to see the system in danger of collapsing under its own weight in terms of the internal politics within agriculture as well as the external politics out there, so I urge you to give that your full consideration. Review the entire research operation as you review this farm bill.

The third thing has to do—the third *R* is riches. Five years ago, understandably, the farm bill was about national security. At other times, the farm bill has been about our competitiveness in the global economy, preserving a rural way of life, a culture, an ethic. I don't know exactly what the purpose of the next farm bill is except obviously to keep a strong rural infrastructure on the land and to have food out there at reasonable prices for people both at home and around the world.

There is no question what farm bills do. They redistribute income from the nonfarming sector to the farming sector, and they transfer lots and lots of money and a lot of good is done in that process. Some of it is quite straight forward; direct payments to farmers. Some is more circular and indirect. The income is transferred in the matter in which the bills manipulate the levers of supply and demand. We know that that happens because I was an advocate of that in many cases when I was here.

I think that, given the size of the budget, I think that—and given the importance of the safety net, you ought to look at how those moneys are transferred. I was in the minority when I was in the Congress on this, but I remain amazed that all of all the Federal assistance and income transfer programs or the assistance we offer through tax incentives, farm programs, basic commodity programs remain largely immune to any needs-based test. I know we apply payment limits. We also know how cleverly they can be evaded. Not only do I have substantive problems with the lack of meaningful means to test into these programs, I am concerned at the political and public black eye that they can give these programs. This is not to mean that we should spend less money on agriculture. The amount we spend is small compared to total Federal budget. It just means there are an awful lot of farmers out there who do not participate in the programs, whether they produce certain types of commodities or whether they are not of the scale to get much of the benefits. I urge you to examine this as well.

Finally, I want to talk a little bit about hunger and malnutrition. I often told audiences when I first joined the committee and then again when I became Secretary that one of my main qualifications for both was that I liked to eat. And as you can see, it hasn't changed. I still do.

One of the most satisfying things that I took up both here on the committee and in the department was fighting hunger in a bipartisan way. That was a tremendous issue where we would bring people together, and working on the food stamp legislation, nutrition and education, expanding the school breakfast program, the McGovern-Dole international food-for-education program, all these things need full funding. I am not proud that, in spite of the millions or the billions and the dedication of hundreds of thousands of people, this problem still afflicts us, whether it is in Darfur, Detroit or even, Mr. Chairman, Dodge City, hunger stares us in the face in this world.

As you write your next farm bill and as you naturally focus your attention on those who produce our food, I hope that you remember this part of the budget is so critical to the whole component of American agriculture. Just yesterday I noticed that the Gates Foundation and the Rockefeller Foundation announced for the first time they were going to devote resources into agriculture and hunger and nutrition.

It always struck me we spend all this money on AIDS prevention in Africa to provide antiretroviral drugs to needy people, but we never provided the food assistance to make sure their immune system was good enough to make sure the drugs might actually work on them. Growing up it was always when you take your medicine, take it with food. And I am glad to see that at least the outside world is beginning to recognize this.

I think this committee can have a great role in making sure that our domestic and international hunger and feeding programs are a big part of this effort.

So, in closing, let me say this, nobody I think in Congress has a more important job than you do, and all my years in public life, this was still the thing I am most proud of, is serving in this Congress and on this committee where we actually made a difference for an awful lot of people. Thank you.

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

Mr. MORAN. Thank you, Secretary Glickman. I have been making notes for questions and the list keeps getting longer and longer. Let me start with, first, there is a rural development title to the farm bill, but, clearly, the commodity title to the farm bill is about rural development, whether or not communities in Kansas and across the country have a future in large part is determined by whether or not farmers are earning a living. Despite the amount of money that we put into the commodity title, rural America continues to suffer.

What do you see the relationship being between farm programs and how we develop rural America? How do we tie this together so the ultimate outcome is prosperity on the farm, but people who shop on our streets, kids in the schools and classrooms, what role does the farm bill play in that rural development, community development and family life?

Secretary Block.

Mr. BLOCK. Thank you very much, Mr. Chairman. I don't have all the answers to this, but I am firmly convinced that a vibrant, successful agricultural industry is out there, whether it is raising wheat and corn and vegetables or whatever, cattle, it does provide a lot of economic vitality to the regions in which it occurs.

I would concede that we have seen over the last 20, 30, 40, 50 years some small towns that have shrunk. They have died even. I don't think that is because we haven't had the kind of support in agriculture; I think it is mostly driven by the fact that we have such fast cars and transportation. I mean, they will just go another 10 miles or 15 to go to the stores that they want to go to.

I think farm programs generally have helped rural America. I have been disappointed over the years when I have seen that we have lost farmers. You have got farm programs, and they don't keep everybody on the land. But the reality is, they are not going to keep everybody on the land. Our agriculture has to change, as it has, and we have got bigger farms, and some people are critical of that, but the fact is these bigger farms, at least a certain level of size, provides a deficiency in agriculture so we can compete effectively in the global marketplace.

So the fact we have allowed our farms to change, we have had farm programs that generally help farmers, I think, and help rural development and rural America, I think it has worked pretty well. We have talked about the value of food here and that we have reasonably priced food.

The energy issue, just a word on that, if indeed we are starting and will be building ethanol plants, biodiesel operations, especially ethanol plants, and you can't ship the ethanol by—and you have got to keep the ethanol close to where the feedstock is, I think that can add a lot of—invigorate rate rural America too because some States are planning six or seven or whatever they are. Some thoughts on that subject, Mr. Chairman.

Mr. MORAN. Thank you.

Ambassador Yeutter.

Mr. YEUTTER. First of all, on research, I assume that what Secretary Block was talking about in all those research programs is he would like them all to go to Kansas State, Mr. Chairman. I hope you save a little money for the University of Nebraska, too.

Back to rural development, Secretary Block is right; if you have a healthy agriculture economy, that is probably the best rural development exercise of all, but in my judgment, it should not be the only rural development exercise we have. I believe you ought to have a rural development title in the 2007 farm bill, and you want to look at specifically what ought to be included therein. You will certainly get some thoughts from Tom Dorr at USDA in that regard, but from my standpoint, it seems to me that somehow, either in the farm bill or separate therefrom or a combination of the two, we have got to make some more infrastructure investments out in rural America. And by infrastructure I mean both hard and soft. Hard infrastructure, meaning roads or whatever that follows, including the locks and dam situation that I just talked about a little bit earlier. We need to have an efficient system in moving product from farm to market wherever it is in the world.

What has been happening, Mr. Chairman, is the rest of the world has been upgrading their rural infrastructure, making it new; whereas we are depreciating ours. We haven't done much with a lot of our hard infrastructure in rural America for many, many years, and the Brazilians are leap-frogging us. One of these days, we are going to wake up and discover they can get product from farm to market more efficiently than we can.

And then I add soft infrastructure to that, too. This is a high-tech economy today. Rural America has to be high tech along with everybody else. If we can do some things to enhance the technological capabilities of rural America, that will be a boost to everybody, not just to farmers.

Mr. GLICKMAN. I just say I agree totally with what Clayton talked about in terms of telecommunications and infrastructure, and those resources need to be significantly augmented. I think that will be helpful.

There are some positive trends, actually. Agriculture is getting more diverse. Specialty crop agriculture is no longer just a province of California and Florida. It is nationwide. It is big money. Restaurants are now sourcing their food based upon what is going to be grown near where the restaurants are all over this country.

So I think one thing the farm bill could do on the commodities side is to encourage diversity so we don't have as much mono crop agriculture as we have had. A lot of our programs have been focused on specific crops. We have got to realize that the way people eat is different than the way people grow. And so I think that is one thing that we need to look at.

I am concerned about the trends toward consolidation in agriculture which I think has affected population patterns, but, unfortunately, there is nothing magic. I wish we can turn that around. It just isn't going to happen. It is hard work.

I think that if you look at your commodity programs to make sure they are flexible enough, and we have moved in that direction actually over the last several years, but I think we can move a lot more to kind of meet the consumption patterns in society rather than just look at the production patterns only and combine that with the energy explosion that is going to happen and investments in infrastructure, I think it will do a lot of good.

Mr. MORAN. Thank you all very much.

The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Ambassador Yeutter, in your testimony, you say that the energy driver will need an array of substances, and currently we have programs that reimburse ethanol and biodiesel producers for expanding production capacity, and we provide grants and loans and guarantees, et cetera, for the development and construction of those.

Would you just share with us some other incentives that you think we might ought to consider in that process?

Mr. YEUTTER. Certainly. I think you need to really look at the whole energy generation picture, not just ethanol and biodiesel but everything in rural America that we can do that might be economically feasible in energy generation, wind power being an example of that. We haven't done a whole lot with wind power here in recent years, but interest is beginning to perk up and technology is advancing the efficiencies of wind power and overcoming some of the negatives that it has had. So we want to look at that.

Likewise, in all of these areas, whether we are talking about ethanol, biodiesel, wind or anything, we really need another, an additional research component that is very significant. This is the point that Secretary Glickman was making, converting biomass into energy. We have to find more efficient ways of doing this. We can't just do corn alone. Corn is the short-term answer in ethanol generation, but a longer-term answer is having a whole lot of other things that we can convert to ethanol or whatever the fuels may be. That is going to take some research. It just won't happen overnight. I think it is an area in which we really ought to make some investments.

Mr. ETHERIDGE. Thank you.

Secretary Glickman, in that process we have seen our agriculture resource dollars stagnate over the past several years and really expect it to get a whole lot better in light of what was just said. Is there a public-private partnership model that might be something we can pay attention to if the public dollars aren't there, because I happen to agree that is sort of the seed corn of our growth opportunity in this country.

Mr. GLICKMAN. Again, I mentioned the Gates-Rockefeller effort recently. There is a huge wealth in society, I don't have to tell you, you read about it all the time, and more and more of the wealthier are deciding it is in their interest to be charitable. I suggest the government really needs to engage in more collaborative relationships with very large foundations and people who are experienced in giving money away and trying to see if you can dovetail your efforts in that area.

There are no magic answers because the research budget, it is not adequate right now to deal with the challenges that Clayton and Secretary Block talked about without finding more resources.

Mr. ETHERIDGE. I couldn't agree more. Let me ask you all three to briefly talk about this. There are several proposals, one of which Congressman Peterson and a number of us have put forth to have a permanent disaster program similar to what we have done with FEMA and others, because we know in this country we are going to have tornados, hurricanes, floods, problems that affect agriculture just regionally, and in those areas, it is catastrophic. Today, with the size of operations, you can put farmers out permanently who have been there for generations.

My question is, if you would share briefly your thoughts on Congress doing something like this and the most responsible approach we can take to assist those people because today with less than 3 percent in agriculture, all we need is for a few more to keep getting out and none getting in. We have got a huge problem.

Whoever wants to start first.

Mr. YEUTTER. If I may, I will make one additional comment on your last question, and that is, on the public-private partnership issue, one of the problems if you start doing that with firms of any size is that you get challenged about having a corporate welfare program.

I guess my view of that is that we really ought to say the heck with the criticism. We are dealing with a major problem in this country, and under these circumstances, I just wouldn't be concerned about corporate welfare. If you have got major companies in the agribusiness arena as an example who are willing to put up a substantial sum of money for research into these areas and you can match some of that money with some Federal resources to get them to do some things where they might not otherwise make the investment, it seems to me that is a good thing to do, and we should tell the critics of corporate welfare to stay home.

On this issue on disaster programs, the reason I wanted to start this was it seems to me that there is an area where the revenue assurance program that Dr. Zulauf and others have been working on has some applicability because that will—those programs are designed in such a way to cover both price and yield risk, which is a lot of what is involved in these disaster programs. Today we cover these needs, but we do it in really an inefficient way because we give farmers the traditional commodity programs, and then we stack crop insurance on that and stack disaster legislation on top of that. That is just not a very good way to deliver help if you will. We ought to be able to do better for farmers and for taxpayers.

The advantage of the Zulauf approach, which you will hear more about in a few days, is that, fundamentally, it can do all of that in one package rather than three. So it seems to me we do have to deal with the problem. You are right, disasters are going to be around for a long time, and having Congress put in a position where you have got to keep doing one disaster bill after another doesn't make any sense at all. We need to have a vastly improved delivery mechanism for responding to that program, and I believe there are some creative ideas out there now that deserve the careful examination of the subcommittee.

Mr. MORAN. Mr. Block.

Mr. BLOCK. Just a word on that whole question because I had said when I spoke earlier that I have got some real doubts about always going back for more disaster aid. It is, every year, it is always something. I think Clayton makes a very good point here. Somehow you have to look this over and get kind of a comprehensive plan of how crop insurance fits in; where does disaster fit into this thing, that they are not duplicative. Anyway, I think that it has got to be taken a look at so that we don't just double up on this stuff from year to year.

The issue of income assurance, I know the Illinois Farm Bureau is promoting income assurance as a way to deal with this, and it has gotten quite a bit of discussion. I am still a doubter on it. I have got to understand it better and see how it might work. I am not so sure that it has a chance of being equitable over the years, how you get it started and keep it working. It is something the committee can look at. It is going to be in your hands.

Mr. GLICKMAN. I generally agree with Clayton. I think there are great opportunities here. I will tell you, even with examples of waste and fraud and abuse in farm disaster programs, when you look at what happened with Katrina, you really understand that USDA by and large does an exemplary job of managing disaster programs both from the crop side and from the human and nutrition side.

I mean, yes, there are wasted moneys there on occasion. Yes, it is difficult to deal with the regional differences because a disaster in North Dakota is different because they have them all the time, every year. So history is not necessarily your friend when that happens in terms of this stuff.

But as much as it is a pain to administer and as difficult as it is from a public relations perspective, this is actually a better example of how the Government handles catastrophes than we certainly saw last year in the hurricane disaster.

Mr. ETHERIDGE. I yield back.

Mr. MORAN. I would ask unanimous consent the gentleman from Nebraska, Mr. Osborne, be allowed to join us on the dais and he be allowed to ask questions. No objection.

The Chair recognizes the gentleman from Nebraska.

Mr. OSBORNE. Thank you. You didn't give the objectors much time to speak, and I appreciate that.

Mr. MORAN. I was worried, Mr. Osborne.

Mr. OSBORNE. Thank you for your invitation, Mr. Chairman.

Thank you for being here today. Nice to see Ambassador Yeutter here. I appreciate your comments, Mr. Yeutter, on revenue assurance because this is something that I have been thinking about since the last farm bill. I was a newcomer, and everything was already on a pretty fast track, but the thing that I continually run into as I talk to farmers is a concern about the fact that, well, I grew alfalfa, and that is not a program crop, and wheat probably is under valued. So it does appear there is an opportunity here to, say, you have got 500 acres and you farm it how you see fit; and then if over a 5-year average, you are way below in a given year, then we give you some assistance.

The concern I have is the amount of money because you are going to have fruits and vegetables saying we ought to be included; alfalfa, other people. And so that would be a concern I have. But I do appreciate that.

Right now many of us on this dais are faced with a really serious drought problem, and it is really hard to figure out what to do especially in the livestock area because they have no insurance at all. Now we have gone through 6, 7 years of drought and the amount of insurance you can purchase goes down each year because it is based on yield. So the multiyear drought problem is a real issue. Revenue insurance might be helpful in that regard, too, but even then multiyear becomes a problem.

So, anyway, those are just some comments I had. One of the things I also have noticed is that all of us are really concerned about rural economic development because we are seeing rural areas depopulate, young people leave, not enough innovative approaches. And it seems that as we put money in the rural development title, that has the least lobbying strength. You have corn growers, wheat growers, they come in and fight for their commodity. Nobody comes in and fights for value-added agriculture. And we often see the research dollars raided when it comes to appropriations. And I don't know how you protect it. But this is probably the life blood of agriculture, really, is more innovation in agriculture. And so I think we have to keep that in there.

Anyway, I appreciate your comments, and I just wondered if all of you see some promise. I know Secretary Block wasn't too excited about revenue assurance. I think maybe Secretary Glickman and Ambassador Yeutter see some promise here, and I am hopeful that can be done in a way that would be WTO compliant. It is probably more so than our current, bill but we still probably have some concerns there. Any thoughts you have on that, I appreciate.

The last thing I will mention, really more of a question, is the issue of energy. You have always mentioned we should have energy in the bill and that there may be competition between the livestock industry and the biofuels industry. I can see that coming. Anybody have an idea as to how you specifically structure that to avert that competition that will be coming? So I guess my question would be in regard to energy.

Mr. GLICKMAN. I think Clayton referred to this, I think cellulosic conversion, non-food product conversion is one of the things that our research folks really have to be focusing on. I suspect there is more opportunity for long-term fuels from rural America from non-food crops or from the non-food part of food crops, and we really need to be looking at that, because this conflict could happen in the next 2 or 3 years. Yes, I would love to see $5 or $6 corn, but it will wipe out big parts of the livestock sector or cause massive consolidation to take place.

So we are going to have to deal with that issue.

Mr. YEUTTER. Thanks, Congressman Osborne. As many Members know, my farm operations in Nebraska are in Congressman Osborne's district so that is home territory for both of us.

With respect to the competition between the cattle industry or the livestock industry and ethanol, that certainly can be an issue, at least in the short run. I don't believe it will be in the longer run because, in my view, we will find ways to use cellulosic products in a lot of other things to convert to energy. We can discover those answers here. We may have a bit of an adjustment period but seems to me we can kind of manage that process as it moves forward in a number of different ways. I think we can handle it as we move forward and I hope that is the case.

With respect to revenue assurance, I think it is appropriate to be skeptical about any of these new programs. Obviously farmers are going to adopt a show-me attitude, and they should. But as you indicated, Congressman Osborne, one of the benefits of these programs if they are properly designed is they give farmers a whole lot more flexibility. They can cover a number of these risks and issues in ways that are not covered in a satisfactory manner today and in many respects expect they give farmers more freedom and flexibility in their operations than the existing programs do while still in my judgment having the potential of providing a very adequate safety net.

You are going to want to look at these proposals, and they are probably going to need to be tweaked some. Maybe you won't like them at all. But I think they are really worth examining because there is no question they have some significant advantages over the present system.

This is going to cost more money if we bring in everything into the system including the livestock and poultry industries and the specialty crops. That will add expense, but at the same time will—there will be some very, very substantial savings in the way these programs operate as compared to our present system. So there are some interesting tradeoffs in what you will need to do and all the rest of us will need to do is look at the numbers in a pretty careful way.

Mr. MORAN. Thank you, Mr. Osborne.

The gentleman from Colorado, Mr. Salazar.

Mr. SALAZAR. Thank you, Mr. Chairman.

I think most of you know that I have been a farmer and rancher all my life, and I still live on the original family farmstead that my great-grandfather settled back in 1860. I had the opportunity to work when Secretary Block was in the administration and in the NRCS when I was a young and beginning farmer, and far too often I saw that the Federal Government involvement in the supply side economics of agriculture to me was probably the determining factor in looking at why young and beginning farmers aren't willing to get into agriculture, and our margins, bottom lines, are very slim.

Would you agree or disagree that maybe Government should be involved less in supply-side economics of agriculture, and they should be involved more in maybe helping in—with the production of renewable energies, such as ethanol and biodiesel? It took Brazil 10 years to become energy-independent. Do you think that the U.S. Government should be involved in maybe actually building ethanol plants and actually using Federal dollars for that and then turning it over to the private sector? I would like comment from each of you on that, please.

Mr. BLOCK. Thank you very much for your question.

I don't think the Federal Government needs to build ethanol plants. If you look out there right now, there is so much energy and enthusiasm, they are building them about as fast as we can ramp up the corn production, and at the same time we have got to do more research to figure out how to do it with other products, other than the food, the grain itself. So I think I would try to let the market work for the most part.

I have had some people say, well, maybe let's get rid of the Conservation Reserve Program so that land can be put into the production of crops because we need them for ethanol. I would let the market buy that land out of production there. I would let the market work, and I am not very concerned about—we raise a lot of hogs on my farm in Illinois. We raise about 12,000 hogs, but I am not concerned about if the price of corn goes up that everybody will quit raising hogs or feeding cattle. I mean, if it goes up too much, OK, things are going to change, but I think our market system in the United States has served us well, and I think we should for the most part let it work.

I have listened to all these comments on a lot of things, and now that I have got my microphone turned on, I have got one other point that I would make. To me, this Revenue Assurance Program, it depends on how it is structured and how well it could work for us. You have got a lot of other farm crops and producers of vegetables and fruits and on and on; all would like to have a piece of the farm budget pie. So you build this revenue assurance thing, and you put everybody under the umbrella.

I don't know if that is what we want to do. I mean, I would rather see us not make this new leap. At least I have got to be sold on that, that it is the right—that it is a wise thing to do. I tend to think it is better to take the programs we have, make some adjustments in them, give some more research money to fruits and vegetables and help them in some ways, but not get into this assurance thing for every farmer. That is the thought that I have.

Mr. GLICKMAN. You asked several great questions there. In 1996, this committee wrote the Freedom to Farm bill, which was supposed to be the end of Government micromanaging agriculture. The last 10 years has proven that it was an honest attempt, but the Government is still doing kind of the lever here and lever here and trying to deal with supply management and all those kinds of things.

I think that Government involvement in farm programs does stem the tide for people leaving agriculture, but doesn't do a lot to help new people getting into the business, and I think the programs protect the status quo. So it is—for example, I go about this thing, I know there is conflict with the specialty crop agriculture and traditional rural crop agriculture, but people don't eat that way. They have an apple with their bread, they have salad with their steak, and our programs aren't designed that way. They are designed so you only eat one thing basically in terms of how you produce it. And therefore, I think a lot of farmers, the programs don't encourage the innovation and creativity that we could see.

I wouldn't scrap the programs because of that. I would look to see if you could make them more flexible, and more entrepreneurial and focused the best way you can. But I know all of us dealt with this issue of new and beginning farmers and how to bring more people in and what we can do to augment the number of folks involved in agriculture, and I frankly think what you have done over the years has helped to stem that tide to some degree, but it has not been revolutionary what any of us have done.

Mr. YEUTTER. I will just add a couple of comments to that. One, I agree with what Secretary Block said on the ethanol plants. We don't really need the government building ethanol plants. There is an enormous amount of interest out there in this whole energy generation area. I think the government can have an appropriate role in maintaining that momentum and bringing about a successful response to the needs of this Nation on energy generation, but I believe it still can be a secondary role rather than a primary role, and I believe the market really ought to be the principle determinant of how rapidly all that unfolds.

With respect to how we really look at farm programs in the future, it seems to me that one of the things we need to do is look at it, as Dan suggests, in terms of really the impact on individual farmers and farm families instead of looking at it always in commodities. We look at what does it do to corn or what does it do to wheat or what does it do to sugar, and I agree with Dan, that is not the way agriculture works, and that is really not the way the programs ought to be designed. And I think that is one of the advantages of taking another look now to see if we are going to have a safety net; then let's see if we can't redesign it to make it a little more fitting for 21st century agriculture instead of 1930's agriculture. And I hope the subcommittee will demonstrate some creativity in that regard because I really believe that is something that needs to be done.

Mr. SALAZAR. Thank you all. Thank you all for your service. We do appreciate it. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Salazar.

The gentleman from Indiana Mr. Sodrel, whose district I visited and is a paradise.

Mr. SODREL. Thank you, Mr. Chairman.

I understand that a good attorney never asks a question unless he knows the answer in advance. I have the advantage or disadvantage of not only being a good attorney, but I am not an attorney. So I am going to ask you a question, and I have no clue on what you are going to tell me.

To follow up on what Mr. Salazar talked about, concentration on the supply side of agriculture. It occurs to me that the Federal Government and other local or lower subdivisions of government like State government, county government in some cases, burn a lot of fuel. I mean, DOD is flying airplanes every day, and they are training on tanks, and they are consuming fuel as are Government vehicles around here.

What would you think about the idea of going out in a marketplace with an RFP that says, we guarantee to buy from these successful proposers *X* number of gallons over a 10-year period with an inflation number predetermined, maybe is based on CPI items, or we have some inflationary number here, in order to give the investor, if you will, the assurance that the capital is not going to be wasted.

I mean, part of the problem we have today is, there are low-cost producers of crude. They can bring a barrel of crude to the market, $12.50, $15, something in that neighborhood. So we go out and invest in this technology that creates equivalent BTUs at $35, $45, and then somebody cuts your legs out from under you. If they had the assurance that they have a long-term contract with a stable price if we worked on the demand side of the equation, would that help both the ag community and our national security and economic policy? And I want to start from left to right. Mr. Block, if you want to begin.

Mr. BLOCK. OK. You didn't know the answer to the question, I am not sure I know the answer either. Conceivably it could be done. I mean, there is a lot of—but I think a lot of people that consume energy are not going to want to—they wouldn't do that. You are going to have to have the Government look out that far, and that is what you are suggesting.

How much production would that encourage? More than we would have anyway, I am not sure. But it would be something; it would be some plants that say, OK, we have got a guarantee, but I don't know. I think if you go out too far, it probably is not going to be acceptable if you go out too many years.

Mr. YEUTTER. Well, what I would add to that is that we have an international Government Procurement Code which is a U.S. signatory, and I suspect that would violate the Government Procurement Code. So you can do that with the long-term private sector contract, that is somebody in the private sector was the buyer, but if you had the Government being the buyer——

Mr. SODREL. Government would be the purchaser.

Mr. YEUTTER. If the Government was a purchaser, then it is probably a violation of the International Government Procurement Code. That is a code, by the way, where the U.S. has been the major proponent because we haven't wanted other governments to lock in the purchases of all kinds of things, thereby depriving American firms of having a chance to bid for some of that business. But we are a signatory to that code, too, so we would have to be very careful that we didn't violate the code. If so, we couldn't do it.

Mr. GLICKMAN. I guess two thoughts. One is I am old enough to have been in Congress in the 1970's when we voted for some of these ideas, when we talk about synthetic fuels, and I remember there was great effort we were going to build these massive coal gasification plants, and the Government was going to agree to buy a certain portion of production. It didn't get off the ground. The Government is not very good at doing that kind of thing.

I would just urge you to look back historically and kind of look at that debate. I also recall there was some discussion of taking our Strategic Petroleum Reserve and augmenting it to have a biofuels component of it where the government would buy a certain amount for emergency purposes, and that may have some possibilities.

Mr. SODREL. Thank you.

Mr. Chairman, I have no further questions. Yield back the balance of my time.

Mr. MORAN. Thank you very much.

And the Chair reluctantly recognizes the gentleman from North Dakota.

Mr. POMEROY. Oh, I am going to be on good behavior today, Mr. Chairman.

Mr. MORAN. I assume that is all day long.

Mr. POMEROY. Come on. Hearing Glickman's remorse about the treatment he made of people back when he sat back on the dais makes me chagrined, and I will be restrained.

First of all, let me just say it has been a fascinating panel. I followed the careers and the input each of you have had on farm policy for a long time, and I just think your insights at this point are really helpful to the committee.

Let me say a couple words about—in defense of the status quo, just to refresh our memory in terms of how, at least in my view, it all hangs together. I believe the goals of farm programs and crop insurance are fundamental risk management devices. Farmers have risks they cannot otherwise self-contain, production loss, price collapse. So between the combination of a farm program that offers a measure of kind of cyclical protection when prices collapse, crop insurance gives a measure of coverage for the run-of-the-mill loss exposure that a farmer has and disaster to basically help fill in what crop insurance does not do. It all provides the meaningful coverage.

Now, Secretary Glickman described these as basically income transfer from nonfarm to farm. I would beg to differ. I would say it is a bargain for exchange. In exchange for the risk management commitment that helped diversify production into the hands of family farmers, the United States gets the most abundant food and the highest-quality food and the lowest-priced food in the Western world, 16 percent of our gross national product. It is not as though we are just throwing money down the rat hole or something. This thing in the end has provided an evolving, but generally stable production environment.

As to disaster assistance, their risks are not uniformly assigned across this country. Some areas are higher risk. I remember a time when Congressman Ewing and I had an exchange in this committee as he questioned why do we have to have so much agriculture production in North Dakota with the vulnerabilities to the production cycle we have on precipitation and other things. Indeed, we lead the Nation in Spring wheat, canola, sunflower, sugar beets, rapidly increasing production of corn, soybeans. We make a vital contribution to our nation's agriculture production.

But the reality is we do have risk factors that are going to mean if you were an insurance company, you would view us as one of your higher-risk clients. Just a reality. It doesn't mean we shouldn't be in the business. It is just some risk we carry.

So that undergirds the present structure there, and because Secretary Glickman mentioned research, I want to say a word about land grant universities. I think they make a tremendous contribution. Their basis goes back nearly—over a century. In fact, the 1862 initial formulation and two other very significant acts, the most recent being about 80 years old, put together a commitment of Federal research dollars, diversified through the land grants, that allow land grants through formula funds to develop research in those crops and those agricultural opportunities unique to where those land grants are.

It is such a diverse, wonderful country we have that trying to do kind of a central approach in ag research is going to miss some local pockets of opportunity seen by these land grants, and stable funding versus competitive grant funding based on the research fad du jour has really allowed, I think, optimal development in this capacity.

So our present structure, not perfect. We evaluate it all the time. But it is not accidental either. And there have been some meaningful contributions, I believe, from it.

So where do we go from here? I am very interested, Secretary—Ambassador Yeutter, in what you said about——

Mr. YEUTTER. Either one is fine.

Mr. POMEROY. You have an interesting, important career. Energy and conservation. If indeed price support, especially at upper levels of price support, outside payment limitation is impossible to maintain in the next farm bill to the dimentions we presently do, how do we then get assured income streams to farmers in these other areas? I am very disappointed the Conservation Security Program, which might have provided a real test in terms of how well we can get these to work to get reliable income to farmers who have boarding land stewardship, has routinely been cannibalized so that, in my opinion, the potential promise of learning from that program has largely gone away because the funding has been stripped out all the time.

