HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

APRIL 30, 2010, DES MOINES, IA
MAY 1, 2010, NAMPA, ID
MAY 3, 2010, FRESNO, CA
MAY 4, 2010, CHEYENNE, WY
MAY 14, 2010, MORROW, GA
MAY 15, 2010, TROY, AL
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MAY 18, 2010, SIOUX FALLS, SD
JUNE 28, 2010, FAYETTEVILLE, NC

Serial No. 111–48

Part 2 (Final)

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JUNE 28

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WITNESSES

HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

FRIDAY, APRIL 30, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Des Moines, IA

The Committee met, pursuant to call, at 1:00 p.m., at the Iowa State Fair Grounds, Penningroth Sale Center, Des Moines, Iowa, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Boswell, Herseth Sandlin, Costa, Lucas, and King.

Staff present: Nicole Scott, Pelham Straughn, John Konya, Keith Jones, Anne Simmons, Robert L. Larew, Lisa Shelton, and Jamie Mitchell.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

The CHAIRMAN. Well, thank you, Chairman Boswell for inviting us to your city and we appreciate your leadership on the Committee. Chairman Boswell is Chairman of our General Farm Commodities and Risk Management Subcommittee. He does a great job for us and we appreciate his work, we appreciate being here in his district.

This hearing of the Committee on Agriculture to review U.S. Agriculture policy in advance of the 2012 Farm Bill will come to order. And good afternoon to everybody. I thank you for joining us today.

We're glad to be here, as I said, in Des Moines to hear from area farmers and ranchers about the issues facing agricultural and rural communities. As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provides the certainty that they rely on to stay in business. We also made historic investments in nutrition, conservation, and renewable energy, we began to research rural development, fruits and vegetables and organic agriculture.

While traditional farm programs have a relatively small portion of the funding, these programs are essential for the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty the farm bill programs provide, these farmers would not be able to get the financing that they would need to put the crops in the ground.

I want to welcome our witnesses here today and thank them for taking the time out of their busy time of year, to talk to us today.

The farm bill hearings are the first step in the process of writing the next farm bill. A bill this large that covers so many important issues, takes a lot of time and effort to get it right. So, I am committed to the process as I was last time that it be open, transparent, and bipartisan. So, for all those that are joining us here in the audience today, I hope that you will also participate by sharing your thoughts on the farm bill with us.

We have a survey posted on our Committee website, and I think we have some cards around that have the web address on there and so forth. So, anybody can have a chance to tell the Committee about what's working with the farm bill and what isn't working, any new ideas that they'd like us to consider for the next farm bill, and we are also web-casting this hearing. I think that's the first time that that's been done at a field hearing. So people around the country that are interested will be able to join us today over the Internet and follow this hearing.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good afternoon, and thank you for joining us for today's House Agriculture Committee hearing. We are glad to be here in Nampa to hear from area farmers and ranchers about the issues facing agriculture and rural communities.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business. But we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture.

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of this busy time of year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. A bill this large and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process that is open, transparent, and bipartisan.

For all those joining us today in the audience, I hope that you will also participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on our Committee website, and we have cards available today with that web address so that everyone has a chance to tell the Committee about what is working and what new ideas we should consider for the next farm bill.

We have a lot of ground to cover, so let's get started.

The CHAIRMAN. We have a lot of ground to cover, so let's get started with the Ranking Member, Mr. Lucas, we'd appreciate a statement from you.

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

Mr. LUCAS. Thank you, Mr. Chairman. I want to thank you for calling these hearings and being so proactive in preparation for the debate that we will have on future farm policy in the 2012 Farm Bill.

We have an extremely difficult road ahead of us, but one thing I do look forward to is listening to our producers. I get to hear from my own producers every time I step in the coffee shop or the feed store back home, or conduct my town hall meetings across the third district of Oklahoma. I think it's vitally important to hear from producers from a broad range of places that grow and raise a broad range of products.

My goal for the next farm bill is simple. I want to give producers the tools to help them do what they do best, and that is produce the safest, most abundant, most affordable food supply in the history of the world. I think it's extremely important to hear from them about what is working, what is not working, what changes we can make to the farm bill to allow it to work in a more efficient fashion.

The 2008 Farm Bill was another investment in the future of rural America, not only did we provide a viable safety net for producers, but we also made substantial investments in conservation and nutrition programs during a time of need for many Americans. A lot of people do not realize, and some even forget, we should all remember that 75 percent of the farm bill spending goes to nutrition programs.

In addition to those investments, this Committee led by Chairman Peterson accomplished substantial reforms, especially in the realm of payment limits. This is a fact that should not be forgotten by those who always seem ready to attack our programs.

Last week during a hearing in Washington, I was concerned the Administration's priorities seemed to differ so greatly from my producers' priorities. There was barely a mention of the safety net, conservation program, or any of the programs I hear about from my producers. I think it's imperative that Congress work together with the Administration to come up with a workable solution for the many problems our rural communities face, but first this Administration must prove its commitment to production ag. I also want to hear today about some impediments that you face when you bring your crops to market, and see if we can help alleviate some of those impediments.

I have serious concerns about the effect of an overreaching EPA and what it will have on you. It seems every day the EPA is coming out with a new regulation that makes it harder for producers to make a living. Can we do something about those impediments, or at least give you the tools that help mitigate some of the adverse effects to these regulations?

With that said, I look forward to hearing from all of our witnesses today and again, thank you, Mr. Chairman, for taking this to the country.

The CHAIRMAN. We have—we normally have other Members submit their statements for the record, but today since we have other distinguished Members from Iowa, we'll recognize them for a brief statement. Mr. King is a Member of the Committee. Did want to welcome your constituents?

OPENING STATEMENT OF HON. STEVE KING, A REPRESENTATIVE IN CONGRESS FROM IOWA

Mr. KING. Thank you, Mr. Chairman.

I appreciate the opportunity to be recognized, and I thank you for bringing this hearing to Iowa. You and Mr. Boswell teamed up with my colleague to my left Tom Latham to help bring this hearing here to Iowa. And I'm proud to show off who we are here in Iowa to the balance of the Committee.

I'm looking forward to the testimony from all the witnesses. I think we've come a long way in the last twenty or twenty-five years in agriculture, and I've been able to be part of and witness a lot of that, and I'm looking forward to the testimony of the witnesses.

And when I looked out of the plane coming in here, I had to look down and it would seem odd not to see a lot of snow from the sky, but it was nice to see fresh green grass, so thanks, Mr. Chairman, and I will yield back the rest of my time.

The CHAIRMAN. Well, thank you very much, Mr. King, we appreciate that.

We're also joined today, and I have some paperwork I have to take care of here, Tom. The gentleman from Iowa, Mr. Latham, is not a Member of this Committee, but is joining us today. I have consulted with the Ranking Member, and we are pleased to welcome him to joining us in this hearing. Mr. Latham is not a Member of our Committee, but we work with him on a regular basis because of his position on the Appropriations Committee; how that interacts with a lot of what we do on the Agriculture Committee.