And on the energy piece, I am very interested about some notion of energy payment, how we structure something that provides an income, an income flow to the farmer. Now, if you get sufficient income flow to the farmer, although it is a less direct way of dealing with risk management than direct countercyclical when prices collapse, you still provide a revenue-assured stream that you can take to the banker.

So, Secretary Yeutter, do you have any thoughts on how we structure the energy—what we might do with this evolving opportunity for energy and agriculture?

I thank the Chair. I know my time has expired.

Mr. YEUTTER. That was an excellent exhibition, Congressman Pomeroy. You have really focused on a lot of the key issues here. And you are correct in asserting that under the present structure that we have, we basicically respond to all these fundamental objectives for U.S. agricultural policy that I just outlined.

We struggled in finding a way to do that in the way of, kind of jumbled things up from time to time, but over all this committee and the Congress have worked really hard at this job through the years, and in my judgment, they have overall done a pretty darn good job of it. I just think we can do better. And I also believe we have to do better, because we don't have unlimited financial resources. We know there will be budgetary constraints in the coming years. Recognizing that, we have just got to find a way to get more bang for the buck.

I believe we can structure benefits in the energy area, and structure benefits in the environmental conservation area, and structure our benefits under our more traditional safety net in such a way that we can put them all together and fit those budgetary parameters. Now, that is going to take some creativity, and for what it is worth, I will sure help the committee as much as I can in that regard. But we are going to have to do some things differently. We can't—we can't do all that the way we have done it in the past and stay within the budgetary constraints. So we have either got to do it the way we have done it in the past or find some more money somewhere, or we need to find a way to do that combination of things in a more efficient manner; still achieve our objectives, but do it within the budgetary parameters to which we are are probably going to be subjected. I think it is achievable. It is not going to be easy, but I really believe we can get it done.

Mr. GLICKMAN. Can I just make one quick comment, Congressman? I agree totally with you about the importance and significance of the land grant institutions, but my experience being in the Department leads me to believe there is an awful lot of status quos, both in the institutions and in the funding process. And we have got these monumental problems ahead of us in energy particularly, food safety, spread of disease between, let's say, animals and humans, and I just would encourage as you look at this research project to not accept the status quo.

That doesn't mean that they are doing—everyone is doing that, but I am just—it is an enormous resource. It has produced a lot of stuff out there. But there is a tendency to kind of reinvent the wheel.

Mr. POMEROY. You use the unfortunate Spring wheat example. I am sure there has never been a research dollar wasted in Spring wheat.

Mr. GLICKMAN. I am sure not. Certainly not.

Mr. MORAN. I thank the gentleman from North Dakota. I would point out that despite my reluctance to save a Secretary of Agriculture's life because it would damage my political career, Mr. Pomeroy was the one who jumped the dais in hopes of saving your life, Mr. Secretary.

Mr. POMEROY. I may have occasion to regret that.

Mr. GLICKMAN. Actually saving Charlene Barshefsky's life, I think is what you did.

Mr. MORAN. The Chair is pleased that both the Chairman of the full committee and the ranking member are with us today, and I am honored to recognize the gentleman from Virginia Mr. Goodlatte.

The CHAIRMAN. Thank you, Mr. Chairman. Thank you for holding this hearing. It is a very distinguished panel. To paraphrase, I don't think we have had such a mind trust before the committee all together at one time since Thomas Jefferson testified alone, but I am glad to see all of my friends here.

And, Secretary Glickman, I understood you wanted to discuss movie piracy. Is that——

Mr. GLICKMAN. You and I can do this afterwards.

The CHAIRMAN. We will do that afterwards as well as discussing your organization's request that I do a video talking about a movie moment. You will have to explain that to me, too. I look forward to doing that video with you, and today I would like to ask all of your views on the evolution of farm policy that has occurred since your service as Secretary, and what you think about the trends that are taking place, if you see such trends, and what do you like or not like.

We will start with you, Secretary Block.

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

Well, in 1981, we had a lot of relatively high price supports, loan rates. When we moved into 1985, we started the conservation reserve in 1985, because in 1981 we were taking a lot of land, buying land out of production in order to lift the price. You just cut the supply by buying land out of production.

The conservation reserve was started—in reality, it was sort of for two purposes: We were trying to conserve land that was fragile, but it also took some—we were starting to take some fragile land out of production instead of perhaps the best 160 in the county. So it was—it made practical sense, and we have moved in that direction.

And we have got other Secretaries here that can talk about the changes that occurred when they were Secretaries of Agriculture; but I just look at it, and I have seen an evolutionary process trying to get away from where the government was encouraging excessive production with one commodity versus another, and so on and so forth because the government was kind of telling you what to grow even though—but the market wasn't.

And I think we are at a point today that, in a lot of ways, the market is telling us a lot of things. The market is doing a better job, and we are giving it a better chance to work. And with ethanol coming on, and biodiesel, I think that is going to give the market another chance to step up and tell us what to do, what to grow, maybe, and how much to grow, and there will be shifts in crop production. I hope this is right.

I see the price of fuel coming down dramatically. You start wondering, will we be able to keep moving ahead with this biodiesel and ethanol? I am hopeful that we can because we do, as a nation, recognize that for national security, if nothing else, we have got to do something.

Anyway, those are my comments, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Yeutter.

Mr. YEUTTER. Well, we have had a bit of a roller coaster since we enacted the 1990 farm bill, in my tenure. As you know, that led to the Freedom to Farm legislation in 1996 which swung the pendulum in one direction, and then we swung it back to a considerable degree in the other direction in the 2002 farm bill. Now we are appropriately looking at where that pendulum should be in 2007 and beyond.

In my view, we need to do some tweaking of where we are today, partially because we have some new kids on the block in the way of major issues. Earlier I put it in the context of having three principal drivers this time around rather than one, the one being our traditional safety net.

Then we have the energy generation issue that Secretary Block was just talking about; and then major potential issues in terms of what we do in the environmental and conservation area.

So I see those three as being of almost equal importance on your agenda as we move forward. So you have not just one policy challenge, but you have at least three now; and you might add rural development or infrastructure development to that. So I think the issues have become a bit more complex as our world has become more complex, as agriculture has become more sophisticated.

Overall, this committee and this Congress have done a pretty good job of swinging that pendulum in generally appropriate ways through the years. But I think we can do better, and have to do better simply because of significant budgetary pressures. Your challenge is to accomplish the needs of this Nation on the energy side, the conservation, the environmental side and the farmer safety net side within essentially the same budgetary parameters that you have been dealing with for a long period of time.

That is not going to be easy. It is going to take some creativity, as I have said earlier today, and I believe you are going to have to change some of these programs to make them more efficient, to simply to achieve more bang for the buck in terms of what we consider to be traditional safety net activities. But I also believe a little creativity can bring that about.

Mr. GLICKMAN. Congressman Goodlatte, I was here in 1996. When we passed Freedom to Farm, I was at the Department, and there was an awful lot of pressure on President Clinton not to sign that bill. And some of it was, I thought, legitimate concern about the end of supply management. Some of it was partisan; and we talked about it, and I said, I think you need to sign this bill.

First of all, it was the alternative of going back to a 1949 act and other things. I figured that probably wouldn't happen. But I thought, by and large, we have got to get the government out of day-to-day micromanagement of a farmer's decision-making process; and I think, by and large, that has worked. I am not saying it has been totally fair, but by and large, the mind-set is no longer what I call the kind of—and I say this not to be negative, but it is kind of a top-down Soviet style. You will produce this this year, you will produce this next year.

And we are out of that game now. So I think that has been helpful. I think what it has done is, accentuated some peaks and valleys in agriculture, and some folks have been hurt in the process more than they otherwise would have been hurt; but I think that trend line has been actually good, and I would not go back in any way whatsoever in that regard.

I do think in addition to maintaining that safety net, the future is in the energy area; climate change, which could have a profound role in agriculture in terms of if you change crop patterns because of weather—and this is not an ideological issue; it is a scientific issue.

The third thing is food and nutrition. One of the things that strikes me about the American and world diet is change; and farming and agriculture has to be sensitive to what people are eating, be on the cutting edge of that—and not only on the programs for the poor and hungry, but for everybody else. And I think that that is perhaps one of the big, profound changes in the future is how we meet the changing diet patterns of citizens both here and around the world.

The CHAIRMAN. Thank you.

Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Chairman.

We now recognize the gentleman from Minnesota, Mr. Peterson. Thank you very much for being with us.

Mr. PETERSON. Thank you very much, Mr. Chairman. I want to thank our distinguished guests for being with us, and I want to associate myself with, I think, John's remarks.

I have to be careful about that, but ethanol, we are ground zero out there. The guys that are building these plants basically are in our area; they are building about just about all the plants that are being built. And they don't need any help; they are raising the equity, $60 million, in 3, 4 hours. You have got people lined up trying to get on the list to buy equity.

What we have to do is make sure we don't screw this up in terms of corn ethanol. The big problem we have got, they are turning down—these guys are turning down I don't know how many projects a week; they are booked up until 2009 because they can't get stainless steel, they can't get the components to build the plants. That is the problem, and I don't know that this committee can fix that. And I still can't figure out why we haven't seen people get into this part of the business because there is a huge opportunity there.

Cellulosic is going to come, and we are going to have to help finance those first two or three plants or they are not going to happen. The private sector is still skeptical. I think that process is going on through DOE right now, and it looks like it is going to work.

The thing I have been most concerned about is—I don't know where this stuff comes from, but these manufactured shortages; that was ostensibly the reason for having to bring in ethanol from Brazil when there was not a shortage in New Jersey. I don't know where this stuff comes from. I have my conspiracy theories, but one thing I want to make sure is, we don't undermine this industry by making ethanol a worldwide commodity. We are not at that point right now. We don't need to do that, and I hope we can all agree on that.

I have a couple questions. One is, we are building a lot of plants, and we are going to grow more corn, and the varieties are going to be improved and there is going to be a lot more production but we could get—I think we could get to the point in 2, 3 years where the corn we are now exporting is going to be burned up in these ethanol plants so we will be out of the export market. So the first question is, what would that mean if we ended up not having corn to export; what would that do in the rest of the world?

The other issue, somewhat related to that: The one concern that some of us have is not just in the ethanol, but in animal agriculture, that if we have a bad year, we could cause some problems.

There is other issues out there with the price of oil and so forth. But I am getting more and more interest in having a reserve, not of ethanol, because it is hard to store, but of actual corn where we—maybe we would have a farmer's own reserve of corn where you can only use that corn in ethanol or in animal feed and you cannot sell it any other place, and have some amount of corn in reserve in case we have some kind of a glitch in our crop.

So I would like all of your reactions to those two hypotheses.

Mr. Block.

Mr. BLOCK. Yes. Thank you very much. And it is good to see you again.

Well, your concern is, if we had no corn to export because we were burning it and feeding it to our own hogs and cattle, let's say that means that the corn market has gone up. It had to have gone up to get us there, probably; and I think it is going to bring in more corn production in other countries, too.

There will be adjustments made and changes will happen if we just let the markets work and tell us what to do. And I don't think we ought to do a lot until we see the problem. I mean, I don't think we can anticipate exactly what is going to happen, and if we try to do a lot of things, say, oh, that is going to happen, I guarantee you it won't. There will be something else happen, though, probably worse. So I don't think I would go down that road.

If we have a bad year, should we have a reserve? Well, I don't know. Corn reserve, I wouldn't have one. I think that we have kind of gotten out of that business, and corn reserves always tend to be a damper on the prices and on the market, even though they are there for a certain purpose.

So it is conceivable, if it wasn't too much. But I would probably just go ahead, and let's see what happens. This may work. It will take us a little time to build all these plants. You are right, if we can't get the material, we can't get them built.

We don't know how much corn land—land is going to come into corn. Is it going to come out of wheat? Is it going to come out of this or that? If it does, the price of wheat is going to go up little bit. Well, that is good for the wheat farmers.

If this ethanol and the whole—whole thing of cellulosic products in agriculture, if the demand is there and we start making a lot of energy from agricultural products, it is going to lift the whole industry. It is not just going to lift corn, it will lift everything; and then we will have to see where it takes us. It might take us—let's say we had the same farm program we have got now, roughly; we might not have to spend anything on it or very much. So that would change, too.

So there are a lot of things. I would just wait and see what happens.

Mr. YEUTTER. Congressman Peterson, I fundamentally agree with that. You are too young to remember some of the past history of these same issues in a bit different context.

But just to take these issues one by one, on ethanol, the answer is, yes, markets will adjust. And I believe some of the trepidation that is out there, which is understandable because nobody likes uncertainty, I think some of that will disappear over time because the answers will emerge over time.

I can recall, Congressman Peterson, back in the days of our initial Russian sales, when we ended up for a short period of time putting export constraints on soybeans because everybody thought we were going to run out of soybeans. We didn't run out of soybeans. The market reacted very quickly, and putting on the export controls was a big mistake for which we in American agriculture paid a high price for many years in the future.

So we have to recognize that markets do react. They react relatively quickly, and adjustments are made not only here in the U.S., but around the world. We are basically in a global economy, so we are going to see some adjustments to all this not only here, but elsewhere as well.

In terms of having a reserve, I would discourage that; I hope we would not have to take that step. It seems to me that each time we have had significant reserves in the past, they have been a major overhang on the market and have hurt us pricewise. Ultimately, farmers became very disillusioned and discouraged about having Government-held reserves around.

We made some attempts, way back when, to try to isolate those reserves, never seemed to work very well. They still were an overhang on the market, even though they were supposedly isolated.

So I agree with Secretary Block; I think we ought to just let this situation evolve. Overall, I think it is a good thing for American agriculture. It may cause some uncertainty and insecurity, but sometimes with uncertainty and insecurity, you can make money! This may, and hopefully will, help us in terms of the profitability of our great industry.

Mr. GLICKMAN. Pleasure to see you, Collin. I often tell people the only person who has better musical instincts is you, rather than me. I am glad you are still doing that.

I would just add one thing: If this happens to the price of corn, it is going to—as Secretary Block said, it is going to happen to other commodities as well. And I would just urge you to keep in mind our international feeding obligations and how this affects the rest of the world, as they are in this development area in sub-Saharan Africa and other places, because it has an impact there, and we have to ensure we maintain our obligations in that area and elsewhere.

Mr. MORAN. Thank you, Mr. Peterson.

The gentleman from Oklahoma, Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman. And I appreciate your calling this hearing with such a distinguished panel.

In 1982, in the spring of, I was a senior at Oklahoma State University in one of those land grant colleges, sitting in a policy class where we discussed the joys of the 1960's and 1970's; and we re-debated the "tractor-cade" movement, my friends in the American agriculture movement, which spent a good bit of time circling then-Secretary Bergland and President Carter as they tried to get their questions and their points across.

I guess what I am saying, gentlemen, since—having farmed since 1977 and having been a policy guy, watching what you have done, having served with Secretary Glickman and watching both the other gentlemen, we have come a long ways.

I guess what I would like to do is go back to the basic premise of the farm bill, to look at the 1996 bill echoed in the 2002 bill, what I consider to be one of the most dramatic changes in those two bills, compared to everything back to the 1933 AAA Act, and that is the flexibility entailed in the 1996 and the 2002 bills.

A question to all three of you: Do you think that the flexibility given in those two farm bills, one, has been embraced by American agriculture; and two, have you watched changes in crop patterns, changes in the way farmers and ranchers do business because they have had that flexibility, compared with the old supply control programs?

And Secretary Glickman, using that phrase "Soviet," I remembered discussing that in this very committee in 1996. But give me your observations about the flexibility concepts we are working under now.

Secretary Block.

Mr. BLOCK. Thank you very much, sir. I think it has worked, very definitely, it has worked. Because as I said earlier, in the early days, when I first came in, the government was almost—not exactly, but was almost telling people the crops to raise. And by the programs that we had then—today, on our farm in Illinois in the last—not just this year, but in the last 4 years, we have decided that we could make more money raising corn than soybeans, and we have cut our soybean production to less than 10 percent of our land. It used to be 50 percent of our land. And it is not because of ethanol, and it was before that became the rage.

And so I think farmers have flexibility today. We have made the decision based on markets and the cost of production. It will work.

Mr. YEUTTER. That is an extremely important part of farm policy. One can see examples of that all over the place. It happened on my own farm in Nebraska, too. We grow all irrigated corn today. No soybeans, no wheat, as we did years back, those are market-directed signals in that operation. The same thing has held true in thousands of other places.

I believe we can make the 2007 farm bill even more flexible than what we have today, and it is pretty flexible now, thank goodness. We need that flexibility because farmers have to look for a way to get the highest gross income possible. And that may mean growing something different from what they have grown in the past. In time, it is going to mean moving into products that will be used for pharmaceutical uses, pharmaceutical purposes, and a lot of other things.

We will see much more of that in specific demand requirements for farm products that will evolve over the next, 10, 20, 30, 40 years than we have today; and that simply accelerates the need for flexibility in our farm policies.

Mr. GLICKMAN. Like I said, I think, by and large, the 1996 farm policy bill was positive. I am glad President Clinton signed it.

I would go back to growing nonprogram crops on program acreage. It is a challenge because obviously you have all this multitude of economic interests there, and everything else, but I would go back—the programs kind of have to fit the way people eat, too. And more and more, these—all of these things are a part of our diet, a bigger part of our diet.

In talking with people in the restaurant industry, they say there is an interesting thing that is happening. More and more restaurants want to buy food from the region where the restaurant is located, not necessarily have it trucked halfway across the country. Well, if that trend continues, you are going to see all sorts of arrangements made locally and that kind of stuff.

Mr. LUCAS. Gentlemen, let's touch for a moment on CRP. In 1985, a number of my neighbors went down to sign up for what they referred to as soil bank—of course, a concept dating back from the 1950's; I suspect, from my readings, probably a program I believe came to an early end in the 1960's, because a number of our fellow country Members of Congress came to the realization that it has a dramatic effect on population and on the local economy.

But soil bank of the 1950's, CRP of the 1985 grade, 95 grade, incredibly popular out there, loved by all of my sportsmen, loved by my environmental friends, loved by anyone who lived through the recent droughts and notes the lack of dust storms, much loved.

But 36 million acres—we talk about the need for corn and other crops not only to feed ourselves and the world, but ethanol? Isn't it a fair statement to say that while we most assuredly reauthorize CRP that in this world of unexpected demands, isn't it critically important that whatever CRP programs we have in the future, that the better classes, the better grades of land have tremendous flexibility, that they can be pulled out in relatively short notice if world demand dictates a greater need for the feedstocks or fuel stocks?

Mr. BLOCK. That is fair enough, I agree. I mean, if the markets are calling for it, OK, fine.

Mr. YEUTTER. Absolutely. This is just another example of flexibility.

This is a very fast-changing world, whether we are talking about agriculture or anything else. The present situation has been exacerbated because of energy issues that are all caught up in foreign policy and national security considerations, as well as economic considerations.

But there are a lot of other things out there that have created a great deal of change in the world and, often, unpredictable change. I sit several corporate boards, and one of my first messages to every management team with whom I work is, be flexible, flexible, flexible. To me, that is one of the key watchwords of doing business in the United States today, whether it be in agriculture or anything else.

Mr. GLICKMAN. In principle, I agree, but I have to tell you that I would not be too anxious to give up this great—these great conservation initiatives unless we have a national calamity to do it, because not only are they serving, obviously, an environmental—I am not saying you suggested that, but I am just saying that, also, they provided an enormous amount of political support across non-agriculture sectors as well.

Mr. LUCAS. You are entirely right, Secretary, and that brings me to the next point I want to bring to my colleagues here.

If grain prices dictate that land perhaps in better quality grades comes out, conceivably that would then make room for, in many areas, fragile land that because of the 25 percent caps in counties have been locked out for literally decades. So we may see a shift where better land in certain parts of certain States comes back into production. Fragile land in other areas, perhaps it should have been there 30 years ago, can come in.

So if we maintain that flexibility, I think our goals of meeting the Nation's food and fuel needs and of meeting our obligations to the environment can be knit together if we just show that flexibility.

Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Chairman.

The Chair recognizes the gentlewoman from South Dakota.

Ms. HERSETH. Thank you, Mr. Chairman. I certainly appreciate, as I think all members of the subcommittee do, having this opportunity to pose some questions to the former Secretaries of Agriculture based on the information we have all engaged in over the spring and summer around the country in the various field hearings that Chairman Goodlatte and Mr. Peterson have been hosting. And I would like to focus, if you don't mind, on young farmers and ranchers.

The current USDA Secretary, Mike Johanns, has talked a great deal about the difficulty or disincentives for young people to get into farming, primarily due to high land values. And we certainly heard some of that during our field hearings, and some of that related to acres that are set aside and idle, in addition to some of the other impacts that we heard about as it relates to the rural economies that are sustained by farming and ranching operations.

Do you see this as a serious enough problem that has been generated as an unintended consequence of the 2002 farm bill? Or did you grapple with this issue, as well, when you were working to develop farm policy, about specific challenges to young farmers and ranchers? Do you think we need to specifically address that in the rewrite, and if so, do you have any ideas on how we might do that?

Mr. BLOCK. Let me just say that I am all for looking for ways to get young farmers into agriculture, but this issue has been with us forever. I mean, all the years that I have been dealing with agriculture is, we can't get our young farmers, we are losing young farmers. They are going to the cities, and we lose—there aren't any easy answers, and I don't think, personally, that the answer is just to say, well, land values are too high, and they can't get in.

A young farmer, they can't even get started, or can hardly get started, because—you don't have to own land to be a pretty good-sized farmer or a successful one, but you have got to be able to lease land then, and you have got to buy the machinery and equipment.

It is such a capital-intensive business today, and farms are so big; and it takes so much money to really make it, get it going. Because farming has become a pretty big business, unless you find some niche of some kind to get started in—I don't know what, raising pumpkins or raising sweet corn or raising something special; but otherwise, it is a tough business to get in today, and the question you ask doesn't have an easy answer.

Mr. YEUTTER. Secretary Block is right. We all wrestled with that during our tenures as Secretary of Agriculture. It is even more difficult today than it was when any of us were Secretary because the price tag has gotten higher through the years in terms of the total cost to put together a viable commercial operation. I am not sure there is a heck of a lot anybody can do about that.

Certainly one can continue to have loan programs to try to help young farmers. That is probably the most feasible means of helping. ; It will at least bring some young folks into farming who might not otherwise be there. But in most cases this is going to be a family challenge, with one generation passing on a farm—the management of a farm operation—to the next generation.

And, by the way, this is not an issue that is unique to the United States. It is an issue that applies globally. As I recall, the average age of Japanese farmers is more than 60. So this is just another example of a problem that plagues the world as a whole.

Mr. GLICKMAN. I think it was John Maynard Keynes who said, for every complicated problem there is a simple or wrong solution. This is one that, God, I wish there was a simple solution that worked.

In addition to what my colleagues have said, I would take a look at the programs to determine if the—if the programs can be made more flexible, so it is easier for people to be more adaptable. And I go back to that issue about growing nonprogram crops on program acres.

This is very controversial. I have seen my friend from California here, I am sure, may have different opinions on this, but if a farmer is just arbitrarily restricted by growing certain things because the government says he won't get his payment if he does that, my goodness, that is kind of holding one hand behind your back while you are trying to play baseball or play golf or something like that.

Now, granted, there is regional interest here and everything else, but I would look at the programs to see if they could be made more flexible than they were in the past.

When we were at USDA we established a big direct marketing program. Farmers markets, by the way, have been growing rather significantly; it is niche, but it is growing. You have thousands of farmers markets all around the country now, where people are able to grow and direct-market. And what you tend to find is, there are more smaller farmers, newer farmers and minority farmers engaged in that.

Organic agriculture is the fastest growing part of agriculture today. Organic used to be thought of as a hippie type of agriculture; today it is big business everywhere, and you tend to find younger people more adaptable to going into some of these new areas as well.

I mean, I wish I had more answers for you but those are a couple.

Ms. HERSETH. I appreciate it and I see my time is up.

I would like to throw out a few areas that are very similar to what each of you identified, whether it be the niche markets, flexibility in the programs, the marketing opportunities; and I think, in light of the fact it has become so much more capital-intensive, we can look at some examples of what has been working in different parts of the country.

The example I would throw out is a group of younger farmers who are getting together and actually getting some State support, I believe, through either a loan program or a grant program through a cooperative that they set up to share the leasing of some of their equipment. So I do think there is a renewed opportunity for us here, perhaps in rural economic development titles through loan programs or other programs, to support again either these niche-market opportunities or utilizing a cooperative model of support that is geared toward younger farmers.

Thank you, Mr. Chairman.

Mr. YEUTTER. In that respect, can I just add one quick comment?

One of the groups that I have been working with in this whole farm policy arena is the American Farmland Trust, which has generated views and recommendations of the kind that you have just suggested, that is, trying to help the development of farmers markets and some of the regional answers to this that would particularly help young farmers. And in that respect, one of their recommendations is that this subcommittee and committee seriously consider block grants to States to support unique activities.

Ms. HERSETH. Thank you.

Mr. MORAN. Thank you, Ms. Herseth.

The gentleman from California, Mr. Costa, is recognized.

Mr. COSTA. Thank you very much, Mr. Chairman. I, too, want to commend you for having this distinguished panel before us—a lot of expertise here over the years.

Gentlemen, I reflect a third-generation family farming operation in California, as Secretary Glickman noted. I farm differently than my father did; my father farmed differently than his father did, as you know. And one thing is for certain, as we all know, change is constant; and your testimony has certainly demonstrated that based on your own experiences.

In California, the good Lord has blessed us with a lot. And some of my farmers, who have really gotten into the notion—you talk about the specialty crop versus program crop; I mean, many—it is a bit of an oxymoron in a sense—many of the specialty crops that are growing in our area also grow program crops, whether it be cotton or sugar beets, and the diversity and the flexibility continue to be a major factor, I believe, in their ability to sustain the viability of their economic farm—economic units of their farms.

I want to go beyond this to what I think is, in my view, an alarming trend. When we look at what has taken place in our energy needs from the 1970's, when President Nixon first had the gas lines and enumerated an energy policy, today—where those days over 30 percent of our energy was dependent on foreign sources, today it is over 60 percent, and that is in 45 years it has gone in, I think, the wrong direction.

But last year, for the first time in our country's history, I believe, we actually imported in gross economic values more agricultural products than we exported. And all three of you, as Secretaries of Agriculture, have had to deal with trade issues during your tenure. And when we look at what is going on, what I think is kind of a stymied or stalemated round of talks in Doha, I don't think we are going to make much progress, or at least it does not appear that we will in the short term.

Where do you think American—because when I look at this 2007 farm bill, what I am trying to imagine is, what do we want American agriculture to look like 10, 20 years from today? And to the degree that you can, realizing that this change is constant, realizing that it is great that China is a part of the WTO, but they still don't play by the same rules that our American farmers and ranchers do, where do you think our emphasis needs to be, gentlemen, in terms of our trade policy, to keep American farmers and ranchers competitive in the global markets that we deal with today as we contemplate this 2007 farm bill?

Mr. YEUTTER. Well, having spent most of my life in that arena, let me say, first of all, that the answer clearly is not protectionism. I am a strong, firm believer in the values of liberalizing trade.

Mr. COSTA. But some of our competitors are protectionists.

Mr. YEUTTER. Certainly they are, and so are we in a number of areas—more protectionist than we should be, more protectionist than they should be. That is why we try to engage in negotiations multilaterally under the aegis of the World Trade Organization; or we try to do bilateral or regional free trade agreements such as those underway now with Korea, Malaysia and a number of other countries.

We need to do the best job we possibly can in those negotiations, and I believe we have a very talented team at USTR. We always have had under both Democratic and Republican administrations. We are doing our job well on the negotiating scene.

Whether or not there will be an agreement in the Doha round remains to be seen. Right now the prospects do not look at all bright. That is unfortunate for American agriculture because we have a lot at stake in obtaining additional market access for U.S. agricultural products around the world.

Some farmers believe that ethanol will solve all our demand problems and we'll not need exports anymore, but I believe that is a naive view, and we ought to not only preserve the exports that we have but try to advance that cause and expand our export markets around the world. I believe we can still do that in these negotiations. We are probably not going to get them done before we deal with the 2007 farm bill, but we will deal with them in time, and let's hope Ambassador Schwab can produce an agreement that provides additional market access opportunities for us.

We ought to make sure that U.S. agriculture can meet the competition worldwide to do that, and I see no reason why that should not be the case. We are already internationally competitive in a lot of areas. We should not do something foolish that would diminish our international competitiveness. Hopefully, whatever Congress does with the 2007 farm bill will actually enhance our international competitiveness rather than diminish it. Clearly one of our objectives ought to be to expand our export markets around the world. I believe we can do that, and I believe there is a lot of potential out there, including in China which is going to be a major importer of agricultural products as time passes.

Are people like the Chinese ignoring their WTO obligations from time to time? Yes. We should challenge them when they do, and that clearly ought to be on the U.S. agenda at all times. Do we sometimes violate our own WTO obligations? Yes. We were found to be violative in the cotton program just recently. When we are in violation, we need to correct that and get back in compliance too.

If we feel that the WTO rules are inadequate and ought to be changed because they are inequitable from our standpoint, then we need to negotiate those changes. That is exactly what the Doha round is all about. I would hope that we will produce a 2007 farm bill that we can fully defend under existing WTO rules. But, if necessary, we should give instructions to our negotiators to seek changes in the rules if we feel those are justified based on what we do in our farm policy deliberations here.

Mr. GLICKMAN. If I can make a comment, the business I am in now is obviously very export—the film business is the only business that has a positive balance of payment surplus with every single country in the world. I am telling you, the battles are brutal everywhere, whether it is in film or agriculture or software or high tech, there is no magic bullet to this. We are going to be fighting those battles for a very long time in the period of globalization. I hope our trade people are successful, but I am not going to tell you that exports are the nirvana for us because the gaps between exports and import and agriculture have been closing in recent years, and I hope we can continue to do our best to sell stuff overseas, but I am not Pollyannaish about it. It is going to be a battle, we have got to fight it every day.

I will have to tell you the one area I think we need to dramatically upgrade our areas is international development assistance. The United States used to be the leader in the world in providing food and development assistance worldwide, and this is not a partisan comment, because these ebb and flow during various points of time, but as you look at our role in the world now and all the challenges that we face, this great asset of food and development assistance is something that needs to be part and parcel of agricultural policy in the future.

Agriculture cannot delegate that to people in pure foreign policy positions. My experience is that we need to have a much more engaged role in that in terms of amount of food assistance and involvement in development processes as well.

Mr. COSTA. Thank you. I know my time has run out, Mr. Chairman, but I would respond back to Mr. Yeutter and the rest. The constant complaint that I get among my farmers and ranchers and dairymen is that the tools that we have to deal with violations are lack of compliance, whether it be with NAFTA, WTO, are unsatisfactory, many of the farmers believe, whether they be vital sanitary standards with Mexico, whether they be issues with Brazil, and how we get better tools to allow ourselves to deal with those violations or those disagreements I think is a real issue.

Mr. YEUTTER. Just a quick response. I think the tools are adequate; we just have to use them. Sometimes we simply do not use them for a variety of reasons, some of which are persuasive, some of which may not be so persuasive. I think the key is making sure that we use the tools that are available to us.

And I would add one quick comment. There is a lot of protectionism in the world today, a lot more than when I was Secretary of Agriculture and when I was U.S. Trade Representative. We simply need to do whatever we can to try to overcome that trend toward protectionism, because if we don't, we could have the global economy in a tail spin a few years down the road, which would be a real cost to all of us.

Mr. MORAN. Ms. Herseth has a follow-up question. I also have a follow-up question. As you can tell by the bells, we have got to conclude this hearing rather rapidly. So short questions and short answers.

Ms. HERSETH. Very short question. Ambassador Yeutter, you state, every farm in America should have a comprehensive plan for environmental management, and I apologize if a similar question has been asked before, but if we are to make environmental protection and management a farm bill driver like you would like to see, should we focus the conservation program more on incentivizing good environmental practices that are not currently used or rewarding farmers for environmental practices that they are already performing?

Mr. YEUTTER. Both, both.

Mr. MORAN. That is a short answer, and I am grateful.

Mr. BLOCK. I agree.

Mr. MORAN. That is a short answer, and I appreciate it.

I don't know that you have time to comment on this, but one of the continual things that plague farmers is paperwork and bureaucracy at USDA. We all pay at least lip service to solving that problem. The question is, is there something that can be done? Or do we just talk about this issue, and it really is the nature of the beast, we are going to have the paperwork and bureaucracy that our farmers face? I also would criticize the USDA appeals process in which our farmers win at the State and local levels and lose nearly every time at the national level. I appreciate any comment that you have with regard to that in very short fashion.

Mr. GLICKMAN. Nothing has changed if it is still going on, I would say that. I would say a couple of things. Number one, I think every one of us have done our best internally to improve this paperwork process and working with the whole FSA operation. I would say, in all candor, if you have billions of dollars flowing out, you have got to have some accountability in the process, and the only way you are going to do it is to have some systems in place. You would like to hope they are as simple as possible, but taxpayers' money is involved here. You have got to balance that against making systems as simple as you can.

Mr. YEUTTER. We have very complicated programs in all of USDA, and that leads to complicated regulations and bureaucratic administration. That is an issue every Secretary has faced.

And, by the way, Mr. Chairman, it starts here with thousand-page farm bills because thousand-page farm bills stimulate multi-thousand-page regulations.

Mr. BLOCK. I would only say that it is not going to get better; probably get worse, unfortunately. But everything does. It is not just bureaucratic stuff with the Department of Agriculture; it is from all sources. It is when you call up on the telephone, you can't talk to anybody because you have got some damn answering machine. That is the way life is.

Mr. MORAN. My staff reminds me it is a thousand-page Senate farm bill, not House.

My final thought or question is, should—we talk about a national policy of energy independence, that we ought not be dependent on foreign energy; that is a debate that we can have. My question is, is that a national goal when it comes to food? Should it be the farm bill's goal of making certain that Americans feed Americans?

Mr. YEUTTER. We have been doing that for a long time, and we will do it as far into the future as I can see. As you know, we produce way more than we need to feed Americans, so we don't really have a food security challenge like many of the other countries in the world do. So I think as a practical matter that is a non-issue.

On the energy side, I don't know that we need to be completely independent of foreign sources of petroleum; we just need to be a lot less dependent than we are today.

Mr. MORAN. Gentlemen, thank you very much. We appreciate your testimony, your candid expertise that you provided us, and I am very grateful that you have taken time to spend this morning with us. I appreciate your service to not only American agriculture but to our country. We are delighted that you were able to share your expertise and your values and your thoughts about the future as we try to develop adequate and appropriate farm policy for our country. Again, I am grateful for your participation.

Let me conclude this hearing by the usual words. Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from any witness to any question posed by the member of the panel.

The hearing of the Subcommittee on General Farm, Commodities and Risk Management is adjourned.

[Whereupon, at 12:43 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

## Statement of Hon. John R. Block

Chairman Moran, Ranking Member Etheridge, and members of the subcommittee, thank you for having this hearing, and for the invitation to testify before the subcommittee. The first farm bill I had the pleasure of working on as Secretary of Agriculture was the 1981 farm bill, over 25 years ago. As is the case today, there were many outside factors influencing the shape of that farm bill. And if the vote on H.R. 503, the Horse bill, foreshadows what you and your colleagues will have to contend with on the House floor, agriculture has its work cut out for it in the 2007 farm bill.

When considering the changes that need to be made in the upcoming reauthorization of the farm bill, policymakers need to keep hold of a larger view of policy reform, and resist the temptation to focus on one aspect, or to approach the situation with a singular mind set. It is necessary to remember that farm program reform is an evolutionary process, not a revolutionary one. Sweeping reform cannot be made all at once, but well-thought out, meaningful reform can be made through cooperation and a shared motivation to improve things for all sectors of United States Agriculture.

Currently, some of the major aspects of the agricultural environment shaping farm bill reform include global trade, nutrition, energy, conservation, and the budget deficit.

### Global Trade

As a nation, we export approximately 30 percent of the agricultural goods we produce. This fact alone reminds us that we need to be thinking globally when writing this bill. In addition, the World Trade Organization situation places further importance on this mindset. The WTO has ruled that changes need to be made in the current farm bill to obtain compliance. To avoid further WTO challenges, some reform will need to occur. In the case that there is a new WTO agreement, the new bill will look even less like the current one, due to further changes needed for compliance. Spending somewhat less money on farm supports is appropriate, as it is necessary for compliance. No matter what the WTO situation, I do not believe a 1-year or 2-year extension is in the best interest of U.S. Agriculture. We need to take care of our own business, and in the case that there is a new WTO agreement written, we can make necessary adjustments then.

### Nutrition

Nutrition programs, both domestic and U.S. foreign aid, play an essential role in maintaining a strong and healthy United States, while also promoting the U.S. and helping those in need all around the world. Food and nutrition aid lays the groundwork for a stronger, healthier and more educated domestic population, and our foreign nutrition programs work towards turning under-developed nations into future export markets. Agricultural commodities provide nutritious food to our school children and provide emergency foods to those devastated by disasters. Bags of grain shipped to Africa labeled "Gift of the United States"do as much work in building good will as any other type of aid.

### Energy

The agriculture community has always been on the forefront of innovation, and we find ourselves here again to assist the country in solving its energy crisis. Farmers have always sought advancements in renewable energy and fuel due to the fact that high energy prices have a much more direct effect on their businesses than on any other. The increasing need for the use of our agricultural industry as a producer of energy is evident to everyone. Dependence on foreign sources of energy is detrimental to our nation's security and economic well-being. As much support as possible should be given to this aspect of the farm bill. With the advancements that have been made since the last farm bill, evidenced both domestically and in other nations, it is obvious that technology in this area has come a long way, and also has a long way to go. Further support of renewable fuel research and development will garner strong support from both the American farmer and the American taxpayer.

### Conservation

I am an avid fan of conservation. The Conservation Reserve Program was written when I was Secretary of Agriculture in 1985, and has been improved in subsequent farm bills. A renewed emphasis should be put on protecting our natural resources during this reauthorization. The obvious reasons, such as the finite amount of available resources, the toll depletion of these resources takes on the environment, and the need to leave American agriculture in a positive state of affairs for future farmers; and the reasons that are not obvious to us but will be evident to our children and grandchildren; all necessitate investment in efforts to keep the CRP up to date so as to conserve and preserve the environment and our natural resources for future re-use and development. Conservation programs not only help farmers comply with the rules and regulations that are placed on them, but these programs also benefit Americans as a whole.

### Budget Deficit

Current budget constraints will most assuredly affect the size of the pie available for the farm bill. As nice as it would be to simply continue increasing all Government support for agriculture, current fiscal constraints do not permit us to do that. The budget situation and smaller size of the pie force evaluation of the merits of each program and subsidy, and a resulting organization of priorities. This is a challenging task, but it is made easier by maintaining a comprehensive mindset. With some creative thought on the part of the industry, we can find ways to reshape these programs to deliver more significant benefit in areas where needed. There are areas in which it is acceptable and may be necessary to spend less, such as in farm supports and disaster assistance. There are other areas that either need a slightly larger piece of the pie than they have received in the past, such as specialty crop producers, research, and rural development; or that simply need continued support with some reform, such as crop insurance.

### Summary

As I mentioned earlier, it is important to approach the reauthorization of the farm bill with a mindset that is inclusive of all interests and factors. Farm policy reform is an evolutionary process—gradual change in farm program support to adjust to changing circumstances is good, but revolutionary, abrupt change is risky. While it is important to understand and appreciate the private market role in United States Agriculture, some safety net is still needed to maintain a healthy and vibrant farm economy. It is necessary to recognize that the United States has the largest, safest, most secure food supply in the world. American families spend less than 10 percent of their paycheck on food—the lowest percentage of any developed nation in the world. Spending such a small percentage on food frees up billions of dollars of take-home money to drive the rest of our economy. That is a major contribution by the agriculture community, which should garner the Nation's support.

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## Statement of Hon. Clayton Yeutter

Mr. Chairman, it is a pleasure to testify before this subcommittee on a subject that is dear to all of us—U.S. agricultural policy. As you know, we do this anticipating the development of farm legislation in 2007. It was my privilege to work with the Congress in developing a farm bill in 1990, which seems like just yesterday though nearly 20 years have since passed.

### Objectives

What is it that we should seek to accomplish in 2007? Some will suggest that Congress simply extend the 2002 farm bill, legislation that is very popular with many farmers. Others will recommend major reforms, in an effort to update programs that have not changed substantially in more than 70 years. There is merit in the latter for American agriculture today bears little resemblance to the farm operations of the 1930's—when I shocked oats, fed a threshing machine, and first began to ride a combine.

Where in this wide spectrum of possibilities should the Congress settle? It seems to me that the answer lies in first agreeing on the fundamental objectives of U.S. farm policy, for any generation. My own list follows:

First, I am persuaded that Congress should continue to provide a safety net in the 2007 legislation. Some will argue that is no longer necessary, that private sector risk management mechanisms can do the job, and that today's sophisticated farm operators can handle this task as well or better than the Government can. These folks may in fact be correct, and the trend is certainly in that direction. But we have a good many farmers, particularly in the upper age ranges, who are still intimidated by futures and options markets, complex forward marketing techniques, etc. So I come down on the side of maintaining for now a government provided safety net, though I hope we can in the coming years shift this risk management function to the private sector.

How then should this safety net be designed? I believe we should seek to make it:

1. Equitable—between and among all farmers, not just a select number who have more political clout than the others. The orientation should be toward providing a safety net for farmers and their families—with the emphasis being on people, not on commodities.

2. Efficient—accomplishing the greatest possible risk mitigation at the least possible cost. We owe that to the American taxpayer, for tax resources are not unlimited. Achieving the "greatest bang for the buck" should involve minimizing not only policy costs, but administrative costs as well.

3. Transparent—for the citizens of America, who finance this safety net, deserve to know just what it is costing them. That includes farmers themselves, for they too are taxpayers. And if a particular program simply shifts the cost from taxpayers to consumers (as does our Sugar Program), our citizens deserve to know that too. After all, every taxpayer is also a consumer of food.

4. Comprehensible—to farmers, to Members of Congress, and to the general public. Through the years U.S. farm policy has become increasingly complex, which has made farmer decision-making more challenging and has significantly increased administrative costs. It has also led to duplicative risk management efforts as we've stacked crop insurance and disaster assistance on top of our existing commodity programs.

5. Compliant with World Trade Organization rules—lest we be subjected to retaliation by countries adversely affected by our programs (the recent cotton case). No one can tell us what to include in the 2007 farm bill. As a sovereign nation, that is our decision, and our decision alone. But we must realize that if we expect other nations to follow the rules on international trade, we must do so as well. Otherwise our own agricultural exports will be in great jeopardy.

6. An Enhancement, not a Diminution, of our International Competitiveness—for a healthy, viable U.S. agricultural economy will be heavily dependent on agricultural exports for decades to come. Energy generation, and perhaps even the development of industrial and pharmaceutical uses for agricultural products, will reduce somewhat our reliance on exports. But those developments will by no means substitute for a growing export market, nor should they. Aside from the moral obligation and economic benefits inherent in helping to feed the world, we should not get ourselves in a position where we are heavily dependent on new sources of domestic demand that could be (though hopefully will not be) transitory.

We must also try to provide safety net benefits that are not immediately capitalized into land values, for that does diminish our international competitiveness. Short run benefits become a long run detriment to American agriculture, and those benefits often flow to absentee landowners rather than to farm families.

7. Responsive to the Particular Challenges/Opportunities of our Time—

a. Energy Generation—an obvious candidate for inclusion in the 2007 farm bill, in a big way.

b. Environment Protection/Conservation—a subject that should merit nearly as much attention in next year's legislation as will energy generation.

c. Industrial Uses of Farm Products—a subject that has garnered farmer attention for years, but with little to show for it. Technological advances should brighten these opportunities in the relatively near future.

d. Infrastructure—hard and soft. There is a strong case to be made for infrastructure investments in rural America, so this is a subject that should be on next year's farm bill agenda. Our competitors (e.g., Brazil) are investing heavily in rural infrastructure whereas we've been depreciating ours. If we're not careful what has been a major advantage for U.S. agriculture in international commerce could become a disadvantage. (Whatever we do in this area would undoubtedly be encompassed in a rural development title in the 2007 legislation.)

Other objectives could be enumerated, some perhaps just as important as those I have selected. But these seven provide a good measuring stick for our present programs.

### U.S. AGRICULTURAL POLICY IN 2006

I will not spend much time today critiquing our existing farm programs. By and large they have served American agriculture well through the years. They've certainly been invaluable through some of the tough times we've experienced over the past seven decades. And politically they'll not be easy to change. Like anyone else farmers often prefer a "bird in the hand to two in the bush." In addition, there are many within our entire food industry who have a vested interest in the status quo. Change is often traumatic, or at least perceived as likely to be traumatic. Hence, resistance develops, which is not surprising.

The key issue for policymakers, however, is whether we can do better. And the answer is, "We certainly can." Using my own measuring stick, I believe most of us would agree that:

1. Our present programs are not always equitable. Most of their benefits, in fact, flow to the producers of five commodities (rice, cotton, corn, soybeans and wheat), and there are many inequities between and among the five. One can add the unique programs for dairy and sugar to that list, and contrast the benefits which flow to those seven groups with the nominal benefits received by the producers of specialty crops, beef, pork, and poultry. (Ironically the latter groups, which receive little "help" from the government often outperform the former in economic terms.)
2. U.S. farm policy is by no means simple, and it is often nebulous. That leads to innumerable questions of interpretation, significant administrative costs, and often duplication.
3. Our programs are relatively transparent (at least as compared to most of the rest of the world)—providing one is willing to read through thousands of pages of laws and regulations. But few people fully comprehend the intricacies of our major commodity programs, including many farmers who are recipients of their benefits.
4. Some of our present programs may be vulnerable to challenge under WTO rules, and they are likely to be challenged if the Doha Round collapses. We'll probably win some, lose some in WTO dispute settlement. But if we design our 2007 and beyond farm policies skillfully, we should win them all.
5. No matter how we design the 2007 farm bill, at least some of the benefits are likely to be capitalized into land values. But we ought to exercise some self-discipline in that regard. Though higher land values are appealing, they also have a downside—not just in adversely impacting our global competitiveness, but also in making it more difficult for young farmers to get established. One way of mitigating this impact is by spreading our safety net benefits more widely than we do today—among products and among farmers.
6. Finally, though we've given some attention to the environment, energy, rural development, and industrial uses of farm products in previous farm bills, they've never really been in the forefront of debate. That should change as our 2007 deliberations move forward.

### THE 2007 FARM BILL

How then should Congress approach this 2007 legislative challenge?

First of all, I believe it is in our own self interest to seek to "build a better mouse trap" in U.S. agricultural policy. I am not persuaded by the argument that we should "keep doin' what we're doin' " for doing otherwise would constitute unilateral disarmament in the WTO agricultural negotiations. If our policy objectives for 2007 are sound, and if we are not now fully meeting those objectives, that ought to motivate us all to try to do better.

There is little or no probability of concluding the Doha Round prior to enactment of our next farm bill. So why not enact legislation that will meet the domestic and global needs of American agriculture for years to come—irrespective of what is now happening, or not happening, in the Doha Round. In my view we can do that with programs that are considerably less trade distortive than they are today. If we can accomplish that, we'll eliminate our present WTO vulnerabilities. That in turn will enhance our negotiating leverage if and when the Doha Round comes to life, increasing the likelihood that we can open up new markets for U.S. agricultural exports.

Our overall objective should be to design a 2007 "package" of policy measures that we can legitimately defend, at the WTO or anywhere else. Hopefully that package would have fewer subsidies in the amber category than we have today, more of them (perhaps most of them) in the green category, and the remainder in blue. That should not be an impossible task. And if it does prove unduly daunting there is nothing that prevents us from attempting to alter, by negotiation, what qualifies as "blue" or "green." We are not without leverage in the Doha Round, or in any other agricultural negotiation!

With that preface, let's now be more specific with respect to how such a package might look.

### PAST HISTORY

In years past we've built our safety net around the various commodity programs, and only in recent decades have we begun to broaden our policy focus. That first started with the nutrition programs—food stamps, school lunches, school breakfasts, and the WIC program. Then we began to add environmental benefits to the picture, and ultimately energy provisions as well. And we've always given some attention to the research and development of industrial uses of farm products, along with a variety of rural development programs. From a policy standpoint, however, all of these have been peripheral to the commodity provisions. The latter have constituted the "driver" of farm legislation since the '30's, and these other programs have been along for the ride.

Perhaps those days have now run their course, and we ought to contemplate having not just one but at least three drivers for the 2007 farm bill. The discussion and debate of the next several months can sort out just which ones are the "primary" drivers, and which are "secondary."

### AN ENERGY DRIVER

One of those drivers should be energy generation (or renewable fuels, for those who prefer that term), and that could turn out to be the most powerful one of all. There'll need to be an array of subsidies in this farm bill title, but I'm persuaded that the American public will pay that price with enthusiasm. Americans are fed up with dependence on foreign oil, with much of it coming from countries that are unstable, unfriendly, or both. Americans also realize that millions of dollars in oil revenues, much of it coming from us, are financing terrorism throughout the world, much of it aimed at us! Hence, it is not just American farmers, but all Americans, who will with vigor support programs designed to help pull us out of this morass. It won't happen overnight, and ethanol, ETBE, biodiesel, wind power, and other sources of renewable energy are by no means the total solution. But each of these will help, and the 2007 farm bill provides an opportunity to give all this a huge thrust. It ought to be a sky high priority of this subcommittee and the Congress as a whole.

### AN ENVIRONMENTAL DRIVER

A second driver, and one that could be just as strong—though not as high profile—is the environment. To your credit Congress has significantly expanded its commitment to environmental protection and conservation in rural America over the past two decades. What was almost an afterthought in the early years has now become an integral part of American agricultural policy. In 2007 we ought to do a lot more. As I alluded earlier, this is one way to broaden the impact of Federal financial resources in farm country.

There is not a farm in America that could not have, and should not have, a comprehensive plan for environmental management. It ought to be a "no brainer" in policy terms. Establishing this as a major objective of American farm policy will then make it possible to "raise the bar" in every individual plan over time and reward farmers for doing so. Were we to do that, future generations of American farmers will be the beneficiary, as will all Americans. In addition to that laudatory outcome these programs should qualify as "green box" under WTO rules, which will make it much easier to defend the use of amber or blue box subsidies in some of our other "drivers."

### THE BASIC SAFETY NET

The third major driver would then be our traditional commodity programs, or whatever Congress might put in their place as part of the overall safety net. (This would be quite a contrast to having these programs as essentially the sole driver.) Your Subcommittee might wish to develop your thinking on energy generation and the environment before moving on to the more traditional safety net programs—a wholly different modus operandi from what has been followed in the past. Were you to do so, you could evaluate the probable financial flows to rural America from investments in energy generation and environmental programs, and then determine what more is necessary to provide farmers with an adequate safety net for 2007 and beyond. Presumably for a good many farmers—those who take advantage of environmental/ conservation and energy generation programs—that "third driver" will not need to be as generous (i.e., costly to the taxpayer) as in the past.

One change that could be made in existing commodity programs would be simply to shift the emphasis to payment programs that will qualify as blue or green box under WTO rules. That could be done in a myriad of ways. But it would still leave us with many of the policy shortcomings I mentioned earlier. Hence, I hope the Subcommittee will carefully examine some of the "Income Assurance" and "Farmer Savings Account" proposals that have surfaced in recent years. It might well be feasible to transition to a program of this nature as the third driver of our safety net. This could be far simpler than the combination of programs we now use, much less costly to administer, and form-fitted to all farms rather than just those producing "covered" commodities.

### SUMMARY

In summary, I see the 2007 farm bill as having three main drivers—(1) energy generation, (2) environmental/conservation programs, and (3) modified traditional commodity programs or a re-designed whole farm income assurance program. Those drivers will be supplemented, of course, by traditional nutrition activities and hopefully by creative new ways to invest in the infrastructure of rural America, rural non-farm businesses, and in fostering the development of other high margin (industrial/ pharmaceutical) uses of farm products. If we can put that kind of package together it should serve rural America well for years to come, and should make it possible for us to compete effectively in global commerce. My only caveat is that we need to build flexibility into each of these programs, particularly the three drivers, for the world changes rapidly these days, and agility needs to be one of the attributes of our farm policy structure.

I wish great success to the Subcommittee as it undertakes this formidable but rewarding task!

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## STATEMENT OF HON. DAN GLICKMAN

Mr. Chairman and members of the subcommittee

Thank you for asking me to join this distinguished panel. I am honored and pleased to be with you, in a familiar and warmly remembered hearing room, with so many former colleagues and friends.

You will hear many policy prescriptions, many of which are not new nor into which can I shed much light. In the nearly 30 years of writing farm bills, in one way or another, I have seen most, if not all, of the ideas I believe will be presented to you as you do your work on the next farm bill.

If nothing else, farm bill debates have produced creativity and imagination—most for the good, some just bewildering. If I have one piece of advice: produce clarity of basic policy choices.

In that vein, let me address what I will call the five "R's": Resources, research, riches, reform, and right:

Resources: Now more than ever, we must invest in the sustainability of our farming base.

Research: Agriculture is no different than any other part of the economy in one vital respect: We must invest in research and innovation to meet our needs and stay competitive.

Riches: We spend an awful lot of money on these programs, and an awful lot goes to a very few, in a narrow segment of the farming community; could we do a better job of distributing this income?

Reform: Every farm bill debate is laced with talk of reform; this one will be too. I will submit, however, that while we have made some admirable changes over my three decades of experience, we have backtracked a bit in recent years. If we are serious about farm policy reform for the future, then we need to move forcefully in that direction.

Right: For all the resources we protect, research we conduct, riches we distribute, and reform we discuss, we still have far to go in addressing one of the paramount right things we can do in this legislation: Ending hunger, here, and overseas.

RESOURCES

Every year, we lose both more farmers and more farmland. For years, sitting upon billion bushel surpluses, the loss of farmland to urban sprawl and development seemed a far away problem. We no longer can afford the luxury of that view.

For one, new challenges are affecting the productive base of our farming sector: climate change, creeping environmental problems. The future, indeed, is now.

Additionally, we are seeing new demands placed on our farming production: Namely, the growing demand for farmers to grow the raw materials for energy production. After years, too, of seeing the ethanol industry struggle, we are now on the threshold of what I predict will be a real take-off in that sector.

Again, when corn surpluses nearly equaled a year's harvest, this would have been a welcome change. Now, however, when gas tanks begin competing for corn as earnestly as the feed mills upon which our multibillion dollar animal agriculture system depends, the equation takes on a vastly new and different variable.

At minimum, I encourage you and your colleagues to devote some dedicated time to examining the implications of this development. As strong a supporter of alternative fuels and alternative uses of agriculture products as I am, I also caution against new programs to provide financial incentives to encourage the use of food and feed products for fuel. I believe we are indeed on the verge of market forces propelling us in that direction, and I fear, in our rush to secure our energy security, we could easily neglect the fundamental need for food security.

I applaud the Congress for continuing to move resources into land conservation and protection measures, and am proud of being able to help in that during my service in the House and as secretary. In this next farm bill, I urge you to look to making sure all sectors of agriculture can take advantage of these incentives—the specialty crops, small and disadvantaged farmers, and I believe we need continuing emphasis on addressing the environmental consequences of animal agriculture.

RESEARCH

Few in the general public, perhaps even few on this committee, realize that one of the largest research portfolios in the Federal Government lies with the Department of Agriculture, and thus within your control. I know I was somewhat astounded to learn that when I became Secretary, even after nearly 20 years on this committee.

Our investment in agriculture research over the last century has yielded tremendous results. It is true: That investment has much to do with the fact that a very small minority of American produce the most abundant, most affordable food supply in human history.

Protect that capability. Invest in research. Do it wisely.

While most in the general public know nothing about the enormous accomplishments of this program, most know of it from the apocryphal examples the press, politicians, and others cite in criticizing pork barrel spending.

I know all the justifications supporting the merits of all these examples. I also know that not every agricultural school in every wheat growing state needs a multimillion dollar research program on drought resistant, dwarf strains of spring wheat. While competition, particularly competition in science and research is beneficial, not every state agricultural college in the country needs a program on new and innovative uses of agricultural products.

I have looked at all side of this: from your perspective, from administering and managing the programs, and from the outside advising on securing earmarks for this or that interest. I am not so naive as not to understand the political necessity of some of these programs, but we have gone too far.

We have an agricultural research system beholden to political considerations—and not just in government, in the institutions themselves. The system is in danger of collapsing under this weight.

While Congress' have tried reform in the programs, as did we while I was at the Department, none of us have really wrung the politics out of this system that we must to ensure our scientists have the resources they need to meet our future challenges. I urge you to give this your attention.

Riches

Five years ago, understandably, the farm bill was about national security. At other times, the farm bill has been about our competitiveness in the global economy, and about preserving a rural way of life, a culture, an ethic.

This search for the metaphysical motivation of farm policy is interesting, but can be mind-numbing. Instead of chasing the string theory of farm bills, let me submit we examine one of the metaphysical facts and consequences of farm bills: They redistribute income from the non-farming sector to the farming sector, and they transfer lots and lots of money.

Some of it is quite straight-forward: Direct payments to farmers. Some is somewhat more circular and indirect: The income is transferred in the manner in which the bills manipulate the levers of supply and demand, whether by restricting the fruits and vegetables a farmer can grow in his soybean field, the quality her oranges must meet before allowed into the market, or in the powdered milk donated as surplus.

No matter how this income is transferred—by conservation programs or in milk price supports—a fundamental fact applies virtually to all programs: The most goes to the biggest.

Twenty years ago, one of the most monumental debates that occurred in this room was over the future of the Farm Credit System, and the boggling debt farmers were facing. If we had then tapped the treasury to pay off every distressed farm loan then, or even to pay off every outstanding farm real estate loan then on the books, I believe we would have spent less than we have in farm bills since then.I took on this challenge, this challenge of directing farm payments to those most in need, Mr. Chairman, when I sat in your chair, with valiant ambitions but, I must admit, less than complete results.

I am a firm believer in a safety net. I also have no qualms about spending money on farm bills, lots of money.

I remain amazed, however, that of all the Federal assistance and income transfer programs or the assistance we offer through tax incentives, farm programs, basic commodity programs, remain largely immune to any needs-based test.

I know we apply payment limits; we also know how cleverly they are defeated. Not only do I have substantive problems with the lack of meaningful means testing in these programs, I am concerned at the political and public black eye they give these programs.

## Reform

That leads to my next R: Reform. Whether goading by good government, some need to ensure our programs are consistent with world trading rules, or simply the perennial desire for change, reform permeates every debate.

Still, the basic commodity programs stay pretty much basically the same as they have historically. The same crops are targeted, meaning the same parts of the country, and indeed the same individuals and families. Our agriculture is so much more diverse.

We have made progress: Notably, government no longer dictates, by and large, what a farmer can plant, and, as I also noted, farmers are now more handsomely rewarded for sound stewardship of their resources.

Already in this debate, some argue for simply extending the current farm bill. I would not favor that course; I hope you opt against it.

But if not, let us be clear to our farmers, our taxpayers, and indeed the world: US agriculture policy will, for the time being, hew to the status quo. We are no longer in the reform game, whether pressured domestically or by international forces.