He's, like I said, a good friend of mine and we work together on a lot of things on a bipartisan basis. I think Mr. Lucas would say the same.

Mr. Latham, we appreciate you being here. We would like to give you an opportunity to say a few words, and I understand you have some other commitments so you may not be able to be here the whole time, but we really appreciate you making the effort to be with us for a while.

STATEMENT OF HON. TOM LATHAM, A REPRESENTATIVE IN CONGRESS FROM IOWA

Mr. LATHAM. Well, thank you very much, Chairman Peterson, it's strange to call you that. Thank you for allowing a lowly appropriator to come and join the esteemed authorizing committee, and I thank Mr. Lucas for also allowing me to be here. I wish he would take that Oklahoma State jacket off, but anyway, we are very good friends. Okay. Ken up there is an Okie guy.

Anyway, I really appreciate all the Committee Members being here in Iowa. It is important to know, for Mr. Costa from California, and for others, to understand what Iowa's about. We are very modest people here, generally speaking. I think it's somewhat of our northern European ancestry, Lutheran like myself, we just don't brag much, but the fact that we're blessed with abundance here. We have 25 percent of the Grade A farmland in the world. We're number one as far as corn, soybeans, pork, and egg production here. We are leaders obviously in beef, renewable energy with ethanol, and used to make biodiesel. We have a remarkable place here with the abundance like no other place in the world.

The reason I think it's so important to have this type of hearing this early is that we're going to have tremendous challenges. As Mr. Lucas said, they really shouldn't call it a farm bill, they should call it a food bill or a feeding bill because that's where almost all the money goes in a farm bill. We have a lot of challenges, obviously, with the new farm bill. The fact of the matter is the implementation hasn't occurred yet on the last farm bill in a lot of different areas, which is very frustrating for a lot of folks.

And there are some people, in the Administration, that want to reopen the previous farm bill before it's fully implemented, as far as different aspects and payment limitations, things like that. We're going to have a lot of challenges with climate change, the idea of indirect land use, all of those things, the challenges we have today with EPA and how they want to take over a lot more control in agriculture. And that's why this is a 900 pound gorilla, with the budget deficit and what funds are going to be available for us to write into the next farm bill.

The farm bill before the last one I thought was upside down because the whole discussion was on how much money was going to be available, and then we found that out and tried to insert policy. The last farm bill and the Chairman's—I'm very grateful that the way he did it was to put policy in place and have the money follow it. That is the way this should be done, and that's why this hearing is so important today to start to get a grasp on what the real policy things in varied type of budgets in the future.

So with that, thank you very much for the opportunity, and I apologize I'm going to have to leave a little bit early, but thank you very much, Mr. Chairman.

The CHAIRMAN. I thank the gentleman, for the statement and thank you for being with us today.

So we'd like to welcome our first panel of witnesses. You've been very patient coming up with us here, being part of the process, I think you all have been through it before: Mr. Varel Bailey, corn, soybean, grass, pork, cattle, and sheep producer from Anita, Iowa; Mr. Richard Bayliss, corn and soybean producer from Ottumwa, Iowa; Mr. Dane Lange, dairy farm, and soybean producer from Brooklyn, Iowa; Mr. Nick Volz, corn, soybean, and pork producer from Elkhart, Iowa; and Mr. Darrell Weems, cattle, corn, and soybean producer from Earlham, Iowa.

Mr. Bailey, welcome to the Committee and your statement will be made part of the record, and we're going to try to keep the statements to 5 minutes if we can. We don't have a timer here, I guess. Oh, we do. Okay. Good.

I want to announce we had a hearing here, the first hearing we had on the farm bill with the Secretary, some of the Members figured out something, so they started asking—this is not aimed at you guys at all, but they started asking three questions at the beginning of their time and then the answers took 10 minutes. So we're going to have a new rule that you can ask one question at a time, and when the light is yellow you can't ask another question. So we'll try to hold everybody to the time frame if we can.

Mr. Lucas, I think we can agree, so that everybody gets a chance to say their piece and have time for questions.

Mr. Bailey, thanks, for being here.

STATEMENT OF VAREL G. BAILEY, CORN, SOYBEAN, GRASS, PORK, CATTLE, AND SHEEP PRODUCER, ANITA, IA

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

The CHAIRMAN. You have to talk right into the microphone in order for it to work. There you go.

Mr. BAILEY. Mr. Chairman, Members of the Committee, first of all I want to congratulate you for starting these hearings at this time, and part of the reason is that things are changing very rapidly out here. Keeping Washington informed as to what's really going on out here is continuously a challenge. So, again, we appreciate it.

I ask that my written testimony be included in the record, and I'd like to speak just off the record, here on the record, but informally.

First of all, I'd like to say, that the farm bill as you folks have mentioned is more than loan rates and food stamps. Most of us don't realize that the farm bill is actually a contract. It's a contract between agriculture and the rest of society. If you go back in history, you'll find that all societies, all cultures have a contract, and that is a level of trust. It's actually a covenant between the people that produce the food, feed, fiber, and fuel for the general public and the rest of that culture. If that erodes, if that trust breaks down between the farmers, the agriculture, and the rest of the culture, governments are overthrown and cultures die.

Jared Diamond has written a series of books on that, and we are lucky here in the United States in that we have a farm bill, and it's continuously renewed and that actually formalizes that contract between society and agriculture. Now, it's really critical because no society in the history of the world has ever had the extreme situation of two percent of the people supplying 98 percent of the people and exports in excess of that. So our challenge here, our job here is really a lot greater than what we realize when we look at it from that perspective.

Now in my testimony I mention about six things and many of them are not in the farm bill, but I think are very important, and I listed land. I listed site-specific research. I listed risk mitigation, rural infrastructure, food fads, and nutrition and agricultural structure and market fairness.

In covering land, I listed the issue and said that we have a loss of agricultural land. We have a need for technology for land reclamation and improvement. We have 30 million acres, over 30 million acres in the CRP and other government land programs. I'm not sure that we're fully utilizing, from a public policy perspective, what we could be doing with that land and improving it and—because it appears in the future that we'll probably need to bring that land back into production with site-specific research. With globalization and everything else, every farm is in direct competition with every other farm around the world, and the point is that our long-term survival as a farmer hinges on a steady stream of site-specific research.

Agriculture and politics are similar in the fact that we're both local and the research done in other places in the world don't necessarily always do good for me on my farm.

I'm not sure that we did the right thing with the National Institute of Food and Agriculture because we pulled the decision-making from agricultural research to Washington D.C., and pulled it away from the land here at universities. And so this is an issue that I think we need to take a look at.