Perhaps this is only a rhetorical nuance—reform is of course in the eye of the beholder or the proclaimer—but there is a fundamental course of action to decide: Whether to continue a program of supporting the basic commodity growers, perhaps with marginal refinements, or attempting to address the needs of all of agriculture, and indeed all the other needs of rural America that farm bills reach that I have not mentioned, and doing so in a fiscally prudent manner.

## Right

I often told audiences when I first joined the Committee and then again when I became secretary that one of my main qualifications for both was that I liked to eat. I still do.

Perhaps one of the most satisfying, and I believe important, problems I took up during my career and that I continue to be involved with is hunger.

I am proud of my work on food stamp legislation, nutrition assistance and education, expanding the school breakfast program, the McGovern-Dole international food for education program—two programs I strongly urge you to fund fully. I am likewise proud of my own personal crusade for gleaning and food recovery—something I am pleased to say I have taken on even now with the movie studios.

I am not proud that in spite of the millions, the billions, the dedication of thousands and thousands, this problem still afflicts us. Whether Darfur, Detroit, or even, Mr. Chairman, Dodge City, hungry faces stare at us.

As you write your farm bill, and you naturally focus your attention on those that produce our food, please remember those who need our food, the hungry at home and the hungry around the world.

I know your challenges are many. I also know the work of the next farm bill will largely take place in this room and its anterooms. farm bills are creatures of Congress—a lesson I really appreciated when I was Secretary of Agriculture, with some frustration.

Protect our resources from which our food comes. Invest in research to make sure we have food in the future. Distribute our riches wisely and efficiently. Move on a path of reform that will serve all who depend on farm bills in the 21st century. Finally, do the right thing, for the hungry who will not appear before you, who belong to no commodity group or trade association, and who cannot hire lobbyists, for it truly will be the most rewarding, enduring, and meaningful legacy of your efforts.

Good luck, and thank you.

# REVIEW OF FEDERAL FARM POLICY

**THURSDAY, SEPTEMBER 21, 2006**

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

The subcommittee met, pursuant to call, at 10:35 a.m., in room 1300, Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Lucas, Jenkins, Johnson, Pence, Neugebauer, Boustany, Fortenberry, Goodlatte [ex officio], Etheridge, Herseth, Melancon, Pomeroy, Larsen, Chandler, Scott, and Peterson [ex officio].

Also present: Representative Osborne.

Staff Present: Craig Jagger, Tyler Wegmeyer, Callista Gingrich, clerk; Bryan Dierlam, Chip Conley, Clark Ogilvie, and Anne Simmons.

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

Mr. MORAN. The hearing on General Farm Commodities and Risk Management will come to order. We are here today once again to review Federal farm policy.

Should the gentleman from North Dakota join us, I would indicate to him that I also am interested in drought assistance, but we are still interested in what the next farm bill will look like as well.

We are delighted to have with us five very distinguished agricultural economists from some of our finest universities in the country, and I think it is important for this committee to, as best we can, develop farm policy that is as compatible with the laws of economics as possible.

One of the things I have learned in the time I have been in Congress is that as much as we would like, the laws of supply and demand cannot be overcome. And so I think farm policy has a number of goals, and this subcommittee has a desire to see that good policy is developed.

Ultimately there will be political considerations. I am not naive to think that is not the case in what the next farm bill looks like, but think there is value to us in starting as close as possible to ideal economic policy as possible.

So I am delighted that these five economic experts would join us. Broad array, long time experience with agricultural economics, and experience that we will find useful.

Last week, we had three former Secretaries of Agriculture join us and they brought a perspective of three individuals who had implemented and administered farm programs and yet were in a position to speak outside the norm of what a Secretary of Agriculture might say.

My guess is that these agricultural economists have no restrictions on what they will say today and will feel comfortable in expressing their opinions way outside the realm of politics.

So thank you very much, all five of you, for joining us. I now turn to my friend and colleague, the gentleman from North Carolina, the ranking member, Mr. Etheridge.

Mr. ETHERIDGE. Mr. Chairman, thank you. Let me welcome my guests and then expedite this hearing, and I am going to submit my statement for the record.

Welcome you again, thank you for being here and the contribution you are going to make to keeping agriculture viable and hopefully profitable in the future. Thank you, Mr. Chairman. I yield back.

[The prepared statement of Mr. Etheridge follows:]

PREPARED STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Thank you Mr. Chairman, and thank you for holding this hearing.

I also want to thank our witnesses for testifying here today. Our agricultural universities and land grant colleges are tremendous sources of knowledge and experience that all too often are taken for granted. I want to voice my appreciation to each of you for your involvement in agriculture and your interest in helping American farmers continue to produce the safest and most affordable food in the world.

For months we have heard the concerns from real farmers who participated in or attended the farm bill hearings we've held out in the country or here in Washington.

Today, all of you will be providing us with a different outlook on the 2002 farm bill, which I am certain many of my colleagues on the subcommittee will find interesting.

Again, I thank you for taking the time to be here today and look forward to your statements.

Mr. MORAN. Thank you, Mr. Etheridge. Our panel consists today of Dr. Barry Flinchbaugh, professor of agriculture economics at Kansas State University; Dr. Ron Knutson, professor emeritus and director of the Agricultural and Food Policy Center as Texas A&M University; Dr. Bruce Babcock, professor of agricultural economics, Iowa State University; Dr. David B. Schweikhardt, professor of agricultural economics, Michigan State University; and Dr. Carl Zulauf, McCormick Professor of Agriculture Marketing and Policy, Ohio State University.

Dr. Flinchbaugh, Kansas State University professor is recognized first. Thank you for joining us.

**STATEMENT OF BARRY L. FLINCHBAUGH, PROFESSOR, AGRICULTURE ECONOMICS, KANSAS STATE UNIVERSITY**

Mr. FLINCHBAUGH. Thank you, Mr. Chairman and members of the subcommittee, for inviting me to testify.

I began working in agriculture policy when I analyzed the consequences of the 1968 Feed Grain Program for my doctoral dissertation at Purdue University. It was my privilege to chair the Commission on 21st Century Production Agriculture authorized in the 1996 FAIR Act. When the chairman invited me to testify today, he asked that I revisit the work of the commission briefly.

The charge of the bipartisan commission was to examine the role of the Federal Government in 21st century production agriculture. The commission unanimously agreed that it was the role of the Federal Government to provide a safety net under farm income with minimal market distortion. It was the definition of minimal market distortion that provided disagreement among members of the commission that resulted in minority views.

How do we achieve an effective system with minimal market distortion is really the question being debated today as we approach the next farm bill.

The text of this testimony depicts the degree of market distortion. Decoupled direct fixed payments provide a constant safety net and minimize market distortion. The marketing loan provides the most marketing distortion of the three major commodity payments. The countercyclical payment is less market distorting than the marketing loan since it is based on historical production whereas the marketing loan is based on current production.

The 1996 farm bill, known as Freedom to Farm, had as its flagship program a decoupled direct fixed payment ratcheted down year by year to a minimal level. Primarily because of the severe downturn in the Asian economy, the minimum was never reached. In fact, the so-called transition payments were doubled.

The act was criticized as “Freedom to Fail”. I have often said it was both. If we want the freedom to farm the marketplace, that implies the freedom to fail.

In the 2002 farm bill a countercyclical payment was added. If the goal was minimal market distortion, this was a step backwards. The interesting thing about the countercyclical payment in terms of the safety net is that it is backwards. It pays farmers when they don’t need it and it doesn’t pay farmers when they do need it. If farmers get a crop, they have a chance of making a profit. A bumper crop will bring lower prices but farmers have something to sell, and if the price is below the target there will be a countercyclical payment. If farmers don’t get a crop, the worst of all possible situations, the only commodity program that will help them is the decoupled direct fixed payment. The marketing loan won’t help because it is based on current production. The countercyclical payment won’t help because the price is likely to be above target. If what we want is a simple program that provides a safety net under farm income with minimal market distortion, the answer isn’t rocket science—a decoupled direct fixed payment.

This I will submit is what the Doha Round is all about, and that failure of those talks will lead to more rather than less market distortion, more rather than less need for commodity programs.

This farm bill, perhaps more so than previous ones, is much more than commodity programs. For example, nutrition and feeding programs, conservation, environment, and environmental quality, energy and rural development.

Allow me a brief comment on conservation and a more extensive comment on energy. The 2002 farm bill is the greatest on record. Yet, we are clearly moving in the direction of conservation onworking lands rather than retired lands, especially if we fully fund the CRP. This means more conservation, which is in society's best interest.

The new athletic kid on the block is energy. I am an original member of the Steering Committee on 25 x '25. Twenty-five percent of the energy consumed in this country by 2025 can come from renewables.

I appreciate the full committee's action this morning. A rigorous energy plank in the farm bill can enhance the goal—research and development programs in cellulosic ethanol, for example, and perhaps even direct payments to grow switchgrass.

One last issue, food and feed versus fuel. It is a misunderstood issue. By 2015, more ethanol will be produced from the cob and the stover than from the kernel. The new mantra for American agriculture can be food, feed, fiber, and fuel.

I would also suggest, to round out the safety net, that a farm savings account be considered. I call it the "Squirrel Plan." We encourage farmers to put away nuts for a bad winter. Pay into a savings account in good years, and draw out in bad years when income falls below a threshold. A decoupled direct fixed payment, a farm savings account, conservation payments on working lands, and a vigorous bioenergy development program can provide that safety net with minimal market distortion that the Commission suggested.

Thank you.

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

Mr. MORAN. Thank you very much, Dr. Flinchbaugh. I saw your eyes nervously looking at the red flashing light. You should note that I would never have the nerve to gavel you to speak within a certain time limit.

Dr. Knutson.

**STATEMENT OF RONALD D. KNUTSON, PROFESSOR EMERITUS AND DIRECTOR OF THE AGRICULTURAL AND FOOD POLICY CENTER, TEXAS A&M UNIVERSITY**

Mr. KNUTSON. Mr. Chairman and members of the subcommittee, thank you for the opportunity to appear before you today to address what I believe to be some of the major economic issues confronting you in designing future farm policy.

I appear before this subcommittee as a representative of the general public who is interested in economically rational farm policy. In doing so, I draw on 40 years of experience as a policy analyst, as the former director of the Agricultural and Food Policy Center at Texas A&M University and as a former Administrator of the U.S. Department of Agriculture.

I encourage the committee to boldly lay out goals desired to be accomplished for the 2007 farm bill, and to make changes that serve the long-run interests of the agricultural community and the general public. I have a list of six key changes that I would suggest be made in the 2007 farm bill. Actually, there are probably more than six in here.

First, while the 1996 farm bill took a major step forward in decoupling direct farmer payments, the 2002 farm bill took several steps backward. It is time to reconsider the production, price and trade distorting effects of countercyclical payments, the marketing loan, MILC, and the price support policies on milk and sugar.

Second, in the 1970's, it was learned that a target price set at a higher level than the market support price runs a substantial likelihood of leading to high CCC purchases and stocks. This lesson has not been learned for dairy. The MILC Program stimulates increased production which ends up in the hands of the CCC rather than being sold through domestic and international commercial outlets. Consideration needs to be given to decoupling MILC payments and dismantling the Dairy Price Support Program.

Third, a similar problem exists in sugar where the price support level has sufficiently stimulated excess production that production controls have been imposed. The result is a so-called "Zero Cost Program" which not only is a hidden tax on consumers but also prevents the juice from sugarcane to be competitive in producing ethanol as is done by Brazil. As a step toward greater energy independence and less production, price and trade distortion, consideration should be given to replacing the Sugar Price Support Program with decoupled direct payments.

Fourth, payment limits should be eliminated because they either do not work or are counterproductive. For crops, payment limits have resulted in increased use of cash rental arrangements which puts tenants at a greater risk relative to landlords. In dairy, payment limits discriminate against the largest and most efficient producers. There is no way of avoiding these counterproductive effects other than eliminating income support programs.

Fifth, if disaster payments are going to be continuously mandated by the Congress on an ad hoc basis, crop insurance subsidies need to be discontinued in favor of a permanent Federal disaster program. Such a disaster program could be expanded to provide revenue assurance to all farmers as a substitute for all current safety net programs, including crop insurance, all forms of direct payments and price support programs.

Sixth, I am concerned that excess investment in bioenergy could adversely affect feed costs for poultry and hog producers, and I see we have some members of this subcommittee that have important poultry and hog production operations in their district. If this happens; i.e., if we shortchange poultry and hog producers, they have the case that can be made for income support payments. It could also ruin our reputation as a reliable supplier for exports to countries that have become, at our urging, dependent upon the United States for a reliable supply of agricultural products. The price of bioenergy can best be determined by the market relative to the price of oil. Bioenergy production should neither be determined by subsidies and loan guarantees nor by the creation of barriers to trade.

Thank you very much.

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

Mr. MORAN. Thank you very much.

Dr. Babcock, welcome.

**STATEMENT OF BRUCE A. BABCOCK, PROFESSOR, AGRICULTURAL ECONOMICS, CENTER FOR AGRICULTURAL AND RURAL DEVELOPMENT, IOWA STATE UNIVERSITY**

Mr. BABCOCK. Thank you, Mr. Chairman, for the opportunity to participate in today's hearing.

I want to narrowly focus on the question of whether the current Federal safety net programs are the best we can do or if an alternative approach could be better. Federal safety net programs are administered by two USDA agencies, the Farm Service Agency and the Risk Management Agency. FSA administers programs that make payments when prices are low and RMA's crop insurance programs make payments primarily when yields are low because revenue price times yield is what farmers use to pay their bills. It would seem that our current combination of programs creates an adequate and efficient safety net, but a close examination of the programs reveals areas where we could have significant improvement.

Let's begin with a look at the Marketing Loan Program, which provides producers with either a marketing loan gain or a loan deficiency payment when the price falls below the loan rate. Consider what happens in a low price year such as we had in 2004 for corn. A corn farmer who had the misfortune of not producing a crop received no benefit from the Marketing Loan Program. Farmers who harvested bumper crops received large payments because they had so many bushels to LDP. Thus, the Marketing Loan Program undercompensates farmers with low yields and overcompensates farmers withhigh yields.

Overcompensation occurs for two reasons, first, because no payment offset is made for those farmers who havebumper crops to sell. Net farm income actually increases in low price years. Furthermore, in these high production years, the price at which marketing loan gains and LDPs are calculated, they are generally much lower than the price that farmers actually sell their crop at.

Some believe that crop insurance prevents undercompensation by making up for low yields, but more than 40 percent of the expected market value of program crops in 2006 is uninsured because of a combination of high deductible policies and a 75 percent participation rate. The lack of insurance on at least 40 percent of market value is perhaps why the call for ad hoc disaster assistance aid is so persistent.

Taken together, FSA's price protection programs and RMA's crop insurance programs do provide the valuable tools for farmers to manage their risks, but to provide a coverage often misses the mark, and the costs are high.

Marketing loan programs pay on average more than is needed to compensate farmers for price declines, and the net cost to taxpayers of the crop insurance program from 2001 to 2005 has been $15.1 billion. More than $6.3 billion of this amount has flowed to crop insurance companies through underwriting gains and operating expenses. The support for the industry means that it has cost taxpayers $1.71 for each $1 of producer benefit from the crop insurance program.

It may seem odd that I am focusing on the crop insurance program at a farm bill hearing, but a better farm safety net could be created if the best ideas from crop insurance were combined with the most effective programs from title I of the current farm bill.

The first step is to recognize that under and overcompensation can be minimized by targeting farm programs directly at low revenue rather than low prices. Next, by setting up a target revenue program to pay out when county revenue is low, we would avoid the fraud and abuse problems of the current crop insurance program while still covering a substantial portion of total farm risk.

A county level target revenue program would cost less to administer than current farm programs while providing better coverage, and we already have an example of a target revenue program at the county level in our crop insurance program. It is called GRIP, Group Risk Income Protection. It pays out indemnities when county revenue falls below a trigger revenue level.

Farmers are starting to realize how good a product GRIP is. 11.7 million acres are now insured under GRIP. The advantages of a target revenue program at the county level are, one, it would target the economic variable revenue that farmers use to pay their bills.

Two, it would provide protection against the two most important sources of risk that producers of program crops face—low yields caused by widespread weather events and low prices.

Three, by covering systemic price and yield risk, a target revenue program would enable private insurance companies to insure the remaining farm level risk without Federal involvement.

Four, it would act as a standing disaster aid program for producers of program crops because county level losses would automatically trigger payments.

Five, it would be a big step toward solving the multi-year loss problem in the current crop insurance program.

Six, coverage is scalable, so Congress could decide on the appropriate coverage level given competing needs for scarce farm bill funds.

We have studied what a target revenue program would provide in terms of protection and cost relative to existing programs. There is no doubt that better protection can be obtained from a target revenue program at lower costs, but perhaps it is more instructive to look at the costs of a target revenue program relative to taxpayers' current contribution to GRIP.

We estimate that, per acre, costs for GRIP in the form of premium subsidy, expected underwriting gains and administrating and operating expenses would cover the costs of an acre enrolled in a target program at a coverage level of 97 percent. That is, a new farm bill could provide crop farmers 97 percent coverage at the county level for the same per acre taxpayer cost of GRIP today.

Thank you.

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

Mr. MORAN. Thank you, Dr. Babcock.

Dr. Schweikhardt.

**STATEMENT OF DAVID B. SCHWEIKHARDT, PROFESSOR, AGRICULTURAL ECONOMICS, MICHIGAN STATE UNIVERSITY**

Mr. SCHWEIKHARDT. Thank you, Mr. Chairman.

I will look at two issues that I believe will be important in this committee's deliberations during the coming year and two issues that Michigan, essentially, serves as a microcosm of the implications of those issues.

I would like to focus on the fruit and vegetable and wild rice planting restriction that was contained in the 2002 farm bill that I will refer to as the FAVR, or Fruit and Vegetable Restriction, hereafter, and I am going to look at two particular aspects of that. One is what our research is showing on the potential impact of the removal of the FAVR on the planting decisions by program crop producers; i.e., will they enter into specialty crop areas, andNo. 2, I think there are some potential impacts of the continuation of the FAVR on the international trade prospects of U.S. producers that I do not believe have received adequate recognition among the public or farmers. I won't repeat the details of the FAVR or the role of the FAVR in the U.S.-Brazil cotton case because I am certain that you are familiar with those.

In looking at the first issue, the impact of the removal of the FAVR on specialty crops, I have recently completed a research project with two colleagues at Michigan State, examining the potential impact of a change in the FAVR on farmers' planting decisions in Michigan. We have examined the barriers to entry and the inducements to entry in specialty crops, crops that are covered by the FAVR. We tried to look at the program crop producers' decisions to enter these specialty crop markets if the FAVR is eliminated by the next farm bill. In each case, we examined the factors that inhibit or encourage the entry of program crop producers into these markets.

The final version of our research paper is not yet completed. Table 1 of my testimony shows the range of outcomes that we anticipate would occur in vary markets if there was a change in FAVR.

As you will note, our conclusion is that the range of responses among crops will be very wide, with some having almost no entry into specialty crops by program crop producers, and some with a probability of entry byprogram crop producers into those specialty crops may be somewhat higher. For example, we would suggest that the likelihood of program crop producers entering dry bean production might be quite high. On the other hand, the likelihood of program crop producers entering into blueberry production is probably very low.

Second, I would like to discuss some of the international trade implications of the FAVR that I do not believe have been widely recognized. Much discussion of the FAVR is focused on the impact of the FAVR on the U.S.-Brazil cotton case, and I won't again repeat those details.

In a less widely discussed incident in 2005, various Canadian corn grower associations filed a complaint against the United States, claiming that corn was being dumped and subsidized into Canadian markets. In response to that complaint, the Canadian Border Security Agency imposed a tariff of $1.65 per bushel on all corn exported from the United States, and corn shipments to Canada reached virtually zero.

The main connection between the FAVR and the Canadian corn case, and the lesson I think is important, is that the Canadian Border Security Agency ruled that there were actionable subsidies on U.S. corn, and they cited as their precedent the Brazilian-U.S. Cotton case. Essentially, I think they said to the U.S. we dare you to take our decision to impose these tariffs on you. We dare you to take this to the WTO on appeal because you lost there on cotton. We will bet you lose there again on corn.

As a result of the Canadian case, which, by the way, the U.S. actually won in the long term on a second issue—but as a result of the Canadian case, I believe that other crops face significant risks in the future of similar actions by other countries on dumping and subsidy grounds and that this would pose additional barriers on U.S. exports in the coming years.

I will be happy to answer questions.

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

Mr. MORAN. Thank you, sir.

Dr. Zulauf, nice to see you again.

**STATEMENT OF CARL ZULAUF, FRANCIS B. McCORMICK PROFESSOR, AGRICULTURAL MARKETING AND POLICY, OHIO STATE UNIVERSITY**

Mr. ZULAUF. Nice to see you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, thank you for the invitation to talk about the future of Federal farm policy and my proposal for a revenue protection program.

U.S. farm policy is at a crossroads. Changes in the structure of the U.S. farm sector has undermined the historic farm bill objectives of managing prices. Given these changes, what is the appropriate role for Government in assisting U.S. farmers?

Farming is an inherently risky endeavor. A variation in prices and yields can cause shifts in revenue that are beyond a producer's control. As such, Government has a role in helping farmers manage their risk. Over the past 15 years, Federal spending on farm risk insurance has grown substantially to a couple of billion dollars annually. At the same time, the almost annual ad hoc disaster assistance payments have grown just as fast. The continual use of disaster assistance suggests that substantial holes exist in the current set of price support and insurance programs when it comes to helping farmers manage their actual risk. Thus, farm policy should be redesigned to help farmers better manage their risk.

A better set of risk management programs can be created for farmers by recognizing that farmers face two kinds of revenue risk. One occurs at the market level, such as widespread drought and drops in prices. The other occurs at the individual farmer level; for example, localized frost. These two risks need to be addressed by different programs, but for maximum benefit in helping farmers manage risks, the two programs also need to be integrated.

Currently, no integration exists between commodity support and insurance programs. A national revenue deficiency program is needed to address the risk that revenue can decline for all farms due to lower prices or widespread yield losses. It would replace the current price-based programs, including loan deficiency and countercyclical payments. However, it would not affect direct payments. This program covers gross revenue, yield times price, and thus fills in the gaps of price-based programs because, currently, farmers may not receive assistance in years when prices are high but yields are low. The national Revenue Deficiency Program provides a per-acre payment to all farmers who plant a specific commodity equal to the difference between the projected national average revenue and the national average revenue received at harvest. The projected national revenue is not fixed. It is calculated prior to planting each year using currently available forecasts. Even though this program provides better protection by covering yield and price, it would have been less costly than the current price support programs for the 1996 through 2005 crop years. Furthermore, the level of revenue protection could be adjusted to meet any budget scenario.

The second component of my proposal is a gross revenue insurance product that addresses the need that revenue can decline more on an individual farm than for the market as a whole. This insurance program is similar to current revenue insurance programs, but it would be integrated with the national revenue deficiency payment. With Government covering the risk of widespread national losses through the Revenue Deficiency Program, individual revenue insurance becomes more effective at covering individual farm losses. Insurance companies can offer higher levels of coverage at a lower cost. A better, more effective risk management program is created which, in turn, lessens the economic need for ad hoc disaster assistance. The Integrated Farm Revenue Program is more market oriented and, thus, less trade distorting than current price-based commodity programs. National revenue targets change each year with market conditions, thus minimizing the impact on the planting decision of farmers.

In contrast, current price support programs establish prices that can drive farmers' production decisions. Although it is unlikely that this program would be classified "green box" under current WTO rules, it is clear that it would help satisfy desires for greater market orientation in U.S. farm programs.

In closing, the Integrated Farm Revenue Program greatly enhances the efficiency and effectiveness of ourfarm programs because it combines Government payments and individual insurance into a single comprehensive safety net program that makes risk management less costly for Government, less trade distorting for our international partners and, most importantly, more effective for our Nation's farmers.

Thank you very much for your time. I look forward to answering your questions.

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

Mr. MORAN. Dr. Zulauf, thank you very much. The last time we were together, I talked about an evolutionary, not a revolutionary change in farm policy, and then I realized you were in the audience, and you proposed something that is more than evolutionary.

What you and Dr. Babcock are telling us, are they similar points or do you two have differences in what you are suggesting? Are you headed down the same path, the same concepts?

Mr. ZULAUF. There are tremendous differences between Dr. Babcock's proposal and mine. Some of those differences are what level do you set the program at. Dr. Babcock would set it at the county level. I would set the national program at the market level or the U.S.

The question of whether you use net insurance orgross revenue or net revenue is also another one as an issue that could be discussed in this. Another one is whether you fix the price or the revenue from year to year. Dr. Babcock in his proposal would use the effective countercyclical payment, which does fix the target from year to year; whereas, my proposal would move it from year to year. There are other issues, but I think those are three very critical issues that would be addressed in terms of operationalizing the program, but again I think we are moving in the same direction.

Mr. MORAN. Dr. Babcock.

Mr. BABCOCK. Yes. The key difference between the two is the national versus the county level. I am much more ambitious with mine. I want to create a standing disaster payment program, and this would do it at least for program crops.

I also want to basically rationalize how the Federal Government takes over the systemic portions of risk from the crop insurance program. Right now, we do it through a very complicated, convoluted way called the "Standard Reinsurance Agreement," and what that is almost paying the crop insurance companies money to take on a fairly small portion of risk, and then the taxpayers are left with that kind of subsidy. This target revenue program at the county level would directly transfer that risk to the Federal Government. Since they are already taking on 90 percent of it, why not do it directly.

So mine is more ambitious, putting it at the county level. Also, I want to take care of the multi-year losses. So, if you do things at the county level, you are much more close to the farm level, and so there is a much greater proportion of the yield risk that gets taken out from the program than if you do it at the national level.

Mr. MORAN. Thank you very much.

Dr. Schweikhardt, your testimony deals with the prohibition on planting specialty crops on program acres.

The rationale that is expressed to me by those who represent and grow specialty crops is that the nature of the production is such that just even a minimal increase in the number of acres planted has a significant consequence on market price.

Is there something unique about specialty crops in which that is true, and do we have control over a number of planted acres from an international perspective anyway, or, again, are program crops unique to the United States so that if we did control the number of acres planted of specialty crops that we would have an effect upon price or does that occur on a much more broad, international market?

Mr. SCHWEIKHARDT. Well, let me answer your second question first because I think it is, perhaps, the easiest.

If we simply look at the acreage in the United States, there is something over 200 million acres of program crops in the U.S. There are 10 million to 12 million acres of specialty crops in the U.S. So it is very unlikely that having any kind of limitation through the specialty crop category is going to have much of a price effect on the program crop areas.

That, of course, was one of the issues that was discussed in the Brazil cotton case. I have always found it very interesting that, on the one hand, the WTO said that the FAVR was one of the reasons they found the way that they did, but then when they talked about the possible price effects, it was only in the range of 4 percent considering all the factors, not just the fruit and vegetable restrictions.

Mr. MORAN. Excuse me for interrupting, but you are talking about the price effect on program crops; is that right?

Mr. SCHWEIKHARDT. Right.

Mr. MORAN. Is there a price effect upon thespecialty crops?

Mr. SCHWEIKHARDT. No.

Mr. MORAN. OK.

Mr. SCHWEIKHARDT. Now let me come back to the first question. It is true that a lot of these markets are very small—especially crop markets are very small—and that, as with any food product which basically, virtually, all food products will be in a select group called "inelastic demand," small changes in quantity are going to result in fairly large changes in prices. So it is true that small movements of acreage can have that effect.

On the other hand, I think, as this debate has gone forward, there has been very little recognition of the fact that there are some very substantial barriers to entering these markets, some of these markets, on any significant scale, and again, we do recognize in our research that there may be markets where this price effect that you are talking about, especially crop markets, would be fairly significant. We see that in our research where we see low barriers to entry, which is basically those industries where farmers can use some of their same equipment to grow these specialty crops. If they have to buy some specialized equipment, et cetera, that is a much more significant barrier to entry, and would likely lead to less of an entry into that market. So it is true that most of these markets are characterized the way you have described them.

I think, however, as we look at the situation, we have to recognize that I think some of the dire predictions that all of these markets will be subject to tremendous instability and that this is a reason to keep the restriction is probably a bit of an overstatement of what might happen without the restriction.

Mr. MORAN. Thank you very much. I have other questions, but my time has expired, and I hope to have another opportunity to ask those questions, but let me now turn to the gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Dr. Flinchbaugh, given your safety net visions of the direct decoupled payments, farm saving accounts, conservation payments on working lands, and a vigorous bioenergy development program, what role does crop insurance play or do you believe the Government should abandon its subsidy in support for the crop insurance that farmers purchase?

Mr. FLINCHBAUGH. While making that statement, I am assuming that the current crop insurance program will continue. Congress historically has had an aversion of mixing crop insurance and farm bills.

Mr. ETHERIDGE. OK, because the reason I ask that question—the safety net sounds somewhat similar to the 1996 farm bill, and it would decouple payments, and farmers weren't really happy with that, and we wound up spending an awful lot of money on disaster payments and others as you remember. It wasn't quite so well received in farm country, is the reason I raise that issue. Thank you.

Let me move now to another question, if I may, and get to my note here. Dr. Zulauf, you had described a revenue program that is designed to manage risks by stabilizing revenue within a crop year rather than across crop years.

How might such a program be designed to stabilize income across crop years? And the reason I ask that question is, as you know, you will have those years where farmers face disaster in multi-years, and if you only do it in 1 year, talk to us about how that would be handled over multi-years.

Mr. ZULAUF. If you wanted to create a multi, or an ability to stabilize revenue across years, probably the easiest way to do it would be to create a moving average of past national revenue targets. That would take out the effect of one particular year, but it would decouple the incentives to produce this year from the revenue that is being paid for this year.