Risk Mitigation: We have an aggressive program with crop insurance. We need to continue to review that. The Center for Agriculture and Rural Development at Iowa State University has done an extensive study on the subsidized crop insurance, and we need to take a good hard look at it. I would suggest we pull money, some of the subsidy out of that and rework the ACRE program and make it more workable.

Rural infrastructure, and I'll tick off some things that we need to take a look at. One is a problem in broadband. We have a problem in electricity transmission. The fact that we farmers have problems getting our electricity onto the national grid, and that's a bureaucratic problem, really not a physical problem.

We have a pending problem of the global positioning system, and many of us rely on that system for our planting and spraying and other kinds of site identification. A number of farmers are now actually buying Russian equipment, so we have a backup system because there's a question as how reliable the U.S. GPS system is going to remain.

We've got another problem with the cellular system. If you go to Europe and you get a European cell phone, it will work anywhere instead of near three towers along the interstate. There is only one because they have a completely unified cellular system, and we need a universal cellular system here in the United States.

And foods, fads, and nutrition, I mentioned here the fact that we have through the food stamp system the world's largest nutritional data center. I'm not sure that we're working with that data set, especially with the healthcare bill and everything. USDA needs to take a look at what we're doing with all that information coming off of the scanners and everything with the food situation. We have the data there if we simply use it.

An agricultural structure, oligopoly and market forces, I'd just simply say that I really encourage this Committee to reinforce USDA's effort with the Department of Justice to take a good hard look at the changes taking place in agricultural structure and those things.

So thank you very much for your time, and I would answer any questions.

[The prepared statement of Mr. Bailey follows:]

PREPARED STATEMENT OF VAREL G. BAILEY, CORN, SOYBEAN, GRASS, PORK, CATTLE, AND SHEEP PRODUCER, ANITA, IA

Testifying as an individual farmer; farming since 1966.

Observation: farm bills are like military strategy; they are designed for the last war, not the next war.

When considering the future, I have these areas for recommendations:

Land.

Site specific research.

Risk mitigation.

Rural infrastructure.

Foods, fads and nutrition.

Agriculture structure and market fairness.

Land

Issue: loss of agricultural land; need for technology for land reclamation and improvement.

Land is the basic building block of agriculture. Adequate area, quality and ecology of land are vital to the production of food, feed, fuel and fiber and are critical to the survival of humanity. The U.S. Government has a vital role in insuring that high quality agricultural land is not converted to non-agricultural use. Increased emphasis on farmland protection, more emphasis on new soil conservation technologies and programs and new initiatives on agricultural land reclamation around urban areas are needed.

Site Specific Research

Issue: loss of site specific research capacity while the need becomes greater.

New emphasis on site specific research is needed to insure the necessary increases in agricultural production to feed a hungry world. Politics and agriculture are similar in that both are "local."

Globalization has changed the goals of agriculture research. Instead of the local Land-Grant University working to perfect technology and management systems that are unique to their area, they and the private sector work for the "home run" invention that can be sold universally. At the same time Federal funding for Land-Grant support for Research Stations has been reduced 35% in the last decade and Cooperative Extension support has been reduced 42%. Globalization means every place is in direct competition with everywhere else. Economic survival is determined by a continuous stream of site-specific research. The last farm bill moved away from local research by establishing the National Institute of Food and Agriculture. This program uses large multi-state grants, with the goals set in Washington to develop ubiquitous technology. This may seem useful from a national perspective but it is counter to the need for local prioritized research. The private sector cannot provide this R&D because typically the unique market is too small. For the farmer, the private sector "consultant" cannot be trusted to provide unbiased information since many times he is furnished by an input supplier. If this situation continues, U.S. agriculture will lose its competitiveness with the rest of the world. Creation of a site specific research system is essential for the future of American agriculture.

Risk mitigation

Issue: need for redesign of government subsidized crop insurance program.

Government programs provide an important role in buffering the risks from weather disasters, market aberrations and political irrationalities. Government must maintain the role as an insurer (for a fee) of uncertainty and not be a driver of change. Past government programs have enticed production into marginal areas (the corn belt almost to Winnipeg) (milk to the desert). This is a result of a combination of commodity programs, subsidized insurance programs and other supports that in some areas reduce the farm risk to near zero. Reconciliation of the programs so they provide adequate mitigation and not a guarantee of profit are needed.

Further revisions of the agreement between RMA and the crop insurance companies are needed. Even with the changes pending in the negotiation, the program is a rip-off for taxpayers and transfer of wealth from productive areas to marginal areas. That money will be better spent in other areas.

One of the areas in need of added support is in the ACRE program. This could simplify the program and make it workable for many more farmers.

Rural Infrastructure

Issue: new infrastructure areas need policy development and Federal support.

Typically when we think of infrastructure we think roads, bridges, railroads, phone lines, locks-and-dams, USDA offices, and the Rural Electric Co-ops. Those are all still vital but for rural America to provide for the demands of the rest of the country and the world, we are in a new era. World competitive Broadband communications, a modernized electric transmission network, a quality Global Position System signal, a unified, comprehensive cellular phone system, and a modernized USDA computer system are some of the things rural America needs.

Broadband: A dynamic, last-mile, high speed, high capacity Broadband is essential for a vibrant future. "Net neutrality" is key to success. Without net neutrality, the consolidating communications industry will become gate keepers, milking profits from past investments rather than building for the future. If government fails to protect net neutrality it will be endorsing oligopoly or a cartel. We went through this with land-lines in the past. We can avoid the problem with the correct policy now.

Electric transmission network: We don't need to start with the political battles in crossing state lines and who makes the investment. We can start with changing the rules between REC's, their transmission line companies and the electric generation companies. Right now it is impossible for a farmer to build a wind turbine, generate electricity for his local REC in excess of the need of the local substation, and then send power back through the transmission line company to another substation in the same REC. This is not a technical problem; it is a bureaucratic problem. Furthermore, if a group of farmers and local investors wish to build a wind turbine farm, they must get in the same bureaucratic waiting line as those trying to build coal, natural gas or nuclear power plants. Updating the rules for electric generation at the local and regional level will greatly increase the creation of alternative energy.

Global Positioning System: GPS has become a necessary service for agriculture and rural America. That signal has become the meta-data standard for farming, construction, transportation, recreation, emergency services and many other industries. For long time users, the signal seems to be less accurate and reliable. After the signal was unscrambled by the military there was a period of very high precision. Now many users are adopting RTK and CORE precision correcting systems that correct for the lower quality service, but even these programs may fail if the number of satellites drops too low or their signal is corroded. USDA does not run this system but agriculture needs to register a concern if the GPS system should fail.

Cellular telephone system: Traveling the Interstate highway in the U.S. and then the Autobahns in Europe, there is a significant difference in cell phone towers. In the U.S. there are normally three or four towers clustered together. In Europe there is only one. A U.S. based cell phone will not work in Europe. The reason is Europe has a unified cell phone transmission system. The splinted system in the U.S. means all the investment is in the high volume areas, leaving major rural area with little cell phone service. This is the same story as years ago when the land-line telephone system and the electric service system was developed. Government must step in when the private sector fails in delivering new technology that is essential to the economy and society.