My contention would be, up to the point of planting, a farmer has the ability to manage the risk by deciding what crops to produce and by citing whether or not to produce a crop, but that obviously has a cost as any policy decision does in that it introduces instability across the years in terms of the support level. I think the easiest way to deal with that would be just to make a moving average of national revenue targets.

Mr. ETHERIDGE. Let me follow that up because, depending on the geographic area—and that would have consequences as to what you plant, obviously, given the weather patterns, and those weather patterns could be severe or minor depending on the product you are putting in. So, if you don't have some linkage there, it seems to me you would be winding up putting in a product that wouldn't fit that weather pattern. Would that be covered in what you are talking about?

Mr. ZULAUF. I think that is a decision you have to make in terms of what do you want to accomplish with the policy, and that is a trade-off that you have. Do you want to cover the risk that a farmer has assumed that year, in planting the crop, that it is best to target the revenue for that year?

If you are trying to stabilize revenue over time, which historically has been the objective of U.S. farm policy, then you would want to definitely move to something that was not tied to a particular year but tends to move over time.

Mr. ETHERIDGE. OK. Well then, with that, describe how the national revenue deficiency payment would be calculated. I guess my question would be how should such a payment be distributed to individual producers, and who would determine that distribution.

Have you done some work on that?

Mr. ZULAUF. Yes. The payment would be proportionalized to the level of revenue of the individual producer, and so that, if you had a national revenue payment of, say, $50 an acre, you would then proportionalize that to the level of revenue. If you were a high-revenue producer, you would receive a same proportion of payment so that—if, let's say, the $50 is a 10 percent proportion of the national revenue target, then if you were a producer with $400 of gross revenue per acre target, that would mean that your payment would be 10 percent of $400, or $40. If you were a $200 gross revenue producer, you would receive $20 per payment. You have to proportionalize so that you don't discriminate against high producers or overcompensatelow revenue producers.

Mr. ETHERIDGE. Let me follow up, Mr. Chairman.

So, with that, you are saying you could do it within counties so that if you are doing individual producers, you have got to do it within the FSA's——

Mr. ZULAUF. This would use the individual farmers' revenue to proportionally—you would go down to the individual farmer, not at the county level.

Mr. ETHERIDGE. OK. I have got you. Thank you, and thank you, Mr. Chairman. I yield back.

Mr. MORAN. Thank you, Mr. Etheridge.

The Chair recognizes the chairman of the full committee.

Mr. Goodlatte, thank you for joining us.

The CHAIRMAN. Thank you, Mr. Chairman. Thank you for holding this hearing. This is a very distinguished panel, and we are very pleased to have a diverse array of viewpoints here about how we should proceed.

Let me ask you about a couple of things the committee has been struggling with as we think ahead about the next farm bill. One is, over the last 2 years—and really, it has always been true, but it has been particularly true with high energy prices of late—farmers have complained about those high input costs, and many have told us in our hearings around the country that they want a safety net that addresses that, and I would like each of you to comment on the challenges of creating a farm policy that is based on some kind of production cost formula.

Dr. Flinchbaugh, do you want to start?

Mr. FLINCHBAUGH. Well, theoretically, that is a delightful concept, and that is basically where it ends.

Whose cost of production will end up with average, and what does that tell you? In the past discussions, it tends to reward the inefficient at the expense of the efficient. So I would have no quarrel with it except I don't know how you implement it to get the job done, and then what do you do about land costs? How do you figure those?

The CHAIRMAN. Thank you, and Dr. Knutson, if you want to add into that, a number of people have requested, in fact, some of the bills that have come from the Senate with regard to disaster relief, which is an ad hoc form of farm program payments, that the disaster relief should encompass payments for high energy costs. Factor that into your answers if you would.

Mr. KNUTSON. Yes. Of course, as I indicated in my testimony, I think that the whole issue of ad hoc disaster payments is a big problem because it undermines the crop insurance program and that is a major challenge for this committee to address. Now, I am impressed by some of the other options that have been discussed here.

Now, when it comes to your question of production costs, I would just add that there are other means by which farmers have to deal with costs of production, certainly energy costs in terms of utilization of futures markets, and I guess I would urge the committee not to get tied up in worrying about this cost of production issue because, as Dr. Flinchbaugh has indicated, this is an issue that you can't win on in getting in the middle of. It makes a lot more sense to think about market prices and revenue than it does to get into the business of worrying about whose costs of production exist. So let's utilize the present tools that we have for managing input costs, which a lot of farmers utilize.

The CHAIRMAN. Thank you. Dr. Babcock.

Mr. BABCOCK. Just to build on what my two colleagues have said, in terms of looking at the impact on the bottom line of unexpected variations in costs—because there is a whole category of costs. Some move, some don't move. So, if you have a 10 percent or a 20 percent change in costs of one category like diesel fuel or chemicals, it is not going to have as big of an impact on the bottom line as a 10 percent movement in price or a 10 percent movement in yield. That is like a first order consequence on the financial stress of a farm. So, although high costs can be harmful, they are not as harmful as a change of revenue, so I would focus efforts on revenue.

Now, if you really did want go down the cost of production line, I would avoid at all costs doing what Canada has done in looking at farmers' own particular costs as reported in their tax forms or however else because it will never work. You will never get an accurate portrayal of their costs. It will just escalate, and you will never win.

The CHAIRMAN. Thank you. Dr. Schweikhardt.

Mr. SCHWEIKHARDT. I would agree with everything that has been said thus far, so I will only add a couple of things. One is that, if this were somehow implemented by raising target prices, et cetera, on some cost of production basis, if that is what they are talking about, I would simply add that you begin to get a cost spiral going here. If you increase those payments one year in response to the increase in the cost of production, that is going to get bid into land values and cash rents very quickly, which of course feeds back into an increase in the cost of production, and you begin to have a spiral taking place. I would add that.

I would also simply add that to the extent that some producers are more efficient than whatever average cost of production one determines, those are the very producers who are going to gain the most from such a policy and who—because they are seeing rising support—target prices at a time and they are able to have below average cost of production, they are going to go out and bid more for land. They are going to bid these benefits right into the price of land, right into the cash rents, and when they do, again, that spiral begins to kick in, and I think that has to be considered also.

The CHAIRMAN. Thank you. Dr. Zulauf.

Mr. ZULAUF. I would lose my card as an agricultural economist if I was to suggest that costs should be built into these programs.

The CHAIRMAN. You would also be outvoted 4 to 1 on the panel.

Mr. ZULAUF. Markets do a far better job of managing costs than government can, but what I would also point out just as a point of reference is at the time that a farmer makes the planting decision most of those costs are well-known, most of them have already been paid for, and so they have been factored into the planting decision, and by the time they get to harvest costs don't usually change very much.

Now, I understand there was an exception in 2005 because of the energy prices, but if you look over a long period of time it is pretty unusual for costs to change very much from planting to harvest. Furthermore, most of the costs occurred at harvest. Probably 70 percent of the production costs are already incurred at the time that they plant. So, in a sense the cost of production issue is won over time. It is not within a given decision year, but I would really recommend the committee be very cautious about building cost of production into their programs.

The CHAIRMAN. Advice well taken.

Thank you, Mr. Chairman.

Mr. MORAN. Mr. Chairman, thank you very much for joining us.

Panelists, we have a series of three votes that are now occurring. My guess is we will be back here in about 20 minutes. There is about 5 minutes until the first vote is over, followed by two 5-minute votes. The subcommittee will recess and will be back shortly.

[Recess.]

Mr. MORAN. The gentleman from North Dakota is recognized.

Mr. POMEROY. I thank the chairman.

I would like to thank the presenters. I absolutely am fascinated by economics, and your analysis of all of this and your varying conclusions I found very interesting. So those who say, if you took all of the agriculture economists, in this world and put them end to end, it would probably be a good thing, they are just wrong.

I would like to begin my questions with Dr. Knutson.

Mr. KNUTSON. Yes, sir.

Mr. POMEROY. On the viability of sugar as an ethanol source, what price do you have in mind that might produce that result?

Mr. KNUTSON. Well, you can take current—and we go back to costs of production, dismissed earlier—but you can take current costs of producing sugarcane and, despite what USDA concludes, if you use a support price, if you use a support price, it is not competitive, but if you use the cost of producing that cane, you don't refine it, you use the juice, you squeeze the juice out of the cane, you can be fully competitive with the Brazilians——

Mr. POMEROY. To get the concept, so we kind of know what we are talking about, what is that like a pound? Do you have a price per pound?

I am going to set you up, Doctor. I have heard basically you go down the global price about 6 cents, compared to 17, 18 cents we have now U.S. market price, that works, but otherwise it doesn't.

Mr. KNUTSON. No, no, you don't have to go down to 6 cents to do it—12 cents, 12.05 cents.

But understand that we are talking about cane. We are not talking about beets. Beets is a different issue. But the advantage for beets from doing this is that you reduce the competition from cane.

In other words, you increase the total demand for sugar at the same time you are increasing energy independence.

Mr. POMEROY. If you have sugar down at 12 cents, you have reduced the competition by taking out beets, too.

Mr. KNUTSON. Well, no, I am not saying you should reduce the price support on beet sugar.

Mr. POMEROY. One thing I am interested in and I do understand, if you take the most easily captured sucrose or whatever from the cane—I don't know much about cane—what is left there in the cane is a good ethanol source. So you can maybe foresee the evolution where you have a sugar component and an ethanol component in the same crop?

Mr. KNUTSON. No, what I see once cellulose conversion technology is developed, I see them grinding up the cane and producing it in combination with the sugar that is in the cane and using it to produce ethanol. I see it, at that point, some areas that are not currently producing cane, like the Texas gulf coast, becoming big energy producers at that point; and those are the farmers that are having the most problems competing in rice production currently.

Mr. POMEROY. I respect your views but disagree strongly with your suggestion that Freedom to Farm were the good old days. You didn't say that in your testimony——

Mr. KNUTSON. What I said was, decoupled payments make more sense than coupled payments, if you look at the bottom line. And you notice that not one of us on the panel here endorsed marketing loan. Not one of us endorsed counter-cyclical payments. That is very, very interesting to me.

Mr. POMEROY. That gets back to my "string them end to end and you probably have a good thing." never mind. Never mind. I think it made sense to help farmers when they need help, and if they don't need help, not help them. So I think the counter-cyclical payment makes a lot of sense. If the farmer has to carry all the risk, either on market or on production, you are going to end up with a whole lot fewer farmers because they can't self-insure.

Mr. KNUTSON. You can do exactly the same thing with revenue assurance programs that have been suggested here. So you can accomplish it without—helping those farmers when they really need help through the types of programs that have been suggested.

Mr. POMEROY. As long as we cover the risk, how we skin that cat, I am open to discussion on that.

I know my time is up, Mr. Chairman, but there is one final question that relates to our mutual quest for disaster assistance I would like to point out.

Mr. MORAN. I know I will regret this, but you may continue.

Mr. POMEROY. This is for Dr. Babcock. You talk about on page 2 of your testimony something that Keith Collins talked to us about earlier and that was the effective coverage rate of crop insurance.

Now we have worked hard to build a better crop insurance program, but, in the end, crop insurance provides less than complete coverage of the financial exposure of the farmer. The risk is, as you get to complete coverage of the financial risk to the farmer, you really do develop some very serious moral hazardous issues relative to a crop insurance program.

So the fact that you have got crop insurance but still need disaster insurance, that shouldn't surprise anyone. If there is not just a unique and kind of isolated loss but a broad-spread one, there is complete justification for having both. That is my view, anyway, in your paragraph where you describe that effective coverage of the financial exposure to the farmer is probably down to 60 percent. Even at 70 percent insurance levels, I think makes that point. Would you care to respond?

Mr. BABCOCK. Yes. And that was the recognition that there are repeated calls for disaster programs even though we have put all these resources into the crop insurance program suggests something is broken. So when something is broken I try to think about how to fix it; and the way I fix it is to replace it with a standing farm bill program where everyone can get behind it, make it transparent, make it available. So why not create a farm bill program that would automatically cover the kinds of situations that triggered disaster payments?

That is why I focused on a target revenue program that would automatically pay when either economic disasters hit, when providers prices were low or when yields were low. So it would automatically calculate the dollars of revenue in a county, and when those dollars from the market aren't up to the target level, you cover that. So, to me, in that you would create a standing disaster program as part of a counter-cyclical kind of program——

Mr. POMEROY. I know my time is long gone, and it is late in the hearing, but we have big counties out in rural America; and I don't think you are going to have a situation where, even at a county farmers union picnic, they all going to hold hands and say, I am with you; if you don't get help, I don't get help. It is very individualized production circumstances, even within a county. So I am not quite sure how that all works.

Mr. BABCOCK. Really quickly, all I would say was that you have this dilemma. You want to help at the individual farm level, but you don't want to provide so much help that it is so high that you basically take all the risk out of production.

So, you have this tradeoff, this dilemma that you have to do; and so what I say is do it at the county level. Let the private insurance companies come in to take any residual risk that is there from crop insurance.

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. MORAN. The gentleman from Oklahoma, himself an agriculture economist, is recognized.

Mr. LUCAS. Well, I admit it, Mr. Chairman; and thank you for the opportunity to be here today and pull this panel together.

It is a fascinating process, gentlemen. It's been 25 years since I sat in Dr. Ray's policy class in Oklahoma State, and I may not have been the top ten senior, but I did pay attention, and I did learn a little about the art you gentlemen practice in the form of science.

I will say this. One of the disadvantages of having a bachelor's degree in agricultural economics is that a lot of times when I sit on this committee I know better when I listen to some of the things that are said, and that can be mildly painful. But you gentlemen are very diplomatic, and I appreciate that.

In the spirit of education, which is a big part of what you do, let's step back for a moment and look at how we got to this point. The 1996 farm bill, the 2002 farm bill. Is it a fair statement to say, gentlemen—whoever wants to touch on this—is it a fair statement to say that the flexibility principle of the 1996 farm bill, continued in the 2002 farm bill, has had an effect on how crops have been raised in our country? We have seen cropping patterns shift. We have seen people better utilize their resources. Fair statement?

Mr. KNUTSON. Yes.

Mr. FLINCHBAUGH. Yes.

Mr. LUCAS. Is it a fair statement to say that the fair principle of certainty of payment, the fixed annual payment of the old 1996 bill, carried over to the 2002 bill, has provided producers with the ability to make decisions into the future to be able to better, more efficiently utilize their resources, their times and their skill?

Mr. FLINCHBAUGH. Yes.

Mr. LUCAS. Is it a fair statement—from the trips and tours and conversations and the classes that each and every one of you teach to our constituents, is it fair to say that the producers out there have now embraced these concepts and it would be very difficult for a future committee of this House to try and step away from that flexibility, step away from that certainty of payment?

Mr. FLINCHBAUGH. Yes.

Mr. LUCAS. Oh, you are a bright bunch of people.

We in 48 days may potentially have a little bit of leadership change in a number of places in this town, possibly. That is a fair way to put it, Bob, possible, possible. That means the folks who write the 2007 farm bill may be us, but it might have a little bit different angle and perspective. But one thing we can all agree on is there are going to be tough budget circumstances.

There may be temptation to go back and do some things from the 1960's and 1970's and 1980's, things like raise loan rates. Remind us again, what happens when you encourage production through loan rate increases even though on the surface it appears to save money in a farm bill?

Mr. KNUTSON. Well, you end up spending a lot more money. In the end, you are going to end up with one of two things happening. Either you end up dumping those commodities on the world market, if you can do that, or you end up with the CCC holding high levels of stocks of those commodities. Or if you have a marketing loan or those types of programs, you end up with very, very high levels of payments.

So the only way to prevent that from happening is to impose production controls, and we have gone through all of that in the past. And I would think that none of these people up here—they can speak for themselves—would like to see that happen.

Mr. LUCAS. That is the point I am getting at, the pain we went through particularly in the late 1970's, early 1980's. We could, if we are not careful with our policy, create those kind of situations again.

When I was an undergraduate student, tractor grade boys had gone home, but it was a very hot topic in our policy class. And then, in the mid 1980's, after I graduated, the lack of job opportunities because of the general farm economy collapse and the things that were brought on there.

One last question, and hopefully we will have another round, Mr. Chairman.

CRP, 36 million acres, I think we would all agree, initially set up in the 1980's as a way to quickly and dramatically reduce production, in the 1990's sold once again to our fellow citizens as a conservation program, tremendous for wildlife, soil, water quality, all that kind of stuff, these issues about having enough resources to meet our energy and fuel and fiber needs, wouldn't it be possible, if we maintain a degree of flexibility, allowing some of the lower—when it comes to environmental index sensitivity—land out? Don't we have a back reserve of sufficient productive land out there to meet whatever energy needs we might have? Won't it come out if the prices are sufficiently high in the market?

Mr. FLINCHBAUGH. Well, again, the simple answer is yes. Some of that land can come out of CRP for bioenergy purposes. We have considerable cropland acreage in pasture that could come out to produce bioenergy crops. So there is clearly a reserve there.

It gets back to this whole issue of food versus fuel. I have no inhibitions in making this statement, that 2015 we will make more fuel from the cob and the stover than we will from the kernel.

So I really think this food versus fuel issue is greatly overplayed, and it is going to ill serve us if we continue it.

Mr. KNUTSON. It is not overplayed in the short run, Barry. If you look at 2007, 2008, if we have a mild crop in those years, you guys are going to be holding hearings on shortages of corn. There is just no question in my mind about it at all.

Now I agree with Barry. In the longer run, it is going to be cellulose. That is where it is going to come from. But you really have to watch yourself in the short run in terms of the decisions that you make.

Now a lot of those are going to be market induced. What I worry about are the kinds of decisions that are not market induced, that are as a result of loan guaranties and those types of program.

Then I will worry about one other thing, and that is that ADM is going to be the first big firm that ends up owning an awful lot of those plants, if you don't watch out. I have nothing against ADM, but there are a lot of farmers that have large investments—that are making large investments in these plants now; and if there is a crunch down the road in going to cellulose technology, which I think there will be, there is going to be a lot of structural adjustment that has to take place in this industry.

Mr. LUCAS. Thank you, Mr. Chairman; and hopefully there will be time for another round perhaps.

Mr. MORAN. That is my anticipation.

Gentleman from Nebraska, Mr. Fortenberry, is recognized.

Mr. FORTENBERRY. Thank you, gentlemen, for joining us today. I found this very interesting and very enlightening.

I am going to ask first a simple question, at least on the surface it appears to be simple; and I would like to hear your answer. What is a farm? Who is a farmer? And then I have some follow-ups questions with that.

Mr. FLINCHBAUGH. Well, we could start with the census definition, which nobody wants to give up because it shows 2.1 million farms. There is a ton of data published based on the census definition, and it serves a great purpose, confusion. I mean, those statistics are basically worthless.

We really have roughly 300,000 commercial farms that produce food and fiber. So there is no answer to the question what is a farm? You have to break it down into hobby and real agriculture, et cetera. But 300,000 is a good round number.

Mr. FORTENBERRY. Here is the issue. I was visiting with someone who does not farm for a living. They have a large international business involved in a variety of fields. They receive a direct payment check for $200 because they raise crops on a former farm for their horse feed.

But when we go to some of the ideas or potentially explore some of the fascinating ideas that you have presented that dovetailed toward what the bottom line here is, how do you create a stabilized, viable, entrepreneurial system for food security with multiple producers in our country with 10 percent of farmers receiving approximately 70 percent of all farm payments? Have we inadvertently or basically, through farm policies, unintentionally underwritten the concentration of land in the hands of fewer and fewer people? And do revenue assurance programs or risk management programs begin to mitigate or dampen that and return back to a more diverse vitality in agriculture that will actually strengthen the sector for our food security with multiple players?

Mr. BABCOCK. I will take a small crack at that, a quick one.

To the extent that you have focused your money funding for program crops, which are commodity crops, you have potentially lessened the entrepreneurial activities in agriculture as a whole. To me, if I look at the grand scheme of things and you have seen what impact you had on the structure of agriculture in terms of the number of farmers, how they are operating, it has been a very minor role. Farm programs have played a very minor role.

The major role has been largely a transfer of funds from taxpayers to farmers or landowners. The technology is the thing and changes in markets are the thing that have driven the structure of agriculture more than any other factor. So if you change the way you transfer money and the safety net, you are not going to have that large of an impact on the structure of agriculture and who those 300,000 farmers are.

Mr. FLINCHBAUGH. I frequently make the comment to my class each fall when I open up the agriculture policy class at K State that the purpose of farm programs is to decrease the pain of adjustment to technology, and if that is the purpose they have been a resounding success. And, really, that is what they have done over the years. And you have to add the other caveat that we have higher land values because of these programs. But those are the two major impacts.

Mr. KNUTSON. You are not going to change the trend toward fewer but larger farms. That is a economic and technological phenomena and nothing you do, including payment limits, is going to change that trend.

Mr. FORTENBERRY. So you are basically rejecting the premise that our current structure of our farm programs is underwriting that concentration?

Mr. KNUTSON. Yes, there are other factors that are much more important than the structure of farm programs.

Mr. FORTENBERRY. Thank you.

Mr. MORAN. And now the gentleman from Nebraska, Mr. Osborne. Mr. Osborne is not a member of this subcommittee, despite the fact that he keeps giving me instructions this morning, but I would ask unanimous consent that he be allowed to join us at the dais and he be allowed to ask the panel questions.

No objection, Mr. Osborne, you are now recognized.

Mr. OSBORNE. Thank you very much, Mr. Chairman, for your hospitality and your gracious comments. I would like to just start out with a brief statement and see if what I am saying squares with what you gentlemen believe.

Interest in revenue insurance—and it seems to me that there is some potential here in many—three or four areas that I see, and I am sure there are others—but one is in the area of specialty crops. Right now, the State of Kansas is trying to take most of Nebraska's water; and so we have less water. As a result, we have some people who are wanting to grow mustard or cantala and yet we have no crop history, so we can't get insurance. So it is kind of a death spiral.

But, anyway, it would seem to me that revenue insurance possibly could resolve this dilemma of how do youinsure new specialty crops. Because if they haven't been grown in an area, how do you get them introduced?

Second, I know there are some inequities right now as far as wheat growers feel that their target price is not what it should be. And, of course, alfalfa has been left out, and maybe we address that issue. The other is flexibility. Sometimes with base acres we get locked into growing certain crops when maybe something else would be more profitable. Then I often hear the term that, well, this may be more WTO compliant. But it seems like we are kind of guessing there. But it makes some sense that it may be better.

So unless there is a serious objection to those observations, I would like to move ahead with some questions; and the first would be for Mr. Babcock. You mentioned the target revenue level, which is kind of the key to the whole thing, and how high would you want to set that? In other words, if somebody's average for 5 years, $100,000 of gross income at the county level or whatever, and would you set that at $90,000 or where would you set it? Would it be less than or equal to what the revenue had been?

Mr. BABCOCK. I would not set a revenue level at the individual farmer level—of revenue insurance at the individual farmer level any higher than we already have in the crop insurance program. Because what it does is you start farming the insurance program rather than farm the economics of what is best for your land.

But if you go to the county level and there is a sufficient number of farmers in the county, if you insure at the county level, what you are not doing is incentivizing particularly any one farmer to grow, because their crop yield may not match the county exactly. So at the county level you can go to a 95 percent or 100 percent of the expected county revenue. So I want to give a slightly nuanced answer to that one.

Mr. OSBORNE. Thank you. That is something I was curious about.

The other issue is we may see an expanded cost here. Because I am sure fruits and vegetables are not going to want to sit on the sideline. And maybe some livestock people who have not been participating, do you gentlemen envision if you did go to a revenue assurance type of safety net that you would throw the whole agricultural sector into that without breaking the bank? Any thoughts you have there?

Mr. BABCOCK. Well, I have one thought. If you went to the WTO Uruguay Round agreement and looked at what is allowed into the green box as income insurance and you gave that program to every farmer, every animal, every crop that is out there, it would cost on the order—and you did away with everything else, you would save money. But, of course, who says they will get rid of everything else? It costs on the order of 6 to $12 billion a year.

Mr. ZULAUF. I think in the budget situation if you expand the number of commodities that receive Government payments, it is going to have to come from somewhere; and so I think the reality is if you tried to expand the number of commodities—and there will be pressure to do that—you are going to face trade-offs on reducing payments to current crops.

Mr. OSBORNE. Last question, multi-year drought, is revenue insurance impossible answer here? I know you mentioned it. In Nebraska and Kansas and other places we are looking at 6 years of drought, so the amount of insurance you can buy goes down. I am assuming we are looking—take a 5-year, 6-year rolling average on revenue insurance. So would you really be able to counteract that effect?

Mr. BABCOCK. Let me just talk real quickly about group risk income protection in the crop insurance program which a target revenue program could be modeled after. Two years or 3 years of low yields does not change the guarantee at all because it is based on a trend yield that uses 27, 30, 45 years of data. So 1 year for sure has no impact; 2 years, no impact. Maybe if you had 3 straight years or 4 straight years, then you might start seeing some of that guarantee go down. But on a county based target revenue program it will handle—your guarantee will not change from year to year because of multi-year losses.

Mr. OSBORNE. OK, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Osborne, for joining us.

I think, if it is satisfactory for the panelists, we will have a second round of questions. You all have been very kind. I don't feel I am the errant student. At least you don't demonstrate that attitude. I appreciate you answering our questions.

Couple of specific things and then a more series of general questions.

Dr. Babcock or Dr. Zulauf, is what you propose in regard to revenue insurance a change in policy? Is it an all or nothing? Is there a way to do what you propose for a commodity or for a region or this is simply something we simply would have to dive in?

Mr. BABCOCK. I will tackle that first.

All you would have to do to implement what I kind of proposed here is to change the counter-cyclical payment program, to make it a revenue counter-cyclical payment program by changing the trigger from effective target price to the product of effective target price and expected county yield. That is all you would have to do. You could do that any region, any State, any crop.

Mr. MORAN. The other two components would continue the direct payment in the LDP?

Mr. BABCOCK. Obviously, you can do what you want, but it wouldn't make a whole lot of sense to keep the marketing loan going in terms of if you were to cover expected county revenue. And the direct payment, it is a decoupled payment. You can keep that going.

Mr. ZULAUF. Yes, I would keep the direct payment, also. In my proposal, like Dr. Babcock's proposal, I have tracked the payment over the last 10 years, and it reasonably follows the current programs. So there appears to be no reason to believe that you couldn't make the transition relatively straightforward into the program.

Mr. MORAN. Perhaps—Dr. Flinchbaugh and others—all of you, in fact—have advocated, to some degree, of support for direct decoupled payments; and yet it has received a lot of criticism in recent months, particularly the Washington Post.

Suggestions on making certain that that direct payment goes to people who actually are earning a living farming or is that something we shouldn't worry about, that payments should follow the land?

Mr. FLINCHBAUGH. From a practical standpoint, I think it is something you shouldn't worry about. It gets back to the definition of a farm or a farmer. I am thinking back to when we had the original discussions on decoupling. You could tie it to something that the Washington Post would buy, I suppose, and that is conservation. You have to have a conservation plan filed, and you are supposed to be following it in order to get that payment. That could perhaps be a slight bit more enforced.

When you look at the work that the Environmental Working Group has done—and Ken Cook and I have a long-time, argumentative relationship—if you are interested in conservation, then why shouldn't Ted Turner get a payment? Because he is pretty good at conservation. So do you have a small farm agenda or do you have a conservation agenda?

I remember a discussion in 1994 when, instead of a transition payment and so forth, the discussion was a decoupled environmental payment. So there are ways to make this more politically palatable to the Washington Post, I assume, but it is an issue that is minor. I, frankly, don't worry about it, but I am not running for Congress, so——

Mr. MORAN. That is at least comforting to me and perhaps to many other Kansans.

The wheat growers in Kansas, Dr. Flinchbaugh, and the National Association of Wheat Growers, they testified in front of the full committee yesterday, and they are lamenting, at least in part, provisions of the 2002 farm bill. Is their real complaint that the mix between the three types of payments that we provide—I am sure you have heard this in their testimony yesterday, about the importance of the direct payment, which corresponds to what you have testified, but is that the real problem is the inappropriate mix between counter-cyclical LDP and the direct payment, or are they just suffering from lack of production due to multi-year weather losses?

Mr. FLINCHBAUGH. Well, you can't discount the weather problem, of course, I assume this is accidental. I can't imagine it was by design. But we have got ourselves in this dilemma.

If you look at the history of the three major programs and the way they are designed, clearly, the direct payment, as it is now designed, favors wheat; the LDP favors corn; and the counter-cyclical favors cotton, just by the sheer numbers. And the corn growers, for example, are very, very supportive of the LDP, but they have not been in a situation where they wouldn't come out on top. They haven't experienced that; and when they do, they are not going to be near as in favor of it as they are now.

The thing I find mind-boggling is that we simply cannot get through our head that this counter-cyclical program paid on price is backwards, absolutely backwards, in terms of helping a farmer that is in trouble.

But here we are with, by accident, that we have these three major programs; and each one, given the economic circumstances under which they have operated, favors different commodities. So the short answer to your question is, yes, I think the mix of programs is the problem that the wheat growers see.

Then when you come out with a disaster program that is tied to the counter-cyclical—and they haven't gotten a counter-cyclical, they are slightly irritated about that; and I would argue rightly so.

Mr. MORAN. "You" not being directed at Congress in this regard. When "you" come out with a counter-cyclical disaster payment, "you" are not directed at Congress?

Mr. FLINCHBAUGH. "You" directed at the administration.

Mr. MORAN. Thank you for the clarification.

Mr. KNUTSON. But let me simply add this. To try to balance those three types of payments out is a nightmare. I mean, you don't want to get into that business of trying to balance them out, because it is a literal nightmare, and I would not recommend that you go in that direction.

As I said, you get down to one type of payment, it sure would help in terms of being able to assess who gets the greatest benefits out of these programs.

Mr. ZULAUF. I think we need to also understand that, at least if you listen to farmers and anecdotally, is that direct payments are really getting bid very rapidly into land rents and land values. So if you pull that program, you run the risk of substantially reducing the values of land and undermining the wealth of farmers.