USDA computer system: This is long overdue.

Foods, Fads and Nutrition

Issue: massive, long term support for nutrition programs need a new strategy.

The majority of the money spent in the farm bill is for food and nutrition. The media is constantly full of news of obesity, hunger, nutrition driven medical problems, fad diets, and theories about eating. I get the opinion that the computer balanced rations I feed my cattle, hogs and sheep provide a better level of nutrition than what the American public eats each day. This begs a question: with the huge level of government funds invested, the electronic Food Stamp recording program, the demographic studies ongoing, and the massive research effort, why is human nutrition so confusing?

My fear is that a fringe group with a secondary agenda will attempt to use the USDA nutrition program to implement their goals. Without sound science based information on which to base public policy, serious damage can be caused on human health, and agriculture. The food policy system now in place could not stop the damage done by one BSE cow, miss-named H1N1 (swine) flu or sick poultry. It is time to allocate funds to research what we really eat and find ways for better nutrition to create a better life.

Agriculture Structure, Oligopoly and Market Fairness

Issue: the need for greater effort in the USDA & DOJ investigation.

Public policy changes in the past decades have radically changed agriculture and rural America. Globalization has created a world market and world competition. Micro-electronics, communications and the Internet have created a world network. A world financial system moves unlimited money around the world with a click. An imperfect intellectual property system makes many inventions ubiquitous almost overnight. Consolidation and vertical integration in the livestock industry have collapsed the profit margins in livestock production. The patenting of DNA was legalized. New methods of retailing with worldwide supply chains have been developed. We currently have an unbalance market place. It is unbalanced at the farm level. It is unbalanced at the processing level and unbalanced at the retail level. Examples are: livestock grower contracts, processor supply ownership, unbalanced market information and artificial segmentation to stifle competition. Machinery is designed with proprietary software to capture maintenance business and trade territories are established to reduce market competition. Broad intellectual property patents provide a legal platform to shape segments of the industry and actually reduce innovation instead of stimulating it. In pharmaceuticals, FDA regulations are used as a weapon to stop generic products based on inert ingredients present due to the production process. Failure of Federal regulations to consider market balance when evaluating business consolidation has created an agricultural structure that is very fragile and tenuous. Rebalancing of the market is needed.

Some will say that it is impossible to put the genie back in the bottle, but they said that about the "trust busting" business conditions in 1900.

The CHAIRMAN. Thank you, Mr. Bailey, we appreciate that. Mr. Bayliss, welcome to the Committee.

STATEMENT OF RICHARD D. BAYLISS, CORN AND SOYBEAN PRODUCER, OTTUMWA, IA

Mr. BAYLISS. First to the Committee I'd like to thank you——

The CHAIRMAN. You have to get a little closer, like a rock and roll singer.

Mr. BAYLISS. First to the Committee, I'd like to thank you for this opportunity to appear before you and share with you my thoughts on the farm bill, and its effects on our farming operation and those in my area that I am familiar with.

My name is Richard Bayliss. Our family, my wife and I, our two sons and their families, farm about 2,000 acres of row crops in Wapello and Keokuk Counties in southeast Iowa. Our farms are split just about evenly between corn and soybean production each year, and we rotate those crops annually. We have a combination of owned, rented, and custom farmed ground.

Our landlords include people who are elderly, but very involved with their farms, and those who do not live near their farm, but still take an active role in management decisions.

I also retired in 2008 after almost forty-two years in the Iowa Army National Guard and spent calendar year 2005 in Al Anbar Province, Iraq.

Production agriculture has become a very risky, high input, and high-tech industry. We face many challenges daily with changing weather, volatile markets, rapidly advancing technology, and rising costs of production. While United States farmers continue to feed the world, we see many young and beginning farmers who want to enter this challenging and very rewarding profession. Investing in farmland and machinery, maintenance costs on both of these, and insurance to protect against loss presents a major obstacle to established farmers. For those just beginning, those things can be more than daunting, they can stop a young person in his tracks. Some form of revenue or price support or protection for them is essential. We will not stay and farm forever. We need that younger generation to be in the position to take over from us as seamlessly and painlessly as possible.

As for our own operation, we remained with the traditional DCP program that was enacted in 2002 and available with the 2008 farm program. It is an uncomplicated and straightforward commodity price support program that is generated by number of acres × price = support level. The DCP Program coupled with a revenue assurance option from the Multi-Peril Crop Insurance provides a reasonable safety net that provides stability in our operation.

The optional revenue-based-program, ACRE, was new in the 2008 Farm Bill. It may become simpler and easier to use and understand as time goes on, but we found it to be very difficult to apply to our operation and challenging to accurately determine its usefulness. The major issues with ACRE in my opinion are: Yield base is set on a statewide basis. Variables such as soil types, average yields, and weather conditions across the entire state put the southern tiers of counties at a significant disadvantage, and, conversely, puts other areas of the state at an unfair competitive advantage.

ACRE is a corn-only program; no provision for rotating crops of soybeans, so coverage is drastically reduced for anyone who rotates crops, which are a majority of operations. If a producer has a significant crop loss in 1 year, the yield base is reduced reflecting the loss, which in turn reduces coverage for the subsequent year. Two crop failure years back-to-back and a producer has no coverage at all.

Annual submission of proven yields, total revenue, and full Federal income tax returns is not only difficult to comply with, but is invasive and confidentiality can be an issue. This requirement is also extremely difficult to explain and justify to elderly or distant landlords.

ACRE payments are discounted below the DCP Program by 20 percent, which is a significant reduction that's difficult to explain to elderly landlords, those who do not live on a farm, and even tenants who are affected in some lease arrangements.

Available funds through the commodity loan program are discounted 30 percent when a producer is enrolled in ACRE. If I were able to borrow $10,000 using about 5,200 bushels of my corn as collateral while enrolled under the DCP Program, I could only obtain $7,000 against the same 5,200 bushels if I were enrolled in ACRE. ACRE requires a 4 year commitment with no opt-out provision. This constraint significantly prevents an operation from reacting to changes in life situations, new marketing opportunities, *et cetera*, and can have a very negative impact on estate planning.

These are the reasons that kept our operation and many others, to whom I've personally spoken, out of the ACRE Program and will continue to do so until modifications can be made so that it is more equitable and user friendly. In comparison, DCP helps a producer to stay in compliance with the program, instead of manufacturing roadblocks to compliance, which is due in large part to its simplicity and its straightforward language.

The fixes I would propose for the farm program to help young and beginning farmers to be able to gain a foothold in this business and provide the next generation of agriculture producers would be: Raise the loan price. Raise the loan price on corn to a realistic level. The current loan price of $1.90 a bushel is no incentive for a producer to seal grain/put corn under loan when the loan rate is half of market value. The loan program could be a very valuable financial tool if it were restructured to reflect a realistic loan price.