I am not disagreeing with anything that Dr. Flinchbaugh or Dr. Knutson have said, because I very much agree with them, but there has been this maybe unintended consequence of bidding up the price of land through the direct payment program.

Mr. MORAN. All subsidies to agriculture, to farmers will be capitalized in land values, but some payments are more likely to be capitalized or more intensively capitalized and direct payments would be the most? Is that true?

Mr. ZULAUF. If you listen to the stories of farmers and how they are bidding on land prices and assets, the anecdotal evidence is that the direct payments are being bid more rapidly. And I think part of it is because it is that you are going to get it. Whereas LDPs and counter-cyclicals, the probability is that you won't get it, and so you have to factor that into what you are going to bid into the price of land. But the direct payments are fixed. You know what they are going to be. You can easily calculate it into the value of land.

What farmers are also telling me is that their landlords know this and will go to them and say, you are getting this amount of direct payments; I want to capture part of it.

Mr. MORAN. The gntleman from Oklahoma.

Mr. LUCAS. Thank you, Mr. Chairman.

Let me ask you a question slightly outside the box, gentlemen. Everything is—the chairman pointed out—ultimately wind up in those land prices. We spend about $4 billion on our Federal crop insurance regime now. I guess that is a better phrase than "scheme." what happens if we take that money and instead—I am asking a very hypothetical circumstance—instead we put it into, say, the fixed decouple payments and turn loose the insurance industry in this country?

Right now, I serve on Committee on Financial Services as well as Agriculture, and I watch all the new and amazing and innovative products that are turning up across the country in a variety of industries, in a variety of things that affect people's lives. Right now, as I understand it, if I want to develop a crop insurance product, I come up with a good idea. I go down to RMA. If I can convince them it is a good idea, they reimburse me for my, quote, development costs; and then we all sell the same flavor of vanilla.

Just for the sake of discussion, if you turn an industry loose to develop products and provide the money, that would, in theory, be available for producers to then pick these products off the commercial sheet. Some thoughts?

Mr. ZULAUF. I don't think you would get a private insurance industry. I am aware of no successful private insurance anywhere in the world outside of hail insurance, that has ever been successful in terms of the industry continuing. And the reason is because agriculture has a fair amount of systemic or market risk, which means lots of producers experience a loss at one time; and, therefore, the company will go bankrupt. What is happening in the hurricane market right now is illustrative of that. Private insurance is pulling out of that industry because of the widespread risk that is involved.

Mr. LUCAS. Because in particular something like the hurricane market—because we have created a Federal subsidy and we charge in over the hill every time, we have distorted decisions so badly it amazes me when I read the accounts in coastal areas that the more dramatic the wipe-out of the hurricane, the more horrendous the event, the higher the property rates go. Because it is a total clean flush and you can build new again from scratch.

Mr. FLINCHBAUGH. Let's look at the history book. I would submit that we have never let the marketplace work in crop insurance or revenue insurance or whatever you want to label it.

My commission came up with an approach to this that I would at least like to see operate on a pilot basis to see if it would work, and it is actually the brainchild of Senator Lugar. Basically, you hand in your farm program on this decoupled fixed payment, and then you take $4 billion that you are talking about, and you issue vouchers, and you turn the insurance industry loose and let their creative juices go to work. And a farmer then picks from the array of insurance programs, may just be yield insurance or it may be revenue.

It clearly has, as Dr. Zulauf said—or maybe you said it about the hail insurance—but you get the best of both worlds here. You have that voucher that will help farmers in high-risk areas where insurance would be prohibitively expensive, and then you let the insurance industry become entrepreneurs instead of relying on the Government for their costs, et cetera, et cetera, et cetera.

My commission recommended that voucher approach, that we take a hard look at it. I think it makes tremendous sense, frankly, and I would love to see it tried. If it doesn't work, we will admit it and go on to something else. But we have no history that tells us whether it would work or not.

Mr. LUCAS. I know the challenge of crop insurance always is that trying to do something for somebody in north Roger Mills County in Oklahoma, where we measure the soil in inches and it rains in inches and most of it rains in 3 nights, is different than where my ancestors came from on the north bank of the Wabash River in Indiana where soil was in feet, it rains in feet, and it sort of rains in an occasional fashion.

But I just know that from the frustrations at my town meetings if there is one topic that draws more ire and more animosity—above and beyond even discussing congressional pay scales—it is crop insurance. It stirs up the folks back home. But short of doing something dramatic like this, it seems like we are on a trail of changing the tires on the car, so to speak, as opposed to really getting to the core.

Thank you, Mr. Chairman.

Mr. MORAN. That you, Mr. Lucas.

The gentleman from Nebraska.

Mr. FORTENBERRY. I wanted to explore a little bit deeper something I was hinting at a little bit earlier. I think it was you, Dr. Babcock, that said there is a creative tension, a philosophical tension, an economic tension between what we are doing in attempting to mitigate risk so that we have a stabilized agriculture sector, balanced against undermining innovation and risk taking, and that is the tension. I think it was you that said that.

Going back to your new concepts or your broadening of the concepts of revenue assurance or risk management, would there be a way to define revenue assurance or create some variables in the revenue assurance program that doesn't mitigate the risk of risk taking too much?

In other words, the diversification—if you are going to be paid for certain commodities and that is it, if you were given a bare piece of land that could be put to multiple uses that you knew the Government was going to pay you for, what would likely to be two or three crops but that are potentially grown on that, you are going to take that deal over taking risk in the marketplace that may very well result in what we want to see in overall policy, namely, a more diverse agricultural entrepreneurial economy that doesn't oversupply in any particular commodity and bid down prices and increase the bill to the taxpayer.

So do you see what I am hinting at? Any one of you are welcome to talk about that.

It is always a little bit dangerous, Mr. Chairman, to wax philosophically or to try to conduct a policy idea session in a committee hearing, but, nonetheless, what I am suggesting might be a way to round or think a little bit differently creatively in regards to some of the ideas that you have appropriately and goodly laid out.

Mr. BABCOCK. Well, to the extent that you do take risk out of producing one activity, the farmers generally will take on extra risks somewhere else. Because they balance things out. They have their own risk reward table out there. So if you wanted to design a program that would meet the political needs to intervene when something bad happens, so it is not just a farmer need, it is also a political need and having a political process respond to disasters of some sort, you need to have——

Mr. FORTENBERRY. We call it economic or social justice need, rather than——

Mr. BABCOCK. Well, a lot of times the payments are targeted at places that don't have economic need.

But, having said that, there is a balance between an economic need and needing to help and coming in to help and designing the help that doesn't in some sense mess up incentives for doing entrepreneurial activities. And the trade-offs are that the more that you target particular activities, the more you are going to get those activities.

So one way of doing it and getting the idea of new crops coming in is to design some kind of a whole farm concept where you might take on some risk over here knowing that if disaster hits all your crops you might be brought up. But it only hits someone, well, you have gotten some whole farm concept. So if you move away from insuring individual crops, individual units and insure the whole farm activity, that might be one way to foster more entrepreneurial activity.

Mr. ZULAUF. I think it is also important to ask what you are trying to accomplish with the policy in terms of risk management. If the policy is attempting to mitigate the risk that the private insurance industry would not be able to provide, then you are not disrupting the incentive, you are simply providing a product that the private market would not provide. If you are attempting to provide a product that the private market could provide,then you are disrupting the private incentives to manage risk effectively.

So if you go after the market risk, which private firms have great difficulty insuring because of large collections and ensuing bankruptcy, I don't think you individually affect the individual farmer's risk management that much. But if you start going down to where you are affecting availability of private insurance contracts, I do think at that point you are affecting their decisions.

Mr. FORTENBERRY. Well, for those of you who spoke at length about new revenue assurance models, talking about this larger whole farm concept or with specific commodities?

Mr. BABCOCK. I will just say, if you do a whole farm concept, that is less anti-entrepreneurial, if you will. Also, if you do it at the farm level, that is the least productive. If you do it at the county level or the crop reporting district level, as you move up——

Mr. FORTENBERRY. Your model had already built that in.

Mr. BABCOCK. Yes, but as you move up you get less distorting behavior on the part of farmers.

Mr. KNUTSON. I was talking about a whole farm concept.

Mr. ZULAUF. And mine was commodity specific.

Mr. FORTENBERRY. Thank you. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Fortenberry.

A couple more, at least for me.

There is a bit of a disagreement I think between Dr. Flinchbaugh and Dr. Knutson about biofuels and the role they play. One of the things that just my reaction—and I am a sponsor of the resolution that this committee adopted today on 25 x '25. I see the brightest opportunities for agriculture as we not only meet our caloric needs but also our BTU needs.

We have heard concerns—particularly from poultry producers—about supplies. Dairymen in the office recently had concern about whether or not there was going to be sufficient corn.

Now I guess all of you would be fine with all of this if it was market driven. The question I am trying to figure out in that sense, a series of thoughts I have about how much of what is going on in ethanol and soy diesel today is market driven as compared to policy that we put in place, incentives at the taxpayers' cost. I am concerned from time to time when I pick up the paper and read that. It is a mixed blessing to me.

I pick up my hometown paper and read that another community is either cutting a ribbon, breaking ground, planting an ethanol plant. The mixed blessing is that is great news from an economic development job creation, another commodity use, another use of agricultural commodities. But I also worry that you can't have an ethanol plant on every corner. If this was all market driven, I would feel comfortable with how that turned out.

But whatever role I am playing as a Member of Congress, that creates an incentive that confuses the market, that overcomes the market to some degree at least temporarily. So that worries me.

So what policies have we put in place that we ought to be worried about that are driving bioenergy in a nonmarket way?

Mr. KNUTSON. Let me take a shot at it, and I will let Barry take a shot at it.

I have a concern that is of a short-run nature about us overshooting in terms of capacity on ethanol produced from corn. I mean, I think that is a real danger. Now how much of it is due to farm programs, I am not going to argue that a whole lot of it is. Because when you have $3 plus gasoline prices, you have got a lot of incentive. You have a big profit margin, and that is why people outside of rural communities are investing in these bioenergy plants.

Mr. MORAN. So at $3 a gallon it is market driven.

Mr. KNUTSON. It is market driven, no question about that; and there is not a whole lot that you can do about it. But when you come to imposing import restrictions and those kinds of things, then that exacerbates the incentive here in the U.S. to make these kinds of investments, and there is enough incentive for these kinds of investments without these other barriers to trade, loan guarantees and those kinds of things around.

That is my view on the situation. Now, having said that, you will notice in my testimony—I didn't emphasize this—but research and development associated with cellulose technology is very important, legitimate. It is a little bit hard to predict who is going to really benefit from it in terms of owners of land, but there is a lot of potential, apparently, in that area. So I don't have any objection and I think that is a legitimate role for this committee in that regard.

Mr. MORAN. Dr. Flinchbaugh, you told me you are a convert to biofuels. Does my question make any sense to you?

Mr. FLINCHBAUGH. Yes. And, of course, if you look at the biofuels situation today compared to 10 years ago, it is not difficult to be converted. The economist dilemma is the short run versus the long run; and there is not much disagreement between Dr. Knutson and me here. That is why I think the key role for the farm bill in bioenergy is to advance research and development in cellulosic energy.

Some of my corn grower friends were not very happy with me when I made the statement, by 2015, we will be making more fuel from the cob and the stover than we will from the kernel. And I can envision the day when we don't make any ethanol from the kernel, frankly. So, long run, this is clearly not food versus fuel.

The 25 x '25 group—and I am an original member of that—we have never called for subsidies or any such thing in terms of biofuels. What we basically have called for is research and development. The private sector is getting more and more involved, but the public sector can enhance this, and that is basically the bottom line.

Mr. MORAN. We often say, when it comes to energy, that what a great day it would be when we are at least less dependent upon foreign oil. I happen to believe that. And the places that oil comes from are historically unstable.

I started out as an ethanol or soy diesel supporter interested in additional commodity for my farmers, additional opportunity to market a commodity. Then it became rural development, jobs created in small towns. Then it became price at the pump. Then it became national security.

I am at least comfortable in the opinion that money that we spend on foreign oil comes back to us in the form of terrorists, and so I think there is a number of national policy reasons that we would want to have domestic supplies of energy.

I am not an agriculture economist. Although my degree is in economics, I often tell my constituents—it is kind of like what Mr. Lucas said; I am with you—my degree is in economics, but my profession is politics; and there is from time to time a conflict in that regard.

My question is, if we reach a national goal that we are supposed to have energy provided domestically, I think laws of economics would tell us that we go wherever it is the cheapest, wherever we can buy the product for the least amount of money. That is the way the economy should work.

Although I think in the case of energy, many times, our costs are not internalized, the cost of national defense, the troops, the foreign policy. So what we pay per barrel of oil I think in the international market does not internalize costs that the taxpayers of this country are paying.

I am happy to have you comment on that topic, but I want to take that to food policy, to farm policy. We are often hearing now, if you like what you have got in energy, where we are dependent upon foreign supplies, think what that will be like when we are dependent upon our food coming from foreign sources; and, in fact, we are seeing that direction already.

My question is a broad economic or philosophical question. Should it be a national goal that we feed ourselves? Is there a national reason that farm policy, the next farm bill, one of its components, one of its foundations, should be about making certain that food is provided to the American consumer from domestic markets?

Mr. BABCOCK. Well, I will start.

I think there is a difference between—it is really a hypothetical, because the food we are importing primarily is a result—not that we need the food necessarily, it is because we can afford the products that the rest of the world has to offer us. It is a sign that our incomes are growing and our purchasing power is growing so much that we would like to import the kinds of foods that other places have a comparative advantage at producing.

If it ever came down on the point that, because of national security, that we are short of calories, I don't think we need to worry about that. Our national calorie production in the United States is way over whatever we can consume. So if we get to the point where we have to worry about feeding ourselves, with regards to survival or caloric intake, I don't think we are ever going to get there.

Mr. MORAN. Well, let me add something, Dr. Babcock, to what you just said. For example, I always thought that farmers generally support trade, trade agreements as long as we are the low-cost provider. When we are not, then trade is a lot less desirable thing.

So to me this kind of discussion lends itself—I don't know whether you see the connection that I do. But, for example, you talk about we are using our disposable income to buy things that are considered, I guess, more luxurious as far as our appetites. Soybeans in Brazil is the example that comes to my mind. The ability to produce soybeans in South America because of land values, environmental costs, labor costs very well may be less than harvesting supplying soybeans from the United States.

Let me take it to a more basic commodity, not anchovies. Should it be a national policy that we produce soybeans in the United States, that we produce wheat, that we produce corn, the basic staples of our diet? Or is it the economists' point of view that laws of supply and demand and price is what matters and that is a policy that, again, we will get the best economic growth in this country if we are buying products at the lowest price.

Mr. FLINCHBAUGH. Well, Congressman, you build the case of why you make these decisions instead of economists.

The law of comparative advantage, in the purest sense, dictates trade, but when we don't like its outcome, we alter it politically, and the No. 1 reason we alter it politically is national security, and I think way back to Ezra Taft Benson, who was opposed to all farm programs except the wool subsidy. Now he came from Utah, ironically, but his argument was—and this was before polyester—that we needed the wool to clothe the soldiers.

Now, when you are in that frame of mind, the law of comparative advantage is useless. So God forbid that economists make these decisions. It is a political economy.

Every farm bill from day one had food security as a goal, and the 1985 Act was the Food Security Act. I don't see that changing.

So making the jump from fuel to food is a giant leap, but food security is important. And, with the 25 x '25 group, we have basically five subgoals or five reasons for 25 x '25. National security is No. 1. Improve farm income is No. 2. Lower fuel costs in the long run is No. 3, and No. 4 is environmentally friendly, and No. 5 is jobs. Now that's a pretty inclusive, politically palatable set of reasons. It is hard to argue with them.

Mr. MORAN. Dr. Flinchbaugh, you may want to consider running for public office, because I think you very artfully handed my question back to me.

Mr. KNUTSON. Let me add one thing to what Dr. Flinchbaugh says; and that is, don't look at this food security issue on an individual commodity basis. That is very, very dangerous. I mean, then you get to protecting self-sufficiency on individual commodities.

It may be that things have changed sufficiently that Brazil can produce soybeans cheaper than we can, and that we can produce corn more competitively than they can, which I happen to believe, but to say we ought to be self-sufficient in any commodity is a very dangerous kind of proposition.

Economics is a great equalizer, when it comes right down to it; and, to the extent possible, you guys provide the overall framework. The more commodity specific you become, the more problems in terms of economic distortions that you are going to create.

Mr. SCHWEIKHARDT. The other thing that I would add to that is, if one looks at the U.S. agricultural trade data very carefully, not just the aggregate numbers that say, "Here's how much the trade surplus in agriculture is or agricultural deficit is," that is what gets all the headlines. But go behind that and look at the numbers closely. We are setting records on exports of vegetables, fruits, fruit juices, but our exports there are growing slower than our imports of fruits, vegetables, fruit juices.

Now, why is this so? I will tell you there is just one plain, simple reason. Every doctor, every dietitian in America is telling their patients "eat more fruits and vegetables." people are going out and doing that. The agricultural trade surplus number has absolutely not one wit to do with how competitive we are in that regard.

That aspect, if you look at the trade picture, those are the biggest changing numbers. It has to do entirely with people's consumption due to health.

We talked about the fruit and vegetable planting restriction. I think agriculture has to face a very serious question. Are they going to march out there and tell the American public, "We have to have a farm bill with a rule that discourages people from planting the stuff that doctors say you should eat” or are we going to march out there with a farm bill that says, “We are tuned to the health needs, the nutritional needs, the obesity issue of consumers”? That is what agriculture has got to decide, and I think those things are much bigger than any particular trade issue.

Mr. MORAN. Mr. Lucas.

Mr. LUCAS. Just, really, an observation, Mr. Chairman. You have heard me kiddingly say a lot of times that agricultural economics is an art form more than a science, but, in fact, it is a well-developed science. Our friends here have been a real pleasure to listen to, and this is a science that has been aggressively pursued for a century now and, like any good century of research, we need to pay attention on this committee to the results of that.

I come at these issues from the perspective of my district, as all Members do, northwest Oklahoma, the great economic and drought abyss of the 1930’s, the drought abyss of the 1950’s. I watched my neighbors go along on the tractorcades in the 1970’s, and I watched a good bit of our financial infrastructure and my fellow farmers go away in the 19—I should say the tractorcade in the 1970’s and my neighbors go away in the 1980’s.

On this committee, I think we need to remember that we have had a decade now—maybe it is due to world demand, and maybe it is due to our policy. Maybe it is due to things totally beyond our control. But we have had a relatively calm 10 years from the perspective of our jurisdiction, and I hope that whatever we do in the coming spring that we try to extend that decade of experience and not return to the 1930’s or the 1950’s or the 1970’s or the 1980’s.

Mr. MORAN. My guess is, Mr. Lucas, you were speaking to the audience—very well—or at least the audience at the table.

Let me ask you if you all have, before we conclude this hearing, any comments that you would like to make, anything you heard, a response you didn’t get to make or something you heard your colleagues say that you would like to critique.

[No response.]

I very much appreciate your participation here today. I thank you very much for providing us your insight. This is a battle of ideas that will continue for a few months to come and, actually, for long into the future.

Without objection, the record of today’s hearing will remain open for 10 days to receive additional material and supplementary written responses from witnesses to any question posed by a member of the panel.

The hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 1:08 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

## STATEMENT OF BRUCE A. BABCOCK

Thank you, Mr. Chairman, for the opportunity to participate in today’s hearing.

I want to focus on the question of whether current Federal safety net programs are making the best use of tax dollars or whether an alternative approach could better meet the needs of both farmers and taxpayers. I take as a given that Congress wants to continue to provide support to agriculture, and in my limited time, I will not address the larger question of whether significant farm bill support should be expanded beyond the so-called program crops that include feed and food grains, oilseeds, cotton, and peanuts.

In designing any type of program, one needs to first determine the program's objective. I assume that the Federal farm safety net should be designed to give farmers a good chance to pay off their expenses and survive years of significant financial stress. Financial stress occurs when farm receipts are low or costs are high. Variations in revenue have far greater impact on a farmer's bottom line than do variations in cost, so aid should be targeted at revenue rather than costs. Low farm revenue can be caused by either poor yields or low prices, or a combination of both.

Federal safety net programs are administered by two USDA agencies: the Farm Service Agency and the Risk Management Agency. As is generally the case, the programs of these agencies are not tightly coordinated. A case can be made, though, that the two agencies' programs do complement each other. FSA administers programs that make payments when prices are low and RMA's crop insurance programs make payments primarily when yields are low. Because both low prices and low yields are covered, farmers should have an adequate revenue safety net. But a closer examination of current programs reveals some glaring weaknesses.

Let's begin with a look at the marketing loan program, which provides producers with either a marketing loan gain or a loan deficiency payment when the local spot price falls below the loan rate. Consider what happens in a low-price year, such as we had in 2004 for corn. A corn farmer who had the misfortune of not producing a corn crop received no benefit from the marketing loan program. Farmers who harvested bumper crops received large loan deficiency payments because they had so many bushels to claim under LDP. Thus, the marketing loan program under-compensates farmers with low yields and over-compensates farmers with high yields.

Over-compensation occurs for two reasons. First, because no payment offset is made for those farmers who have bumper crops to sell, net farm income actually increases in low-price, high-production years. Furthermore, in these high-production years, the price at which marketing loan gains and LDPs are calculated is generally much lower than the price at which the crop is actually sold. That is, on average, the program over-protects most farmers in low-price years.

Some believe crop insurance prevents under-compensation by making up for low yields. In 2006, farmers bought Federal crop insurance on 194 million acres of program crops. The average coverage level on these insured acres is approximately 70 percent. This means that, on average, farmers will not receive any insurance coverage until they have experienced a 30 percent loss. And in most regions, the actual deductible is much greater than 30 percent because the yield used to calculate the insurance guarantee is much lower than what farmers expect to harvest. Furthermore, nearly 25 percent of program crop acreage is not insured. Taken together, these statistics means that less than 60 percent of the expected market value of program crops is insured. The lack of insurance on at least 40 percent of market value is perhaps why the call for ad hoc disaster assistance programs is so persistent.

To summarize, taken together, FSA's price protection programs and RMA's crop insurance programs do provide valuable tools for farmers to manage their risks. But the provided coverage often misses the mark and costs are high. Marketing loan programs pay, on average, more than is needed to compensate farmers for price declines. And the net cost to taxpayers of the crop insurance program from 2001 to 2005 has been $15.1 billion. Fully 42 percent of this $15.1 billion flowed to crop insurance companies through underwriting gains ($2.5 billion) and operating expenses ($3.8 billion). To put it another way, it has cost taxpayers $1.71 for each dollar of producer benefit from the crop insurance program.

It may seem odd that I am focusing on the crop insurance program at a farm bill hearing. But a better farm safety net could be created if the best ideas from crop insurance were combined with the most effective approaches from Title I of the current farm bill.

The first step is to recognize that under- and over-compensation can be minimized by targeting farm programs directly at low revenue rather than at low prices. It makes sense that a target revenue program would be more efficient at protecting revenue than either a target price program or a combination of a target price and crop insurance.

Next we would need to decide if the target revenue program should target actual farm revenue or a more aggregate measure of revenue, such as revenue at the county or state level. The advantage of targeting farm revenue is that payments would reflect actual farm losses. But there are many disadvantages. Farm-level losses are costly to monitor and verify. The program would be open to the same fraud and abuse as the current crop insurance program. Also, for a given coverage level, farm-level programs cost much more than programs at a more aggregate level of coverage, such as the county, the crop reporting district, or the state.

If the target revenue program made payments when county revenue is low, then the program would cost less than to administer than current farm programs and the program would not create incentives to defraud and abuse the system. Furthermore, we already have a working example of a target revenue program at the county level in our crop insurance program. Group Risk Income Protection pays indemnities when county revenue falls below a guaranteed level. The only significant difference between an effective farm bill target revenue program and GRIP is that Congress might choose to use a fixed target price or a rolling average of market prices to set the target revenue guarantee rather than futures market prices that can greatly fluctuate from year to year. Acreage insured under GRIP has climbed to 11.7 million in 2006 from only 1.2 million acres in 2003 as farmers have come to realize what a good product it is.

To reiterate, there are several benefits of a target revenue program at the county level:

1. It would target the economic variable, revenue, that farmers use to pay their bills;
2. It would provide protection against the two most important sources of risk that producers of program crops face: low prices and low yields caused by widespread weather events.
3. By covering systemic price and yield risk, a target revenue program would enable private insurance companies to insure the remaining farm-level risk without Federal involvement.
4. It would do away with any rationale for Federal disaster aid for producers of program crops because county-level losses would automatically trigger payments.
5. Coverage is scalable so Congress could decide on the appropriate coverage level given competing needs for scarce farm bill funds.

We have studied what a target revenue program would provide in terms of protection and cost relative to existing programs, and there is no doubt that better protection can be obtained from a target revenue program at lower cost. But perhaps it is more instructive to look at the cost of a target revenue program relative to taxpayers' current contribution to GRIP. We estimate that per-acre costs for GRIP in the form of premium subsidy, expected underwriting gains, and administrative and operating expenses would cover the cost of an acre enrolled in a target revenue program at a coverage level of 97 percent. That is, Congress could give crop farmers 97 percent coverage at the county level for the same per-acre taxpayer cost of GRIP today.

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## STATEMENT OF RONALD D. KNUTSON

Mr. Chairman and members of the subcommittee, thank you for the opportunity to appear before you today to address what I believe to be some of the major economic issues confronting you in designing future Federal farm policy. There are a number of economic lessons learned from the past that can be applied to current and evolving economic conditions in agriculture. I draw on over 40 years as a policy analyst, as the former Director of the Agriculture and Food Policy Center at Texas A&M University, and as a former Administrator in the U.S. Department of Agriculture. The special interest I represent is as a member of the general public who is interested in an economically rational farm policy. In today's context, such a policy has multiple and sometimes conflicting goals of providing a safety net for farm income, expanding trade, improving efficiency, increasing energy independence, and conserving agriculture's resources. I will not address other important sections of the farm bill that deal with issues such as food safety, nutrition, rural development, research, and extension.

More often than not, farm policy has been developed in a crisis of low farm prices and incomes. This should not be the case for those farmers who have had the blessings of favorable weather in 2006 and 2007, when grain prices should be quite favorable, bolstered by strong biofuel demand. In this generally favorable economic environment, I encourage the Committee to boldly lay out the goals desired to be accomplished and changes that need to be made to serve the long-run interest of the agriculture community and the general public. The following represent my list of such needed considerations and options for the next farm bill:

1. Following the decisive moves of the 1996 Farm Act to decouple direct farmer payments, the 2002 Farm Act took a step back by adding the countercyclical payments, which are only partially decoupled, extending the marketing loan payments, and adding the MILC payments. While U.S. farmers were pleased with the increased support, the international reaction was decidedly negative due to the potential for production enhancing, market price depressing, and trade distorting effects.

These 2002 Farm Act provisions were one of the factors that led to the Brazil WTO cotton litigation and arguably the impasse in the Doha Round of trade negotiations. It is important to note that the United States now lags the European Union in the level of decoupling, although the EU's overall level of farmer support continues to be higher than that of the United States.

The expectation of generally favorable U.S. crop prices and incomes, if realized in 2007, makes this a good time to change the form of support by moving to a decoupled farm policy that is less trade distorting. There are a number of specific options for decoupling including a fixed payment, various forms of green payments, and various forms of targeting benefits not related to production and price. If you desire, these alternatives can be further expanded upon subsequently. Any movement toward decoupling programs has to consider the unintended consequence of rewarding those who are not at risk (landlords) at the expense of their tenants.

2. The combination of milk price supports and milk income loss contract (MILC) payments lacks economic consistency and logic. While I recognize that this subcommittee lacks jurisdiction over dairy programs, there is an overriding need for a consistent farm safety net policy across commodities. This exists in the program crops where it was learned in the 1970's that a target price set at a higher level than a support price that sets the market floor runs a substantial likelihood of leading to high CCC purchases and stocks. As a result, in 1985 Congress adopted the marketing loan for crops (initially for cotton and rice and later for all crops) as the main support mechanism and effectively eliminated the nonrecourse loan as the price floor. The dairy support program has a history of being plagued by periodically large CCC purchases, stocks, and the need to dispose of them through feeding programs, as animal feed, or through the Dairy Export Incentive Program (DEIP). This experience has been aggravated further by the MILC program.

Options for the dairy program include either eliminating the price support program or MILC. From an economic perspective, eliminating the price support program while retaining MILC would be less trade distorting while counting less toward our amber box limits; would effectively deal with CCC storage and related cost issues; would yield consumer price benefits and expand trade; and would be more transparent. Recent experience and studies clearly suggest that U.S. dairy farmers producing a majority of the milk production are able to compete internationally. Dairy programs need to be adjusted to this reality.

3. The realities of CAFTA and NAFTA also require that our sugar policy be modernized, which is long overdue. First and consistent with my suggestions for dairy, a direct payment program is needed for sugar, which would substitute for the current production control and CCC support programs. Ideally, these direct payments would be decoupled. Steps need to be taken to utilize our sugar production capacity for ethanol. Direct payments, the elimination of production controls, favorable corn prices, and the utilization of extracted juice for ethanol will help in this regard. AFPC analysis indicates that, in the absence of sugar price supports, utilizing the Brazilian model of making ethanol from sugarcane juice, the U.S. sugar producers can be competitive with corn and with ethanol imports from Brazil. Making these policy changes would increase the sweetener market share for beet sugar as sugarcane is used to produce ethanol. A breakthrough in cellulose conversion technology would further boost the economic advantages of producing ethanol from sugarcane and, perhaps, from sweet sorghum. This seals the case for increased public sector research on the development of cellulose conversion technology.

4. If anything is done on payment limits, I would suggest eliminating them completely because they either do not work or are counterproductive. They do not work, except in dairy, because of the array of legal loopholes that exists for avoiding them in crops. For crops, payment limits are one of the factors that has resulted in increased use of cash rental arrangements. The renter gets the direct payment, which is then ultimately passed on to the landlord as higher cash rent, meaning that for the landlord there is no payment limit, even though there may be one for the tenant. Tenants are further hurt by reliance on cash rents by having to absorb 100 percent of the production and financial risk, rather than sharing it with the landlord on a share rental arrangement. While payment limits work in the dairy MILC program, they penalize the largest and most efficient milk producers. In other words, payment limits are neither an effective nor an efficient way to target program benefits. I see no means of avoiding these counterproductive effects other than eliminating income support programs entirely.

5. If disaster payments are going to be continuously mandated by the Congress on an ad hoc basis, crop insurance subsidies need to be discontinued in favor of a permanent Federal disaster program. The objective of such a program could be to compensate farmers for losses due to natural disasters where yields are unusually low relative to the farmer's yield history. Alternatively, the program could be ex-

panded to provide revenue assurance to all farmers as a substitute for all current safety net programs, including crop insurance, all forms of direct payments, and any price support programs. As a starting point for considering these options, the CBO and FAPRI should be asked to evaluate the cost of these two options relative to the current baseline.

6. There is a danger that incentives for increasing bioenergy production could be excessive with adverse long-run consequences for farmers, for the use of agricultural resources, and for the future of farm programs. In raising this concern, I am not opposed to the use of agricultural resources for energy production where dictated by market conditions, which is currently not the case. Neither am I opposed to increased support for research and extension designed to increase energy yields from crops or to develop cellulous sources of bioenergy. In addition, as noted previously, program adjustments are warranted to increase the utilization of our sugar production capacity for bioenergy production.

I am concerned that excess investment in bioenergy could adversely affect feed costs for poultry and hog producers, which would strengthen their case for demanding program benefits. It could also ruin our reputation as a reliable supplier for exports to countries that have come to depend on the United States for a supply of agricultural products at our urging. This concern affects subsidies and loan guarantees to encourage investment in bioenergy and the creation of barriers of trade in bioenergy. From an economic perspective, the U.S. price of bioenergy, the price of the feedstocks used to produce it, and investments in bioenergy production can best be determined by the market relative to the price of oil. The danger of not operating in this manner will get the United States mired down in government agriculture and energy adjustment programs for years to come.

Let me end my testimony by saying that I appreciate the difficult task that faces you in writing new farm legislation. Statesmanship and a continuation of accelerated communication by the Committee with your increasingly diverse constituencies and by Secretary Johanns will clearly be required as you move through the process. Due to time limits, I have outlined a few of the major improvements that could be made while retaining the farm program safety net, which is important to all interest groups. I am available now or at any time in the future to answer questions.

**Testimony of**
**David B. Schweikhardt**
**Department of Agricultural Economics**
**Michigan State University**
**Before the**
**Committee on Agriculture**
**U.S. House of Representatives**
**September 21, 2006**

Mr. Chairman, thank you for the opportunity to testify as this hearing at a time that the United States is preparing to write the 2007 farm bill.

I will discuss what I believe are some of the dimensions of some farm bill issues as observed from the State of Michigan. In doing so, I believe that Michigan is in a unique position as the farm bill debate unfolds. In a very real sense, Michigan is a microcosm of the issues that you will wrestle with during the coming months and the implications of those issues may be more obvious in Michigan than in many other states.

In particular, I would like to address to two aspects of the issue of whether to eliminate the Fruit/Vegetable/Wild Rice planting restriction in the next farm bill. In particular, I would like to address (a) the potential impact on specialty crop producers and vegetable crop producers of changes in the Fruit/Vegetable/Wild Rice planting restriction (hereafter referred to as the "FAVR") contained in the 2002 farm bill, and (2) the potential impact of the continuation of the FAVR on the international trade prospects of U.S. producers that I do not believe have received sufficient recognition among the public.

I will not repeat the details of the FAVR or the role of the FAVR in the U.S.-Brazil cotton case because I am certain that the members of this Committee are familiar with those details. Instead, I would prefer to begin by examining the first issue, the potential impact on specialty crop producers of changes in the Fruit/Vegetable/Wild Rice planting restriction. I have recently completed, with my colleagues at Michigan State, Suzanne Thornsbury and Lourdes Martinez, a research project examining the potential impact of a change in the FAVR on farmers' planting decisions in Michigan.

In particular, we examined the barriers to entry and inducements to entry that would likely affect program crop farmers' decisions to enter various specialty crop markets if the FAVR is eliminated by the next farm bill. In each case, we examined the factors that inhibit, or encourage, the entry of program crop producers into these markets. Though the final version of our research paper is not yet completed, Table 1 of this document shows a range of outcomes that occurred when we examined various markets

**Table 1**. Probability of Entry by Program Crop Producers into FAVR Crop Production in Michigan*

| | **Factors Influencing Entry by Program Crop Producers** | | | | | |
|---|---|---|---|---|---|---|
| **Crop** | **Capital Investment** | **Rotation Restrictions** | **Market Accessibility** | **Labor/Mgmt Requirement** | **Financial Incentives** | **Probability of Entry by Program Crop Producers** |
| | **Barrier to Entry** | **Barrier to Entry** | **Barrier to Entry** | **Barrier to Entry** | **Inducement to Enter** | |
| Dry Beans | Low | Low | Low to Med | Low | Low to Med | High |
| Pickling Cucumbers | High | Med to High | High | Med to High | Low | Low |
| Fresh Market Tomatoes | High | Med to High | High | High | Low | Low |
| Processed Tomatoes | Med | Med to High | Med | Low | Low | Med |
| Squash | Low to Med | Med to High | Med to High | Med | Low | Med to High |
| Blueberry | High | Low | Med | High | Low | Low |

* Does not include limited volume sales through outlets such as through farmers markets or roadside stands

in Michigan. As you will note, the results of this research suggest that the likely impact of the elimination of the FAVR would vary widely among the crops covered by the FAVR.

For those specialty crops where barriers to entry are high, we conclude that the inducements to enter these markets would be too low to cause a significant number of new entrants to enter the market. On the other hand, where the barriers to entry are low—for example, where farmers can use existing equipment to produce the specialty crop – and the inducements to enter are relatively high – for example, where existing government payments are a relatively high share of the total revenue of the FAVR crop – we conclude that the likelihood that program crop producers would enter these markets is higher. For example, the likelihood that program crop producers would enter the dry bean market is much higher than the likelihood that they would enter the blueberry market. Consequently, any price or income impact on existing crop producers caused by a change in the FAVR would likely to much larger in the dry bean market than in the blueberry market.[1]

Second, I would like to discuss some of the international trade implications of the FAVR that I do not believe have been widely recognized. Much discussion of the FAVR has focused on the impact of the FAVR on the U.S.-Brazil cotton case and I will not repeat that discussion at this time. Instead, I would like to focus on another aspect of the FAVR issue that I do not believe has received sufficient public attention.

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[1] For further discussion of this research, see Suzanne Thornsbury, Lourdes Martinez, and David Schweikhardt. *Michigan: A State at the Intersection of the Debate over Full Planting Flexibility.* Department of Agricultural Economics, Michigan State University, Forthcoming.

In 2005, various Canadian corngrower associations filed a complaint against the United States claiming that corn was being dumped and subsidized into Canadian markets. In response to this complaint, the Canadian Border Security Agency imposed a tariff of $1.65 per bushel on all corn exported from the United States. [2]

A dumping/subsidy case requires that two legal issues be addressed. First, is there evidence that the imported product is being dumped or subsidized by the export country? Second, is there evidence that the dumped/subsidized exports are causing injury to producers of the product in the importing country?

On the first question – is there subsidization of U.S. corn exports entering Canada – the Canadian Border Security Agency ruled that the U.S. corn program was an actionable form of subsidy that did justify the use of countervailing tariffs. In doing so, the Agency cited the U.S.-Brazil cotton case – and particularly the FAVR – in concluding that the U.S. corn program created actionable subsidies and that tariffs would be justified.

Though the United States won this case on the second issue (was there damage to Canadian corn producers) and the tariffs on U.S. corn exports were removed, I believe that the Canadian corn case and its implications for U.S. agricultural exporters have not received adequate attention in the press or in farm bill discussions. I believe that the Canadian corn case indicates a serious future risk if the United States retains the FAVR in the next farm bill. Very simply, I believe that the Canadian corn case indicates that many buyers of U.S. program crops could use this approach to impose countervailing tariffs on U.S. products by claiming that all U.S. farm programs that rely on the FAVR

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[2] For further discussion of the U.S.-Canada corn dispute, see David B. Schweikhardt, *The Canadian-U.S. Corn Dumping Dispute: Implications For Michigan*. Department of Agricultural Economics, Michigan State University. September 30, 2005. Submitted with this testimony.

create actionable subsidies. I believe that the United States was very fortunate to win the second issue (on damage) in the Canadian corn case for some very unique reasons, and that we are running a serious risk of losing on this second issue (and therefore facing the imposition of tariffs) in future cases. Though there has been much public discussion of the risk of the United States facing future WTO challenges on crops other than cotton if the FAR is retained, I believe that the greater risk is that the U.S. could face a number of these dumping/subsidy actions on program crops if the FAVR is retained in the next farm bill. Consequently, I believe that if the FAVR is retained in the next farm bill, the United States would be running a serious risk that we could face a number of similar dumping/subsidy actions in the future that would impose additional barriers on U.S. exports, thereby resulting in the loss of export markets.

Given the potential risk created by the FAVR, it may be necessary to change or eliminate the FAVR in the next farm bill. If this is so, what policy alternatives are there to address the potential impact on specialty crop producers? In my opinion, at least three broad policy options deserve consideration.

A widely discussed option would be to provide compensation to specialty crop producers in the form of assistance for marketing programs, research programs, etc. There may be justification for such an approach. In another recently completed research project, for example, I examined the accessibility of conservation programs by specialty crop producers.[3] The results of that research suggest that specialty crop producers are at some disadvantage, compared to other agricultural producers, for participation in some

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[3] See David B. Schweikhardt, *The 2007 Farm Bill: Options and Consequences In Conservation Policy.* Department of Agricultural Economics, Michigan State University, September 2006. Submitted with this testimony.

existing conservation programs. This might suggest that compensation to specialty crop producers in the form of other farm bill programs, such as conservation, research, or marketing programs might be appropriate if the FAVR is eliminated.

A second option that has received discussion is to simply make specialty crop acreage eligible for the same benefits that program crop producers now receive – to extend to specialty crop producers an opportunity to establish a base acreage comparable to that of program crop producers and become eligible for payments identical to program crop producers. In doing so, there would be no need for new programs to be established – for example, this option would not require the creation of a dry bean program. Dry bean producers would simply be eligible to receive corn or soybean direct and countercyclical payments in a same manner as their neighbors who now produce program crops. In return, program crop producers would be permitted to flex their acreage into dry bean production if they decided that was the most profitable opportunity for them. In each case, equity issues could be addressed, the need for the FAVR would be eliminated, and at least source of the current international trade tensions would be reduced since there would no longer be restrictions on planting by program participants.

A third option that must be mentioned is simply a mix of these two options. This alternative would recognize that there is no such thing as a "specialty crop industry" in the United States. Instead, there are dozens of individual industries – literally from apples to zucchini – each with its own unique marketing and production institutions. To expect a single policy alternative to fit all of these industries is probably not realistic. Though I realize the complexity of doing so, perhaps a mix of policies – with the one industry taking the second option another taking the first option – would be most appropriate.

I will be happy to address any questions the Committee might have. Thank you for the opportunity to participate in this hearing.

Testimony of
Carl Zulauf, Agricultural Economist, Ohio State University
Before House of Representatives Committee on Agriculture,
Subcommittee for General Farm Commodities and Risk Management
September 21, 2006

## U.S. AGRICULTURAL POLICY AT A CROSSROADS

Mr. Chairman, members of the Subcommittee, thank you for the invitation and opportunity to present to you my views on the future of federal farm policy.

### Overview

U.S. farm policy is at a crossroads. Changes in the structure of the U.S. farm sector have undermined the historic federal policy objectives of managing prices in an attempt to provide farmers with reliable income levels and consumers with reliable supplies of farm products. The farm sector is approaching economic equilibrium with the rest of the U.S. economy as evidenced by the dramatic slowing since 1990 of the rate at which labor is existing farming. Furthermore, since 1996, average farm household income consistently has exceeded the average of non-farm households. The justification for transferring taxpayers' funds to farmers to raise their income is questionable. Therefore, what is the appropriate role for government in assisting U.S. farmers?

Farming is an inherently risky endeavor. Variations in prices and yields can cause shifts in revenue that are beyond a producer's control. As such, the government has a role in helping farmers manage their risk. Over the past 15 years, spending on farm risk insurance has grown substantially and now averages around $2 billion annually. At the same time, the almost annual *ad hoc* disaster assistance payments have grown just as fast. This continual use of disaster assistance suggests that there are substantial holes in the current set of price support programs and insurance programs when it comes to helping farmers manage the actual risks that they face. Thus, farm policy should be redesigned to help farmers better manage their risk. The integrated farm revenue program, which integrates a national revenue deficiency payment with individual revenue insurance, is designed to accomplish this policy objective.

### Historical Background

Current U.S. farm programs grew out of the Great Depression of the 1930s. Objective of the original compromise that underpinned farm policy was to manage the price of farm commodities for the benefit of both farmers and consumers. Key policy instruments were minimum support prices, annual acreage set asides, and public stocks. When prices were low, government set land aside and acquired crops for public stocks through a minimum price non-recourse loan program. These policy actions raised prices, thus benefiting farmers. On the other hand, when prices were high, government brought land back into production and sold public stocks, thus reducing prices and helping consumers. However, changes in the economic situation of U.S. consumers and producers have undermined the original farm policy compromise.

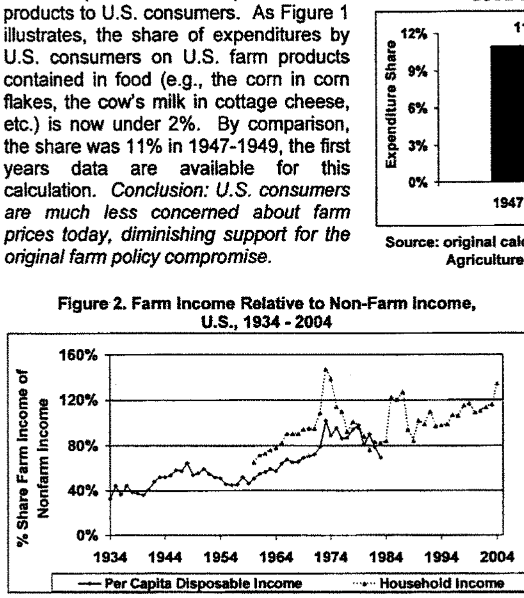
One key change is the substantial decline in the importance of the price of farm products to U.S. consumers. As Figure 1 illustrates, the share of expenditures by U.S. consumers on U.S. farm products contained in food (e.g., the corn in corn flakes, the cow's milk in cottage cheese, etc.) is now under 2%. By comparison, the share was 11% in 1947-1949, the first years data are available for this calculation. *Conclusion: U.S. consumers are much less concerned about farm prices today, diminishing support for the original farm policy compromise.*

**Figure 1. Expenditures on U.S. Farm Products used for Food, U.S., 1947 -2002**




**Source: original calculations using data from U.S. Department of Agriculture and U.S. Department of Commerce.**

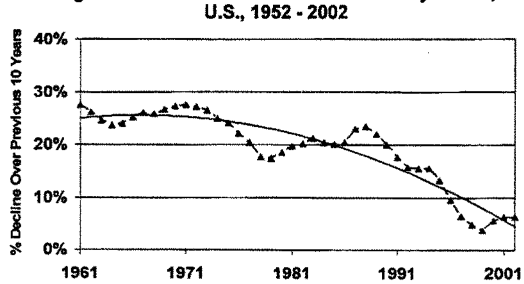
**Figure 2. Farm Income Relative to Non-Farm Income, U.S., 1934 - 2004**




**Source: U.S. Department of Agriculture**

A second key change is the increase in income of U.S. farmers relative to U.S. non-farmers. In 1934, per capita income of the U.S. farm population was only 34% of the per capita income of the U.S. non-farm population. The desire to raise the income of farmers was a key motivation behind the creation of U.S. farm programs. However, during recent years, the average income of farm households has exceeded the average income of non-farm households, reaching 135% of average non-farm income in 2004. Factors behind increasing income of farmers relative to non-farmers include the growth in off-farm income of farm households, the trend toward fewer, larger farms, and more efficient farm production. *Conclusion: It is understandable why questions are being asked about the appropriateness of transferring public funds to farmers to raise their income.*

**Figure 3. Rate of Decline in Labor Used by Farms, U.S., 1952 - 2002**




**Source: original calculations using data from U.S. Department of Agriculture**

A third key change is the sharp decline in the rate at which labor exits the U.S. farm sector. Labor leaves a sector when it can earn a higher return in another sector. Over the 10 year period between 1952 and 1961, the number of labor hours used on U.S. farms declined by 28%. The rate of decline remained near 20% through 1990. Since then, it has dropped rapidly, nearing 5% for recent 10 year periods. *Conclusion: The justification that farm income payments are needed to give farmers a competitive wage is disappearing.*

When combined Figures 1, 2, and 3 imply that the historic farm policy compromise has lost its attractiveness. Specifically, minimum price supports were eliminated with the adoption of marketing loans, a transition that began in the 1985 Farm Bill. Then, in the 1996 Farm Bill, annual acreage set asides and most public stock programs were eliminated. Lastly, the share of spending on farm price support programs has declined from 90% in the 1960s to around 40% at present (see Figure 4).

Figures 2 and 3 imply that the U.S. farm sector is approaching equilibrium. In equilibrium, inputs earn competitive returns. Thus, it is not surprising that many are asking whether transferring income to farmers for the purpose of increasing farm income is an appropriate use of public funds.

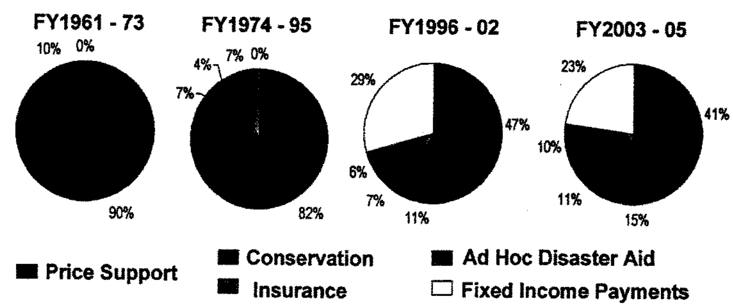
Moreover, spending on farm insurance programs has grown from almost nothing in the 1960s to about a 10% share of spending on farm programs in recent years (see Figure 4). This policy trend indicates that risk management is an area of concern for policy makers. However, spending on *ad hoc* disaster assistance provided on a year specific basis has gown as much as spending on insurance (see Figure 4). The close to annual enactment of *ad hoc* disaster assistance suggests that the current set of farm programs have substantial holes in them when it comes to managing the risk that farmers confront.

To summarize this review:

(1) The historic farm policy compromise no longer exists, negating the need to focus farm policy on farm prices.
(2) The farm sector is approaching equilibrium, making it difficult to justify income transfers for the purpose of enhancing farm income.
(3) However, much of current farm policy remains based on the presumption of lower-than-equilibrium prices due to perpetual farm commodity surpluses.
(4) And, the current set of farm programs does not appear to do an adequate job of helping farmers manage their actual risk.

Given this summary, In the current economic environment where the farm sector is approaching equilibrium, a case can be made that farm programs should be designed to help farmers better manage their risk rather than provide income transfers.

**Figure 4. Spending on Farm Programs by Category, U.S., 1961 - 2005**




**Source: original calculations using data from the budgets of the U.S. Government, Fiscal Years 1962-2007**

**Conceptual Framework for a New Farm Risk Management Policy**

In assessing whether public policy is warranted to help private firms handle a risk, key questions are
(1) Can the firm manage the risk through its internal decision making?
(2) Does private insurance exist or could it be developed to help the firm manage the risk?

Inherent in answering the question of internal management of risk is the issue of cost effectiveness. The firm may be able to manage the risk internally but the cost to the firm may be prohibitive or judged to be unacceptably high by the public.

Even if a risk is not manageable at a reasonable cost by internal management, the firm may be able to purchase insurance to help it offset the financial impacts when the risk occurs. Private insurance is likely to develop if the risk is individual in nature (this is called idiosyncratic risk in the risk literature). Individual risk is risk unique to the individual. For example, the probability that a person's home catches fire is largely independent or uncorrelated with whether another person's home catches fire. Thus, the risk of a home fire is largely unique to the individual or is idiosyncratic to the person. As a result, insurance companies can use statistical properties, such as the law of large numbers, to estimate the cost of insuring someone against a fire in their home. The cost is reasonable because insurance indemnity payments can be spread over many policy holders and the likelihood of any one policy holder claiming an indemnity at a particular time is acceptably small.

On the other hand, a risk can occur at the market level. In the risk literature, this type of risk is called a systemic risk. It is highly unlikely that private insurance will be successful if it tries to cover a market risk. The reason is that market risk affects many people at the same time. In other words, the occurrence of the risk is correlated among individuals. Private insurance companies usually go bankrupt when a systemic risk occurs because many policy holders collect an indemnity at the same time. The recent withdrawal of private insurance companies from providing hurricane insurance illustrates the importance of market risk and the difficulty of providing private insurance for it. Hurricanes can cause large insurance payments at one point in time, potentially imperiling the survival of the insurance company. As a result of the withdrawal of private insurance companies, state governments are exploring the possibility of facilitating the provisions of insurance for hurricanes.

*Conclusion: Public policy to help private firms manage their risk should be constrained to market level risks that are difficult for the individual firm to manage.*

**Assessing Farmer Risk**

Farmers confront a number of risk factors. Some can be managed effectively while others can be managed only poorly. The following discussion will be presented in terms of crop farming, but an equivalent presentation can be made for livestock farming.

Before planting, farmers can manage their revenue risk by choosing to produce the crop(s) that offer(s) the highest expected revenue at the lowest risk, or by deciding to produce no crops at all. Farmers have been using this strategy extensively since the 1996 Farm Bill allowed them the freedom to decide which, if any, crops to produce and still receive direct farm income payments. Compared with 1996, acres planted in 2006 to soybean increased 17% while acres planted to sorghum, barley, and wheat declined 52%, 51%, and 23%, respectively.

After deciding what crop(s) to produce, a farmer confronts the risk that the revenue received at harvest is less than the revenue expected when the planting decision was made. There are two main sources of this risk. One is that price declines between planting and harvest. Price could decline because foreign and/or domestic demand unexpectedly declines, or because supply in the rest of the world unexpectedly increases. The other main source of revenue risk is that a farmer's yield declines, usually as a result of poor growing conditions.

Changes in prices generally occur at the market level as a result of changes in market supply and demand. Thus, changes in price are a market risk; although there is some individual risk that prices decline more or less in a local area (this risk is called basis risk).

A farmer can manage the risk of a decline in price by selling futures, put options, or forward contracts. However, using these private market instruments can create risk. If a farmer contracts ahead more of the crop than is actually produced, the farmer has created the risk of a shortfall in contracted production, usually requiring a payment to the contracting party. If a short futures contract is sold, the risk is that prices increase, resulting in margin calls. The purchase of put options requires an upfront payment, which may necessitate the borrowing of money.

Farmers can mange yield risk by purchasing yield insurance. However, experiences from around the world reveal that, except for hail insurance, private companies have not provided insurance against yield losses unless public subsidies are provided. The reason is that yields for individual farmers are often correlated. For example, drought often happens over large areas. In other words, yield risk has a substantial market risk component to it. Because it is not unusual for many farmers to experience a yield loss at the same time, private insurance companies who have tried to offer yield insurance have gone bankrupt with the exception of companies who offer insurance for hail. Thus, in order for its farmers to have access to yield insurance, government has had to subsidize it.

As noted in the previous section, government policy to help private firms manage risk generally is only appropriate when the risk is market level risk and private firms do not have adequate private market tools to manage the risk. A decline in farm prices is largely a market risk while a decline in yield is often market risk. Because yield and price have market risk and these risks do not perfectly offset one another, their product, gross revenue, also has market risk. Price management tools are inadequate because they can create other risks. Private crop insurance, except for hail insurance, has not proven viable without public subsidies. Furthermore, changes in yield and price are often correlated, meaning that tools set up to manage each one individually have difficulty handling gross revenue risk.

*Conclusion: It is appropriate to discuss public policy options to help farmers manage risk.*

**National Revenue Deficiency Program to Handle Market Farm Risk**

To handle market gross revenue (yield times price) risk that occurs between planting and harvest, a national (i.e., market) revenue deficiency program is proposed. This program is similar to the target price program that existed between 1973 and 1995, except it targets gross revenue, not just price. Thus, the national revenue deficiency program can be thought of as a target price plus program.

Implementation of the national revenue deficiency program requires the calculation of a gross revenue target for the U.S. at planting, which in turn requires the identification of an expected U.S. price and yield for the forthcoming crop. Also, gross revenue realized at harvest must be determined, which in turn requires the identification of U.S. price and yield at harvest. If the realized gross revenue is less than the target gross revenue, then a national deficiency payment is made for each acre planted to the crop. This discussion is summarized in the box on the next page.

Many procedures exist for estimating target and realized U.S. gross revenue. A commonly used source for U.S. expected and realized yields are the U.S. Department of Agriculture's monthly *World*

| Per Acre Calculation of the Average National Revenue Deficiency Payment |
|---|
| □ U.S. Revenue Target: [U.S. expected price multiplied by U.S. expected average yield at planting] |
| □ U.S. Realized Revenue: [U.S. average price multiplied by U.S. average yield at harvest] |
| □ National Revenue Deficiency Payment = [U.S. revenue target minus U.S. realized revenue] |

*Agricultural Supply and Demand Estimates* and *Crop Production* reports. The U.S. Department of Agriculture, Risk Management Agency has developed procedures for establishing prices for the current revenue and yield insurance contracts. The broader point is that methods already exist to make these calculations.

A numerical example is provided at right using data from 2004 for corn. Realized revenue at harvest was less than the revenue expected when planting decisions were being made. The reason was that a $0.79 per bushel decline in price more than offset a 13.4 bushel increase in yield (the Risk Management Agency uses the average price of the December corn futures contract during February and October). As a result, an average revenue deficiency payment of $85 per acre would have been made for each acre of corn planted in 2004.

| Example of Average National Revenue Deficiency Payment: Corn 2004 | |
|---|---|
| USDA Expected U.S. Yield: | 145.0 bu./acre |
| February Insurance Price: | $2.83/bu. |
| Expected U.S. Revenue: | $410/acre |
| Realized U.S. Yield (October): | 158.4 bu./acre |
| October Insurance Price: | $2.05/bu. |
| Realized U.S. Revenue: | $325/acre |
| *Revenue Deficiency Payment = $85/acre ($410 - $325)* | |

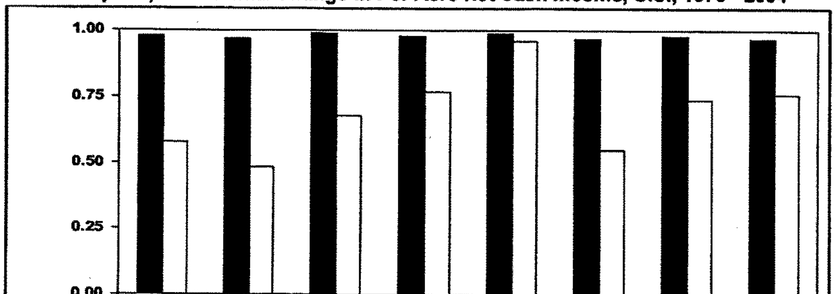
It is important to underscore that the U.S. revenue target changes every year. It is not fixed as are current price support levels. The revenue target will change as the market's expectation of the price for next year's crop changes and as yields trend upward.

An important choice regarding the national revenue deficiency program is whether gross income or net income should be used in determining the target. It turns out the question is usually moot. The reason is that changes in gross revenue from year to year are almost perfectly positively correlated with changes in net cash income from year to year (i.e., correlation is approaching +1.0) (see Figure 5). Furthermore, it is rare that costs of production change much between planting time and harvest time because a large share of production costs are incurred at or just after planting.

Figure 5 also illustrates the risk management advantages of using a revenue target as opposed to a price target. With the exception of rice, the correlations between changes in price and net cash income are substantially smaller than the correlations between changes in gross revenue and net cash income. The high correlation between changes in price and net cash income for rice reflect the use of irrigation to grow most rice in the U.S. Thus, yield variability is substantially lower for rice than for the other program crops, implying that the current price programs for rice in effect provide protection against gross revenue risk.

To compare costs with current price support programs, a simulation was conducted by backcasting the cost of the national revenue deficiency program for the crop years 1996 through 2005. A backcast asks what would have occurred if a policy had existed over the time period. The backcast was conducted for corn, upland cotton, rice, sorghum, soybean, and wheat. Price support programs include marketing loan write offs, loan deficiency payments, market loss, certificates, and counter-cyclical payments.