Gaining support for a loan program as opposed to a direct payment program should be easier to manage. Design a straightforward, streamlined price support program that the producer can sell to his lender. It has to be realistic, and it has to provide some form of protection, for both the producers and the lenders, to encourage the lender to make funds available for production.

It's extremely difficult to convince a lender to provide thousands in operating capital with no safety net beneath the production he is financing. Crop insurance, revenue assurance needs to be available for every producer to support the producer/lender relationship.

I support payment limits as set out in our current farm bill. I do not feel that the significant cuts President Obama suggested are acceptable in our current financial structure. There are many young and beginning farmers who can exceed the $250,000 income limit, but have such large debt service needs that their income is stretched very thin. Yet they will be ineligible for the program. Preventing these younger, newer farmers from participating in the farm program can effectively cripple them from being able to compete in the marketplace, both from a commodity sales standpoint and in the ability to purchase real estate on which to expand their operations. I believe that there is a certain unfairness associated with the proposed cuts.

I also support the Federal crop revenue assurance program. It is the safety net that farmers and small, rural banks and other ag lenders must have to stay in business and remain viable in these challenging times.

In my opinion, the new farm bill must evolve from where we are now, and not be a complete 180° turn. Please endeavor to look 10 or more years into the future with respect to input costs, markets, technology, global perspective, and our children's children. The program must fit the future, not what we are doing this week or this year. They can fit the rural, production landscape and the ecological development of larger farm operations. Farms will not get smaller. The new farm program needs to be flexible enough to allow for the growth and evolution of the business of farming. We have to be able to help our next generation get started and become quickly viable to maintain the level of production that will be necessary to continue to feed the population of the world in the coming years.

The best opportunity for production agriculture is to operate in a free market system that allows for profitability and innovation. However, when the commodity markets are significantly affected by issues completely unrelated to agriculture and so very out of our control, there needs to be some from of safety net in place to help deal with this situation.

I believe that agriculture has many exciting opportunities available for success in every community. Mother Nature seems to regulate the size of that success in most cases. The business of agriculture needs a support base with revenue assurance in place to compensate for the things the farmer cannot control: Weather and market volatility.

Again, I would like to thank the Members of this Committee for providing this hearing and for allowing me the opportunity to share my thoughts and opinions with you. It's very difficult for many of us in production agriculture to imagine doing anything else in life. Farming in a situation where a farm program wasn't necessary for us to economically produce the commodities that fuel our world would be ideal. But until we reach that point, I hope that we will work towards creating a simply-structured and straightforward framework that can help the next generation in production agriculture move toward a robust free market system. Thank you.

[The prepared statement of Mr. Bayliss follows:]

PREPARED STATEMENT OF RICHARD D. BAYLISS, CORN AND SOYBEAN PRODUCER, OTTUMWA, IA

First, to the Committee, I'd like to thank each of you for this opportunity to appear before you and share with you my thoughts on the farm bill and its effects on our farming operation and those in my area that I am familiar with.

My name is Richard Bayliss. Our family—my wife and I, our two sons and their families—farm about 2,000 acres of row crops in Wapello and Keokuk Counties in Southeast Iowa. Our acres are split just about evenly between corn and soybeans each year, and we rotate those crops annually. We have a combination of owned, rented, and custom farmed ground. Our landlords include people who are elderly but very involved with their farms, and those who do not live near their farm but take a very active role in management decisions. Also, I retired in 2008 after almost 42 years in the Iowa Army National Guard and spent calendar year 2005 in Al Anbar Province, Iraq. While I was deployed, our farm operation went along pretty much as normal because each of those remaining at home carried the extra load to make it happen.

Production agriculture has become a very risky, high input, high-tech industry. We face many challenges daily with changing weather, volatile markets, rapidly advancing technology and rising costs of production.

While United States farmers continue to feed the world, we see many young and beginning farmers who want to enter this challenging and very rewarding profession. Investing in farm land and machinery, maintenance costs on both of those, and insurance to protect against loss presents a major obstacle to established farmers; for those just beginning, those things can be more than daunting . . . they can stop a young person in his tracks. Some form of revenue or price support or protection for them is essential. We old guys can't farm forever . . . we need that younger generation to be in a position to take over from us as seamlessly and painlessly as possible.

As for our own operation, we remained with the traditional DCP program that was enacted in 2002 and available with the 2008 farm program. It is an uncomplicated and straightforward commodity price support program that is generated by "number of acres × price = support level." The DCP Program, coupled with Revenue Assurance option from Multi-Peril Crop Insurance provides a reasonable safety net that provides stability in our operation.

The optional revenue-based program—ACRE—was new in the 2008 Farm Bill. It may become simpler and easier to use and to understand as time goes on, but we found it to be very difficult to apply to our operation and challenging to accurately determine its usefulness. The major issues with ACRE in my opinion are:

(a) Yield base is set on a statewide basis, not by county. Variables such as soil types, average yields, and weather conditions across the entire state put the southern tiers of counties at a significant disadvantage and conversely puts other areas of the state at an unfair comparative advantage.

(b) ACRE is a corn-only program; no provision for rotating crops of soybeans, so coverage is drastically reduced for anyone who rotates crops, which is a majority of operations.

(c) If a producer has a significant crop loss in 1 year, the yield base is reduced reflecting the loss, which in turn reduces coverage for the subsequent year. Two crop failure years back-to-back and a producer has no coverage at all.

(d) Annual submission of proven yields, total revenue, and full Federal income tax returns is not only difficult to comply with, but is invasive and confidentiality can be an issue. This requirement is also extremely difficult to explain and justify to elderly or distant landlords.

(e) ACRE payments are discounted below the DCP program by 20%, which is a significant reduction that is difficult to explain to elderly landlords, those who do not live on the farm, and even to tenants who are affected in some lease arrangements.

(f) Available funds through the Commodity Loan program are discounted 30% when a producer is enrolled in ACRE. (If I were able to borrow $10,000 using about 5,200 bushels of my corn as collateral while enrolled under the DCP program, I could only obtain $7,000 against the same 5,200 bushels if I were enrolled in ACRE.)

(g) ACRE requires a 4 year commitment with no opt-out provision. This constraint significantly prevents an operation from reacting to changes in life situations, new marketing opportunities, *etc.* and can have a very negative impact on estate planning.

These are the reasons that kept our operation and many others to whom I've personally spoken, out of the ACRE program and will continue to do so until potential modifications can be made so that it is more equitable and user friendly.

In comparison, the DCP program helps a producer to stay in compliance with the program, instead of manufacturing roadblocks to compliance, which is due in large part to its simplicity and its straight-forward language.