**Figure 5. Correlations between Annual Change in Price and Gross Revenue (yield times price) with Annual Change in Per Acre Net Cash Income, U.S., 1975 - 2004**

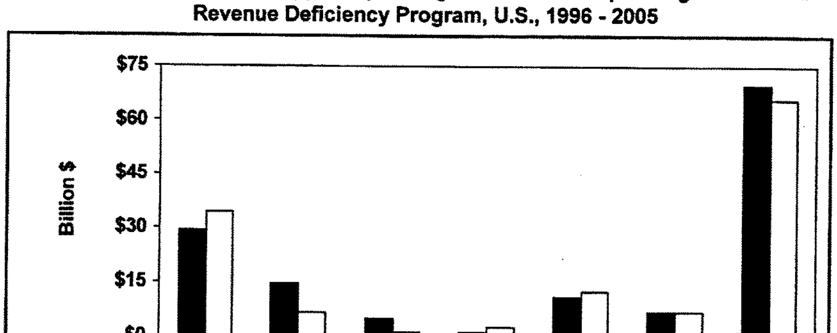



| | Barley | Corn | Cotton | Oats | Rice | Sorghum | Soybean | Wheat |
|---|---|---|---|---|---|---|---|---|
| ■ Revenue | 0.98 | 0.97 | 0.99 | 0.98 | 0.99 | 0.97 | 0.98 | 0.97 |
| □ Price | 0.58 | 0.48 | 0.68 | 0.77 | 0.96 | 0.55 | 0.74 | 0.76 |

Source: calculated using data from U.S. Department of Agriculture, Economic Research Service Cost of Production surveys from 1975 through 2004

Compared with current price support programs, cost of the national revenue deficiency program was somewhat higher for the crops associated with the Midwest but substantially lower for cotton and rice (see Figure 6). In total, costs were lower for the national revenue deficiency program.

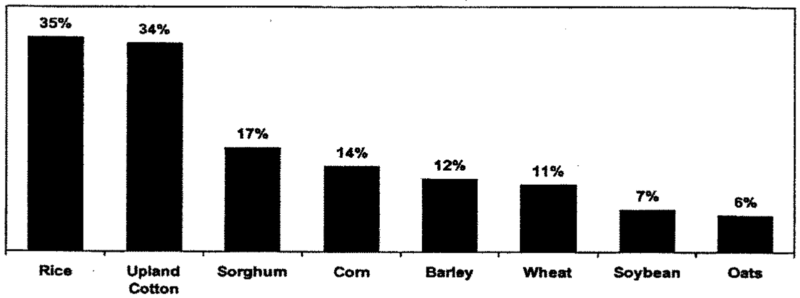
**Figure 6. Actual Price Support Spending vs. Estimated Spending on National Revenue Deficiency Program, U.S., 1996 - 2005**




| | Corn | Cotton | Rice | Sorghum | Soybean | Wheat | Total |
|---|---|---|---|---|---|---|---|
| ■ Price | $29.4 | $14.6 | $5.0 | $1.6 | $11.5 | $7.5 | $69.7 |
| □ Revenue | $34.4 | $6.5 | $1.6 | $2.8 | $12.9 | $7.5 | $65.7 |

Source: Original calculations. Price support programs include marketing loan write offs, loan deficiency payments, market loss, certificates, and counter-cyclical payments.

**Figure 7. Ratio of Spending on Price Support Programs Relative to the Market Value of Production, U.S., 1996 – 2005**



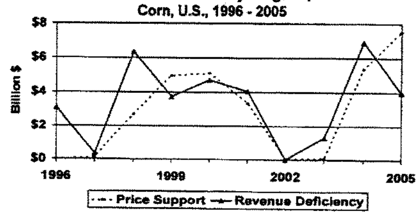

Source: Original calculations using data from the U.S. Department of Agriculture.

The different results by crops primarily reflect the much higher level of price supports relative to market prices for cotton and rice. A measure of this difference is the ratio of spending on price support programs for a crop to the value of production or market receipts for the crop. This ratio is two to three times higher for cotton and rice than for the other program crops (see Figure 7). While the integrated farm revenue proposal provides a better set of risk management tools, this change in spending among crops raises important issues. In particular, the question of what level support of support is appropriate for individual crops needs to be debated.

The higher level of support provided for sorghum by the national revenue deficiency program illustrates its value to smaller market crops for which price is largely set by factors other than U.S. supply and demand for the crop. Specifically, the price of sorghum largely is set by corn. Yields for the 2000 to 2003 crops of sorghum were reduced sharply by weather while corn yields were either normal or less affected by weather. As a result, the lower sorghum yields were not offset by higher prices, resulting in lower gross revenue for sorghum producers under current programs.

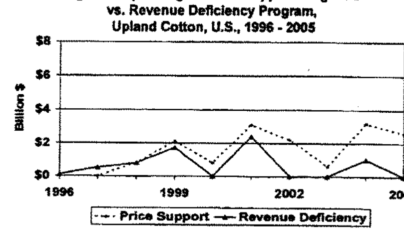
Figures 8 and 9 provide a year-by-year comparison of national revenue deficiency payments and spending for price support programs for corn and cotton. They are representative of the other crops. Although sizeable differences can occur for individual years, year-to-year changes in payments to farmers under both programs broadly track each other. Price support payments to cotton have been much larger than revenue deficiency payments in more recent years, but similar in earlier years.

**Figure 8. Spending on Price Support Programs vs. Revenue Deficiency Program, Corn, U.S., 1996 - 2005**




Source: Original calculations

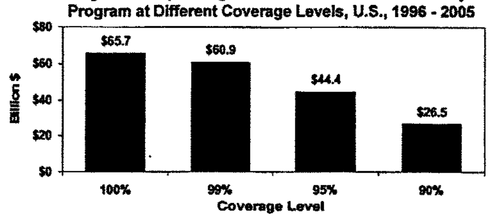
**Figure 9. Spending on Price Support Programs vs. Revenue Deficiency Program, Upland Cotton, U.S., 1996 - 2005**




Source: Original calculations

Economists often note that private firms should bear at least some cost of a risk so that they adjust resources appropriately. Thus, it can be argued that the coverage level for the national revenue deficiency program should be less than 100%. Figure 11 presents spending at different coverage ratios. For example, lowering the coverage level by 1 percentage point to 99% reduced cost by nearly $5 billion over the 10-year period.

Figure 10. Spending on National Revenue Deficiency Program at Different Coverage Levels, U.S., 1996 - 2005




Source: Original calculations

To summarize, the national revenue deficiency program would have cost less than the existing price support programs if it had existed between 1996 and 2005. The cost savings come primarily from cotton and rice because their current price supports are further above market prices. Although some differences occur, the pattern of payments over time is roughly comparable. Besides the cost savings, the national revenue deficiency program better matches payments with a loss in revenue, notably for smaller market crops.

**Individual Farmer Revenue Insurance to Handle Individual Farm Risk**

The program proposed to handle gross revenue risk between planting and harvest for the individual farmer is similar to the current revenue insurance product with a couple of exceptions. Like the current revenue insurance product, a gross revenue target is calculated for the farm before planting, a coverage level is selected by the farmer, and realized gross revenue is calculated for the farm at harvest. However, this revenue insurance product would use a moving average of yields over the last five years and the insurance would be set at the farm level. The reason for these choices is to provide the insurance firms with tools for minimizing moral hazard and adverse selection, which in turn improves the actuarial soundness of the insurance product.

Gross revenue is targeted instead of net revenue because it is desirable to integrate the national revenue deficiency payment with the individual insurance product. Benefit of this integration is to reduce the cost of individual insurance at a given coverage level. Costs are reduced because the market risk is covered by the national deficiency payment, not by the revenue insurance product as occurs in the current revenue insurance product.

The operation of the individual farmer gross revenue insurance program is illustrated below:

**Per Acre Calculation of Individual Farm Gross Revenue Insurance Payment**

- ☐ Farmer Revenue Target: [U.S. expected price multiplied by farmer's expected yield at planting]
- ☐ Farmer Realized Revenue: [U.S. average price multiplied by farmer's yield at harvest]
- ☐ Farmer Insurance Payment = [(farmer revenue target multiplied by coverage level) minus farmer realized revenue **minus farmer's national revenue deficiency payment**

**Example of Individual Farm Revenue Insurance Payment: Corn 2004**

| | | |
|---|---|---|
| Farmer Expected Yield: | 145.0 bu./acre | |
| February Insurance Price: | $2.83/bu. | |
| Farmer Expected Revenue: | $410/acre | |
| Farmer Coverage Level | 75% | |
| Farmer's National Revenue Deficiency Payment: $85/acre | | |
| | Situation 1 | Situation 2 |
| Farmer's Realized Yield: | 120 bushels. | 100 bushels |
| October Insurance Price: | $2.05/bushel | $2.05/bushel |
| Farmer's Realized Revenue: | $246/acre | $205/acre |
| *Farmer's Insurance Payment:* | *$0/acre* | *$17.50/acre* |

Calculation for Situation 1: ($410 * 0.75) - $246 - $85 = -$23.5 (means no payment received)
Calculation for Situation 2: ($410 * 0.75) - $205 - $85 = $17.50

The national revenue deficiency payment compensates a farmer for the market risk between planting and harvest. Thus, subtracting the farmer's deficiency payment from the farmer's individual revenue insurance payment avoids double payment for the market risk. In situation 1 in the above example, the farmer's individual loss was less than the national revenue deficiency payment. Thus, the farmer received no payment from his or her individual revenue insurance. In contrast, the farmer facing situation 2 had a loss in excess of the national revenue deficiency payment. This farmer receives a payment from the individual insurance program so that the sum of the farmer's national deficiency payment plus the farmer's individual insurance payment equals the farmer's individual revenue loss. In other words, the national revenue deficiency program working together with the individual farmer revenue insurance makes the farmer whole in terms of his or her revenue loss.

As the example illustrates, because the cost of market risk is now handled by the national revenue deficiency program, the cost of individual revenue insurance at a given coverage level should be lower. This expected result has been confirmed by preliminary analysis involving soybeans (see technical appendix for additional discussion).

The savings generated by integrating the national revenue deficiency program and the individual farm level revenue insurance would allow the coverage level to be higher under the integrated farm revenue program at no increase in cost to the public treasury. Alternatively, the cost savings could be used for other programs. A third possibility is to choose a combination of these two options.

In summary, integrating the national revenue deficiency program with individual gross revenue insurance makes individual gross revenue insurance more actuarially sound. Individual revenue insurance is now allowed to cover the revenue risk faced by the individual farmer instead of trying to cover both the individual farmer risk and the broader market risk. The consequence is lower cost and/or higher coverage insurance that better matches the revenue risk of the individual farmer.

**Summary**

U.S. farm policy is at a crossroads. The historic farm policy objective of managing prices for the benefit of consumers and producers has been undermined by changes in the structure of the U.S. farm sector. Furthermore, the U.S. farm sector is approaching economic equilibrium with the rest of the U.S. economy. No longer are perpetual farm surpluses resulting in depressed farm prices. Average farm household income has consistently exceeded average non-farm household income since 1996, and the rate at which labor is exiting the U.S. farm sector has slowed dramatically since 1990. It is not surprising that discussion is occurring about the appropriateness of transferring public funds to farmers to raise their income.

Concurrent with these changes, spending on farm insurance programs has grown substantively over the last 15 years. However, spending on *ad hoc* disaster assistance has grown as fast. The close-to-annual passage of *ad hoc* disaster assistance suggests that the current set of farm programs has substantial holes when it comes to helping farmers manage the actual risks that they face.

Thus, in the current economic and policy environment, a case can be made that farm programs should be designed to help farmers better manage their risk rather to than provide income transfers. The integrated farm revenue program is proposed to accomplish this policy change.

A better set of risk management programs can be designed for farmers by recognizing that farmers face two kinds of revenue risk. One occurs at the market level. The other occurs at the individual farmer level. These two risks need different programs, but, for maximum benefit in helping farmers manage risk, the two programs also need to be integrated. Currently, no integration exists between price support programs that try to help farmers manage their price risk and the insurance programs that try to help farmers manage their yield and revenue risk.

A national revenue deficiency program is needed to address the risk that farm revenue can decline for all farms due to lower prices and/or widespread weather-related reductions in yields. The national revenue deficiency program is similar to the target price program, but it would cover gross revenue, yield times price, not just price. Even though this program covers yield and price, it would have been less costly than current price support programs for the 1996 through 2005 crops.

A gross revenue insurance program is needed at the individual farm level to address the need that farm revenue can decline more on an individual farm than for the market as a whole. This insurance program would look similar to the current revenue insurance program, but it would be integrated with the national revenue deficiency program. With the government covering the risk of widespread national losses, individual revenue insurance becomes more effective at covering individual losses. Insurance companies can offer higher levels of coverage at a lower cost to farmers. Furthermore, because the integration of a national revenue deficiency payment program with individual revenue insurance provides a better, more effective risk management program for producers, it lessens the economic rationale for *ad hoc* disaster assistance.

The integrated farm revenue program is more market oriented and thus less trade distorting than current price based commodity programs. National revenue targets change each year with market conditions, thus minimizing the impact of the government program on the planting decision of farmers. In contrast, current price support programs establish prices that can dictate farmers' production decision. It is clear that the program is less distorting and would help satisfy worldwide desire for greater market orientation in U.S. farm programs. It also less costly than the current price support programs, thus helping the U.S. stay within its WTO spending limits. However, it is questionable that this program would be classified as green box under current WTO rules.

The integrated farm revenue program is also flexible. It can address the revenue risk of small market crops and be easily adopted to meet the risk management needs of non-program crops as well as livestock.

In closing, the integrated farm revenue program greatly increases the efficiency and effectiveness of our farm programs because it combines government payments and individual insurance into a single safety net program. It makes risk management less costly for government, less trade distorting for our international partners, and, most importantly, more effective for our nation's farmers.

## APPENDIX FOR TECHNICAL ISSUES

**Turning the average national revenue deficiency payment into a revenue deficiency payment for the individual farmer:** Once the national average revenue deficiency payment is determined, it is transformed into a payment for each individual farmer as follows:

**[(Expected Per Acre U.S. Revenue – Realized Per Acre U.S. Revenue) / Expected Per Acre U.S. Revenue] x Individual Farmer's Expected Per Acre Revenue**

This calculation involves calculating the percent shortfall in realized per acre U.S. revenue relative to expected per acre U.S. revenue, then multiplying this ratio by the farmer's expected per acre revenue. If the same per acre payment is made to all producers, then the revenue deficiency payment to a producer is a higher percent of his/her expected revenue if the producer has a lower expected per acre revenue than if the producer has a higher expected per acre revenue. A percentage ratio calculation ends up being necessary to treats all farmers fairly according to their expected gross revenue per acre, which is the risk that the proposed program is seeking to address.

**Selection of Time Period Used to Analyze Cost of Revenue Deficiency Program Presented in Figure 6:** A key analysis question is the selection of the analysis time period. From a policy perspective, the 2002 Farm Bill period makes sense because it is the set of policies that currently exist. However, this period covers only four crop years. From a statistical perspective, this is a very limited period. Extending the analysis back to 1996 incorporates more risk events and supply-demand situations. Furthermore, the countercyclical program, which was the major farm price support policy innovation in the 2002 Farm Bill, was designed to make the market loss program enacted for the 1998 – 2001 crops permanent. Thus, a fair amount of compatibility exists between the set of price support policies that were utilized during the 1996 Farm Bill period and enacted in the 2002 Farm Bill. Hence, I chose to conduct the backcasting analysis for the 1996 through 2005 crops.

**Analysis of Cost of Wheat National Revenue Deficiency Program:** Prices used for current wheat insurance product are futures prices at the Chicago Board of Trade, Kansas City Board of Trade, and Minneapolis Exchange. For the sake of time, a national analysis was conducted rather than doing it state by state. Sensitivity analysis was conducted using each insurance price. Compared with using Chicago futures, Kansas City futures resulted in a slightly higher cost while the Minneapolis futures resulted in a lower cost. The results for Chicago futures were selected for presentation because it is in the middle.

**Comparison of Integrated Individual Farmer Revenue Insurance Program with Current Revenue Insurance Program:** At present, this analysis for the 1996 through 2005 crop years has only been conducted for soybean. The analysis involves an insurance product modeled after the current county revenue insurance program and the same county revenue insurance product that is integrated with the national revenue deficiency program For the U.S., the average per acre payment received was close to $7 per acre for both the traditional county revenue program at a coverage level of 90% and the integrated country revenue program at a coverage level of 100%. Additional analysis is needed to confirm that this expected result holds empirically for the other program crops over the 1996 through 2005 period.

## STATEMENT OF BARRY L. FLINCHBAUGH

Thank you Mr. Chairman and members of the subcommittee for inviting me to testify. I began work in ag policy when I analyzed the consequences of the 1968 Feed Grain Program for my doctoral dissertation at Purdue University. It was my privilege to chair the Commission on 21st Century Production Agriculture authorized in the 1996 FAIR Act. When Mr. Moran invited me to testify today, he asked that I revisit the work of the Commission briefly.

The charge to the bi-partisan Commission was to examine the role of the Federal Government in 21st century production agriculture. The Commission unanimously agreed that it was the role of the Federal Government to provide a safety net under farm income with minimal market distortion. It was the definition of minimal market distortion that produced disagreement among the members of the Commission that resulted in minority views.

How do we achieve an effective system with minimal market distortion is really the question being debated today as we approach the next farm bill. Attached to this testimony is a figure that depicts the degree of market distortion. Decoupled Direct Fixed Payments provide a constant safety net and minimize market distortion. The marketing loan provides the most market distortion of the three major commodity payments. The countercyclical payment is less market distorting than the marketing loan since it is based on historical production whereas the marketing loan is based on current production.

The 1996 farm bill, known as Freedom to Farm, had as its flag ship program a decoupled direct fixed payment racheted down year by year to a minimal level. Primarily because of the severe down turn in the Asian economy, the minimum was never reached. In fact, the so-called transition payments were doubled. The Act was criticized as Freedom to Fail. I have often said it was both. If we want the freedom to farm the marketplace, that implies the freedom to fail.

In the 2002 farm bill, a countercyclical payment was added. If the goal was minimal market distortion, this was a step backwards. The interesting thing about the countercyclical program, in terms of a safety net, is that it is backwards. It pays farmers when they don't need it and it doesn't pay farmers when they do need it. If farmers get a crop, they have a chance of making a profit. A bumper crop will bring lower prices, but farmers have something to sell and if price is below target, there will be a countercyclical payment. If farmers don't get a crop, (the worst of all possible situations) the only commodity program that will help them is the decoupled direct fixed payment. The marketing loan won't help because it is based on current production. The countercyclical program won't help because price is likely to be above target. If what we want is a simple program that provides a safety net under farm income with minimal market distortion, the answer isn't rocket science—a decoupled direct fixed payment. This I will submit is what the Doha Round is all about and that failure of those talks will lead to more rather than less market distortion. More rather than less need for commodity programs.

This farm bill, perhaps more so than previous ones, is much more than commodity programs. For example, nutrition and feeding programs, conservation, environmental quality, energy and rural development.

Allow me a brief comment on conservation and a more extensive comment on energy.

The 2002 farm bill is the "greenest" on record. We are clearly moving in the direction of conservation on "working" lands rather than "retired" lands especially if we fully fund the CSP. That means more conservation which is in society's best interest. I don't think that's debateable.

The "new athletic kid on the block" is energy. I am an original member of the steering committee on 25 x '25. Twenty five percent of the energy consumed in this country by 2025 can be from renewables. There is a resolution moving through the Congress in both Houses, sponsored on both sides of the aisle to set 25 x '25 as a national goal. I urge you to sign on and pass it.

A vigorous energy plank in the farm bill can enhance the goal—research and development programs in cellulosic ethanol for example and perhaps even direct payments to grow switchgrass. Why 25 x '25? It is: (1) national security, (2) improved farm income, (3) lower cost energy, (4) environmental friendly and (5) jobs and rural development.

One last issue. Food and feed versus fuel. It is a misunderstood issue. By 2015, more ethanol will be produced from the cob and stover than from the kernel. The new mantra for American agriculture can be: food, feed, fiber and fuel.

I would also suggest to "round out" the safety net that a farm savings account be considered. I call it the squirrel principle. We encourage farmers to put away nuts for a bad winter. Pay into a savings account in good years and draw out in bad years when income falls below a threshold. A decoupled direct fixed payment, a farm savings account, conservation payments on working lands and a vigorous bioenergy development program can provide that safety net with minimal market distortion that the commission suggested.

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ANSWERS TO SUBMITTED QUESTIONS FROM MR. NEUGEBAUER

**The target revenue program you outline in your testimony sounds like it is based on a concept similar to one used in crop insurance legislation that I've introduced. As you stated, a revenue protection program similar to the GRIP insurance program helps do away with the rationale for disaster programs because county-level losses trigger payments.**

**My legislation allows producers to stack GRP or GRIP on their individual APH yield or revenue coverage. The idea is that the county-based coverage acts as disaster coverage. Producers are not allowed to buy double coverage on their crop, but H.R. 721 allows them to purchase a percentage of GRP coverage equal to the "deductible" portion of their individual loss policy. For example, if a farmer buys a 60 percent APH policy, then he can stack on 40 percent of a full GRP policy at any coverage level.**

**Do you think this type of insurance coverage could help address the under-compensation for producers who have a low yield that you describe in your testimony?**

*Dr. Babcock:* I looked at H.R. 721 and this type of program would help reduce under-compensation. In addition, this type of program reduce the deductible in the crop insurance program. My first look at this proposal led me to assume that this program would limit payments to 100 percent of the expected value of production. But a closer look suggests that it does not.

Suppose a farmer buys a 60 percent APH policy and then buys 40 percent of a full GRP policy. A full GRP policy pays out 150 percent of the expected value of production when the county yield is zero. Thus, if county yield is zero, then the farmer would receive 60 percent (40 percent of 150 percent) of the expected value of production. If the farm yield is also zero, then the farmer will also receive 60 percent of the expected value of production from the APH policy for a total of 120 percent. So, in some sense, producers are allowed to "over-insure" their crop. In addition, because the supplemental GRP policy would pays on all loss bushels, in some sense if the county yield is low and the farm yield is low then the same lost bushels are receiving payments. Of course, the payments on the lost county bushels only receive a partial payment (60 percent of value in the example above) but they are still receiving some payments.

Note that your proposal would not affect either the cost of the APH policy or the GRP policy because the farmer will receive payments from either or both programs whenever either paid out. This is not meant as a criticism of your proposal, it is just the way that this works out.

A slight alternative approach that could be taken would be to give or sell farmers a GRP policy and then give or sell them a "wrap" policy that would cover farm losses that were not covered by GRP indemnities. That is GRP would carry some of the burden of risk management (the amount varies by crop, region, and practice), while the individual wrap policy would ensure that farmers have an ironclad guarantee that yield would not fall below a certain level. I calculated the impact of both policies on Floyd County dryland cotton farms to see how much of a reduction we would see from this type of wrap policy. If Floyd County cotton dryland cotton farmers were given a full GRP policy, then the cost of an APH insurance would drop between 46 percent and 38 percent depending on the coverage level selected for the wrap.

**Do the other panelists have any feedback on this crop insurance proposal?**

*Dr. Flinchbaugh:* Any program that targets revenue instead of price provides a more effective safety net. The less holes in the safety net the less need for ad hoc disaster assistance.

*Dr. Zulauf:* Your proposal recognizes that there are gaps in the current farm safety net. One of these gaps occurs for farmers who have low yields. The existence of these gaps provides an economic rationale for the passage of disaster assistance. I appreciate that your proposal will cover some of the gaps that currently exist, but I think more of the gaps can be covered by integrating the national support programs with individual crop insurance. Most significantly, individual farmer yields are not perfectly correlated with county yields. It is not unusual for the northern half of a county to have normal yields and the southern half to have below normal yields (or vice versa). Thus, a farmer may have low yields but collect little under a GRIP program. This potential hole probably becomes greater the larger the county. Also, this hole is likely to be more problematic for smaller producers than for larger producers. Larger producers farm over a larger area; thus, their yield experiences tend to more closely mirror county average yields. Because of these problems, I think a better approach is to find ways to increase the coverage level for individual level revenue insurance at no increase in its cost to farmers. This is one of the outcomes of the integrated farm revenue proposal. The proposal and this outcome are discussed in greater detail in my written testimony.

**The challenge with crop insurance has been to get the right types of coverage at a reasonable cost that can help farmers adequately insure against low yield and low revenue. In your testimony, many of you seem to be saying that crop insurance is falling short of this aim. I believe that insurance programs, rather than disaster programs, can be good policy and are often easier for us to explain to our non-farm colleagues than other programs since everyone buys some type of insurance.**

**Is there a role for Federal crop insurance within the farm safety net?**

*Dr. Flinchbaugh:* Yes

*Dr. Babcock:* There should be a rationalization of Federal safety net policies so that crop insurance and farm programs work together. Right now, crop insurance and farm programs are trying to achieve the same objective but Congress has given them different tools to meet that objective. As I state in my testimony, a farm program that was based on a target revenue program would drive such a rationalization while doing away with the need for disaster assistance. The use of GRP along the lines of H.R. 721 would also work towards this objective.

*Dr. Zulauf:* As the farm sector moves to a situation of economic equilibrium and away from its past of chronic over-supply, risk management will become more socially and politically acceptable as a rationale for farm programs rather than the historical objective of enhancing farm income. A more complete discussion of this transformation in policy objectives is contained in my written testimony. Insurance that targets gross revenue risks at the individual farm level is an important tool to farmers in managing risk to insure the long term sustainability of their farms. Individual farm level insurance is needed because individual farmers confront risk situations that are unique to their operation and have different preferences for how much risk they are willing to tolerate. While insurance could be completely provided by the government; to make efficient use of all resources, government should be reluctant to do what the private market can do. Privately managed crop insurance can be made to work more effectively if market or systemic risk is removed from it (for a more complete discussion of this topic, see the next question). Moreover, privately managed insurance can be effective at handling moral hazard and adverse selection problems. Publicly driven insurance is more likely to avoid these problems because it has less incentive to manage cost.

**What should this committee do to improve Federal crop insurance so that it provides farmers with greater risk protection?**

*Dr. Flinchbaugh:* Revenue insurance with broader coverage. The Zulauf plan is a case in point. Another interesting idea would be to turn crop and revenue coverage over to the private sector and let them innovate( subject to regulation just like other sectors of the insurance industry ). Take the public funds now spent on Federal crop insurance and issue vouchers to farmers and let them shop for the best deal.

*Dr. Babcock:* I would reform crop insurance by changing Federal farm policy so that program payments were targeted at making up for revenue shortfalls at the county level rather than making up for price shortfalls. In essence, if farmers were given a GRIP policy instead of LDPs and CCPs, then the crop insurance program would reform itself.

*Dr. Zulauf:* Current Federal crop insurance has three major problems: (1) it does not distinguish between the two major types of risks, (2) it does not effectively manage moral hazard and adverse selection, and (3) multiple low-yield years undermine the level of protection.

The most important action the committee can take to improve crop insurance is to remove the market (also called systemic) risk component from current crop insurance products so that individual revenue insurance products can become more effective and efficient at providing protection to farmers. The current products do not distinguish between risk that is unique to the individual farmer and risk that occurs at the market level. At present, a farmer may collect on a revenue insurance contract because his/her individual revenue is low due to low yield and/or low local price, or the farmer may collect because everyone's price is lower due to large U.S. supply or lower global demand. Private insurance is not effective at handling market risk because the potential exists for everyone to collect at the same time, thus imperiling financial viability of the insurance company. On the other hand, private insurance is effective at helping individuals manage their own risk unique to their situation. Therefore, a viable insurance product for individual farmers must remove market risk. It is for this reason that my proposed integrated farm revenue program is composed of (1) a national revenue deficiency program to handle U.S. market risk and (2) an individual gross revenue program integrated with the national revenue deficiency program to handle risk at the individual farmer level. Details of this proposal and the way in which the two programs are integrated are contained in my written testimony.

Moral hazard and adverse selection are problems with all private insurance products, and private firms have developed effective ways to manage these problems. One way is to introduce "good farmer" discounts that adjust premiums downward for farmers who rarely collect indemnities. Another option is to shift the cost of decisions to the individual being insured. For example, expected yields could be determined as a five-year moving average. Thus, if a farmer wants to cheat this year, he/she is undercutting his/her level of insurance coverage in the future. The broader point is that, if market risk can be removed from the current insurance products and the private firms are given incentives to manage moral hazard and adverse selections problems, this problem with crop insurance will substantively decline.

Multiple year losses present a difficult problem, especially if you use a moving average of yields. Multiple years losses are really sending a signal that the farmer should consider a different enterprise mix. To facilitate addressing this difficult decision, on option is to have a standby buy-out program that would be made available to producers who experience poor yields in, say 4 of the last 5 years. The buy-out would pay the farmer for the loss of future government supports for the crop on his/her farm. In return, the land would permanently lose its right to payments from support programs (among current programs, this could include loan deficiency payments, counter-cyclical payments, and/or direct payments.) The buy-out payment could be used by the farmer to develop new enterprises to make the farm sustainable.

**Are we looking at an incomplete farm safety net unless we make some improvements to crop insurance in the 2007 farm bill?**

*Dr. Flinchbaugh:* Congress historically does not like to mix farm bills and crop insurance, but it takes both to provide a complete safety net.

*Dr. Babcock:* The only "hole" in the combined crop insurance/price insurance programs that we have from the combination of Federal farm programs and Federal crop insurance programs is the recurring demand for disaster aid. So either that hole could be filled by a new type of crop insurance program along the lines of H.R. 721 or we could simply redesign the Federal farm programs so that they targeted revenue rather than price. This second course of action would cost taxpayers less money for the same level of coverage available through a combination of a "fixed" crop insurance program and current price insurance programs.

*Dr. Zulauf:* The farm safety net will be incomplete without having crop insurance available at the individual farmer level. Individual farmers confront risk situations that are unique to their operation and have different preferences for how much risk they are willing to tolerate. Thus, to help farmers manage their own risk situation, effective individual farm level insurance products are needed. Thus, if it is the objective of Congress to improve the farm safety net in the next farm bill, then crop insurance must be integrated with the support programs in title I of the farm bill rather than addressing these two components of the farm safety net in separate bills.