The "fixes" I would propose for the farm program to help young and beginning farmers to be able to gain a foothold in this business and provide the next generation of agriculture producers would be:

(a) Raise the loan price on corn to a realistic level. Current loan price of $1.90/bu is no incentive for a producer to seal grain/put corn under loan when the loan rate is half of market value. The loan program could be a very valuable financial tool if it were restructured to reflect a realistic loan price. Gaining support for a loan program as opposed to a direct payment program should be easier to manage.

(b) Design a straight-forward, streamlined price support program that the producer can sell to his lender. It has to be realistic, and it has to provide some form of protection for both the producer and the lender to encourage the lender to make funds available for production. It's extremely difficult to convince a lender to provide thousands in operating capital with no safety net beneath the production he is financing.

(c) Crop Insurance/Revenue Assurance needs to be available for every producer to support the producer/lender relationship.

I support payment limits as set out in the current farm bill. I do not feel that the significant cuts that President Obama has suggested are acceptable in our current financial structure. There are many young and beginning farmers who can exceed the $250,000 income limit but have such large debt service needs that their income is stretched very thin. Yet they will be ineligible for the program. Preventing these younger newer farmers from participating in the farm program can effectively cripple them from being able to compete in the marketplace, both from a commodity sales standpoint and in the ability to purchase real estate on which to expand their operations. I believe that there is a certain unfairness associated with the proposed cuts. Every operation has made significant financial decisions based on the rules set forth in the last farm bill; the rules shouldn't be changed in the middle of the game.

I also support the Federal Crop Revenue Assurance Program. It is the safety net that farmers and small, rural banks and other ag lenders must have to stay in business and remain viable in these challenging times.

In my opinion the new farm bill must *evolve* from where we are now, not be a complete 180° turn. Please endeavor to look 10 or more years into the future with respect to input costs, markets, technology, global perspective, and our children's children. The program should fit the future, not what we are doing this week or this year. Make it fit the rural, production landscape and the ecological development of larger farm operations. Farms will not get smaller. We won't be going back to 80 or 120 acre operations where corn, soybeans, oats, clover/hay were rotated each year and hogs and cattle are pastured on the fallow ground while chickens peck in the yard. Farm operations will get larger. There are fewer farmers on the horizon to produce and manage the commodities. Machinery will only get larger and more powerful. And more expensive. The new farm program needs to be flexible enough to allow for the growth and evolution of the business of farming. We have to be able to help our next generation get started and become quickly viable to maintain the level of production that will be necessary to continue to feed the population of the world in the coming years.

The best opportunity for production agriculture is to operate in a free market system that allows for profitability and innovation. However, when the commodity markets are significantly affected by issues completely unrelated to agriculture and so very out of our control, there needs to be some form of safety net in place to help deal with this situation.

I believe that agriculture has many exciting opportunities available for success in every community. Mother Nature seems to regulate the size of that success in most cases. The business of agriculture needs a support base with revenue assurance in place to compensate for the things the farmer cannot control: weather and market volatility.

Again, I would like to thank the Members of the Committee for providing this hearing and for allowing me the opportunity to share my thoughts and opinions with you. It's very difficult for many of us in production agriculture to imagine doing anything else in life. Farming in a situation where a farm program wasn't necessary for us to economically produce the commodities that fuel our world would be ideal. But until we reach that point, I hope that you will work toward creating a simply-structured and straight-forward framework that can help the next generation in production agriculture move toward a robust free market system.

The CHAIRMAN. Thank you. Mr. Lang, welcome to the Committee.

STATEMENT OF DANE M. LANG, DAIRY, CORN, AND SOYBEAN PRODUCER, BROOKLYN, IA

Mr. LANG. Mr. Chairman, Congressmen Boswell, distinguished Members of the Committee, I would like to thank you for the opportunity to testify before you today. My name is Dane Lange, and I am a sixth generation farmer from Brooklyn, Iowa. Every day I have the opportunity to work alongside three generations of my family: My grandfather, my dad, my uncle, and my younger brother. We are dairymen, it's not just what we do; it's who we are.

For the past calendar year, dairymen around the country have weathered the largest collapse in milk prices. We have seen our fair share of distressed milk prices in the past, but this collapse was and is different. It has affected every dairy farm regardless of size, debt, or economy of scale. If you milk cows, you are losing money.

Strangely enough, if we went back just a few years, we would see a strikingly different dairy industry. Milk cow numbers in Iowa had stopped a decades-long slide and started growing 190,000 head in January of 2005 to 215,000 head just 3 years later. This resurgence in milk cow numbers coincided with growing domestic demand and a booming market. Milk cow numbers increased, milk price increased, the price of corn and soybeans that we feed our cows increased. The price of fuel that we use to operate our equipment increased, and that was all fine because the milk check reflected the cost of producing the milk.

Then in 2008 things went south. The recession just didn't hit the dairy industry, it hit the world. Milk price tanked, exports dropped from $4 billion in 2008, to just over $2 billion today, and strangely enough the price of milk from the store did not change. The price of a bushel of corn or soy beans did not change. The seed and fertilizers that we use to grow the crops to feed our cows did not change, and while the State of Iowa did not raise our taxes in the crisis, our local school boards did it for them.

The days when milk can be produced for $9 or $10 are over and they are not coming back. A recent drop in grain prices has helped to stabilize the cost for producing milk; somewhere between $15 and $17 a hundredweight, which unfortunately means that dairy farms are still losing money and Iowa is losing dairies.

I would like to thank the Committee for recognizing the crisis dairy farmers are facing, but unfortunately the next farm bill won't help any dairymen today. And to be quite honest, we aren't worried about the Farm Bill of 2012; we're worried about next month.

Farmers are entrepreneurs who believe the dairy policy should be market oriented and consistent with the world wide crisis. It is likely that no one in this room believes that every producer who wants to should stay in business. That said everyone in this room believes that America and the world is a safe and reliable source of food.

With that in mind, I would like Congress to consider the following: The Federal Order structure used to compute milk price needs to be modified to better respond to current market conditions and provide greater transparency to interested parties.

The world no longer cares about cheddar cheese. Government policies need to reflect changing world demand and encourage domestic production of milk protein concentrates.

No farm in the country can make milk for $10. Milk payments need to reflect today's break-even levels for the producer.

The California standards for solids/non-fat in fluid milk, should be implemented at a national level. This would enhance product quality and improve promotion of the product.

I am lucky. I've also known that if I wanted to farm, our family would make the adjustments and sacrifices necessary to make that happen. Most young farmers are not so fortunate. It is critical that we provide adequate incentives to secure a viable future for dairymen and women. Starting a new dairy takes tremendous amounts of capital, and if you don't have a family to support you, it is not possible. That is why it's important to provide incentives and programs for beginning farmers to access capital, as well as tax incentives for persons willing to lease, sell, or lend assets to beginning farmers.

The United States must hold our trading partners accountable to negotiated trade agreements. It's recently been announced that China plans to block imports of U.S. dairy products unless the U.S. agrees to change an export certificate, which has been in place since 2007.

In closing, dairymen don't want a hand out or bail out. What we want is a reliable safety net to catch us when the market drops out beneath our feet. Dairymen need tools to deal with an increasingly volatile milk market.

Government policies need to be brought up to date to reflect current costs of production. I would encourage Congress to look into implementing some type of loss income insurance that producers could buy into. Thank you.

[The prepared statement of Mr. Lang follows:]

PREPARED STATEMENT OF DANE M. LANG, DAIRY, CORN, AND SOYBEAN PRODUCER, BROOKLYN, IA

Good morning, my name is Dane Lang and I am a sixth generation dairy farmer along with my father, uncle, brother and also my grandfather in Brooklyn, Iowa.

It is a pleasure to offer testimony today based upon my experience as a dairy farmer and a partner in the Lang dairy farm.

To give you a little background about our farm, in addition to the five family members we also have seven employees. The farm includes 1,300 acres of forage, corn, and soybeans, yet we also purchase much of our alfalfa from local farmers and corn gluten from a local ethanol facility. We are proud of our farming operation as we have strived to remain modern over the past six generations with modern genetics and facilities as well as utilize risk management tools to minimize our financial risk.

As you have heard in previous hearings dairy farmers have been challenged with one of the worst periods in lack of profitability. While we've seen some improvement in recent months—milk prices rose above break-even levels in January 2010 after 20 months of historic losses—it appears that the volatility of the market continues into the near future. Economists are projecting another dip in prices in the near future. In the past few weeks, milk futures prices have dropped nearly $2 per hundredweight. Forward futures prices for milk are now substantially below the prices USDA projected just a few weeks ago at the USDA Outlook Conference. In late 2008 and throughout 2009 reduced demand for exports, excess milk and dairy product supply, and high feed and energy costs created a perfect storm within the dairy industry, driving prices so low that the very survival of dairy farmers was—and still is—threatened. In the turbulent seas of the dairy market, dairymen got their heads above water just long enough to catch a breath, but now it seems were headed back under water.

To give you a perspective of the condition of the dairy industry over last few years, fellow dairymen and women have been tested. In March 2006 our milk prices took a negative swing taking profitability below break-even costs for nearly a year. Difficult decisions were made by many dairy farmers in Iowa and across the U.S. in order to remain viable. Herds were liquidated; costs were cut to the bone. Fortunately, our milk prices bounced back in 2007 which created an opportunity to get caught up and make necessary improvements to the farm. But that bounce did not last long. By early 2008 prices were falling again and this was also about the same time fuel skyrocketed, grain prices increased and virtually all other inputs followed suit, and our profitability was once again eroded.

As dairy prices plummeted again—and this time beyond the levels seen in 2006—dairy farmers did every cost-cutting measure to stay in business. However, the red ink for many was beyond their control. To complicate the issue even more, our herd efficiency improved creating a 7–8% increase in milk/cow over the last 5 years. When you think it can't get any worse, it does. Our exports also declined substantially. In 2008, the value of U.S. dairy exports were nearly $4 billion, and today, U.S. dairy exports are just over $2 billion.

My father began his career in our dairy operation in 1973 and he has said that this past year was the most challenging in his 37 years of farming.

If we step back a few years, the picture for the Iowa dairy industry was looking up. Milk cow numbers in Iowa stopped a multi-decade long slide in 2005 and there was optimism and hope as dairy cow numbers in Iowa grew from 190,000 head in January 2005 to more than 215,000 head by January 2008. This resurgence in milk cow numbers in Iowa coincided with the growth of the ethanol industry and the availability of new feed sources like dried distillers grains. Nationally, the prospects for the dairy industry were looking good in 2007. Production was increasing, domestic demand was growing and exports were booming. But the depth of the downturn experienced in 2008–2009 and now resuming again is more than dairymen can endure. Iowa is losing dairy farms.

Iowa is an important dairy state. Iowa ranks 7th in the nation in the number of dairy herds; 12th in milk cow numbers; 9th in fluid milk bottling; 7th in cheese production and 4th in ice cream production. The dairy industry provides more than 26,000 jobs with a significant number of those jobs adding to the vitality of our rural areas. The dairy industry contributes more than $1.5 billion to the Iowa economy. But all that is at risk and in peril if the economic conditions facing the dairy industry don't improve.

A weakening in grain prices has helped stabilize the cost of production for most dairy producers. The current cost of production for many Iowa dairy farms including ours is in the area of about $15–$16 per hundredweight. While this is helping the dairy side of the business, it has taken away from the ability of the rest of the farm to help support the dairy enterprise through tough times. Without significant declines in crop input prices, Iowa's dairy farms are now facing shrinking (or even negative) margins on both the crop and milk enterprises. I wish I could be more optimistic, but the milk futures market holds out little hope of prices moving back above break-even levels in the next year or 2. The reality is that costs have shifted higher and that shift appears to be permanent. It is likely that the days of producing milk for $9 or $10 per hundredweight are over.

I appreciate the House Agriculture Committee examining this issue as a starting point for the next farm bill debate, and I also recognize that dairy policy is largely complex, divisive and regionally charged. There has been much discussion regarding what should be done to help dairy farmers weather this economic downturn. Some people have joked that if there are two dairy farmers in the same room, you'll hear three different opinions on national dairy policy.

While discussing the critical issues of milk price volatility and dairy farmer profitability, I would encourage the Congress to consider the following:

- The Federal Order structure, formulas and price classes used to compute milk prices must be modified so that they respond better to current market conditions and enhance transparency, as well as taking into account the regional differences in the cost of milk production.

- Changes are needed to ensure the long-term market development of value-added products, and encourage the domestic production of milk protein concentrates (MPCs)—mitigating concerns arising from the importation of these products.
- The development of a price discovery method that utilizes data from more milk production and expands mandatory reporting and auditing of prices and inventories, including penalties for inaccurate reporting. However, while seeking changes to the Federal Order system to reduce price volatility, Congress must also ensure that producer safeguards remain in place. Continuation of a countercyclical program like MILC, should be a key component to any future farm bill discussion.
- The California standards for solids-non-fat in fluid milk should be implemented at a national level. This would enhance product quality and improve promotion of the product.
- Current promotion mechanisms—such as the industry funded "Got Milk" campaign—should continue, and be complemented by an expanded national dairy product promotion program.
- It is also critical that we are providing adequate incentives to secure a reliable future of dairymen and women. Starting a new dairy farming operation takes tremendous resources and if an individual does not have a family member or mentor to provide financial and/or assistance with assets, the chances of starting a dairy to support a family is virtually impossible. That is why it is important that adequate basket of incentives and programs should be available for beginning farmers to access capital. There should be tax incentives for persons who sell or lease land, machinery, or other assets to beginning farmers.

Farmers are entrepreneurs who believe that dairy policy should be market oriented and consistent with expanded worldwide trade—global demand and exports contributed to the strength seen in 2008 prices. In order to see better prices ahead, American dairy farmers and processors need to be able to move dairy products around the globe and into the expanding array of new markets. We can no longer afford to have dairy policy be confined to the dairy farm—agriculture operates within a global economy and our dairy farms need to be a part of the effort to feed the world.

Current self-help programs for dairy producers show promise, but also have their limitations. The Cooperative Working Together (CWT) program is an industry driven (privately-funded) program that culls cows when the supply-demand imbalance needs to be corrected. CWT has done a tremendous job in reducing the national herd size; however, it is limited in resources as it has about 67% of milk production participating in the program. The program would be more effective if more producers were part of the program. However, I don't believe that the dairy industry is at a point to ask for—or even welcome—government intervention in the CWT program.

At the same time we have other tools such as forward pricing and milk futures. The availability of forward pricing is very dependent on the milk processor that purchases your milk. Not all processors offer this option. At times it can be very helpful in locking in an adequate price for a short-term period of time.

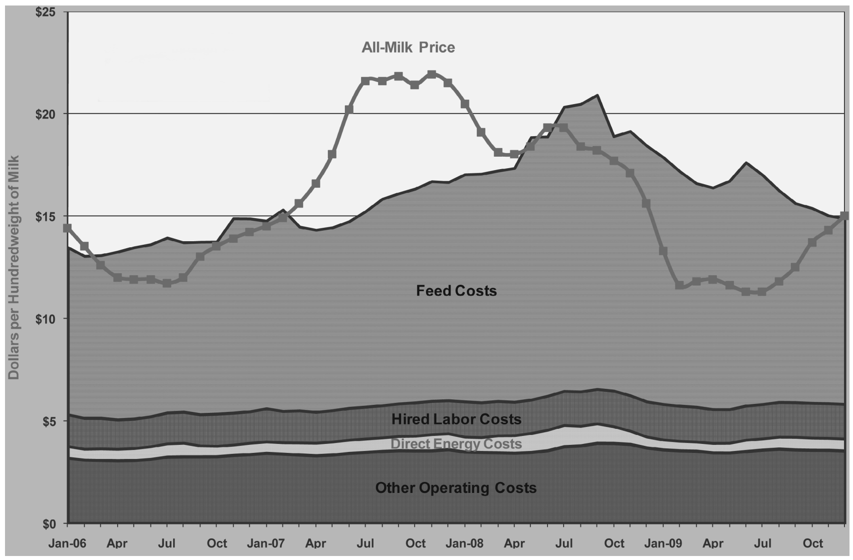
Additionally some dairymen can use the milk futures market. However, milk futures are fixed contract, which can be "lumpy" in size and the basis has been somewhat variable in recent months. This variability makes futures markets inappropriate for some producers. While neither of these options are a guarantee to dairy operations they can at times offer some relief.

In closing, dairy farmers are asking for market stabilization. Dairymen and women do a fantastic job at providing safe, healthy and quality dairy products and we will continue to do so. In return we need a market system that sends accurate market signals that tells us to reduce supply when it exceeds demand and provides us the opportunity to capture profitability when demand rises.

Thank you again for the opportunity to testify today. I would welcome any questions.

ATTACHMENT

U.S. Milk Prices and Costs of Production, 2006–2009 (f)



Sources: USDA/NASS & USDA/ERS through Jan. 2009. From Feb. 2009 NMPF & CME Group futures as of 02/02/09.

The CHAIRMAN. Thank you, Mr. Lang, we appreciate your testimony. Mr. Volz.

STATEMENT OF NICK VOLZ, CORN, SOYBEAN, AND PORK PRODUCER, ELKHART, IA

Mr. VOLZ. It's a pleasure to offer testimony today based upon my experience as a grain farmer. Good afternoon, my name is Nick Volz, and I am a fifth generation farmer and have been farming for thirty-seven years in Elkhart, Iowa, and the surrounding areas.

Where my wife and I live today is a century farm. I am currently raising corn and soybeans, and in the past have raised specialty corn and parent seed corn. We have also produced seed soybeans for nearly twenty years and specialty soybeans for DuPont for 5 years. We no longer produce these specialty crops because the premiums have declined, so it is not worth the extra expense in producing it. In addition, my dad gave me 12 sows when I was twelve years old and after graduating, I farrowed up to 80 sows and continued this until 1998.

My son, Todd, after graduating from Iowa State University, started farming in 1996. With limited row crop acreage available to him, he found a niche in the production and selling of hay. He currently has 300 acres. He has also needed to do non-farm businesses to meet his cash flow. These include landscaping and snow removal.

In 2002, my son and I started finishing 3,200 head of feeder pigs a year and continued that for 5 years. It was not profitable, and we stopped producing pigs in 2007. With the high cost of grain and protein, it was no longer feasible. As a smaller producer, we were unable to get contracts because of size, and were no longer able to market the hogs because it would often take 3 to 4 weeks to get a delivery date.

We have always participated in the farm programs; however, we decided not to enroll in the ACRE Program. Reason being, with the lack of price protection and smaller DCP payments and loan payments, we didn't believe there were any benefits for our operations. Instead of decreasing prices in the ACRE Program, the support prices should be raised to offset the high cost of production.

We have always believed in soil conservation and have installed at least 12,000 feet of designed grass waterways. Some of these waterways are close to thirty years old and still serve their purpose in conserving the soil. When the Conservation Security Program was announced, we thought it would fit the program well; however, it was never funded to the extent of where the money would have been placed where needed. Programs like this are needed to help conserve the soil to ensure that lifelong productivity continues. Payment limits are important and the money saved should be put into conservation programs to help protect our soils.

We belong to a number of organizations including corn and soybean associations, but we're not here to represent these organizations. I am honored to participate in this testimony. I do believe that all of this is important to enhance the 2012 Farm Bill and would like to see future meetings like this be held during January and February so that our short window of opportunities to plant will not be affected.

Thank you again for the opportunity to present this testimony before you today. I would welcome any questions or discussion about what I have spoken about today.

[The prepared statement of Mr. Volz follows:]

PREPARED STATEMENT OF NICK VOLZ, CORN, SOYBEAN, AND PORK PRODUCER, ELKHART, IA

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Thank you again for the opportunity to testify before you today. I would welcome any questions or discussions about what I have spoke about today.

The CHAIRMAN. Thank you, Mr. Volz, I appreciate it. Mr. Weems.

STATEMENT OF DARRELL WEEMS, CATTLE, CORN, AND SOYBEAN PRODUCER, EARLHAM, IA

Mr. WEEMS. I'm here today to discuss the conservation title of the farm bill. My name is Darrell Weems. I'm a lifelong farmer, conservationist and I represent today, in the capacity as Executive Director on a part-time basis, the Conservation Districts of Iowa and to represent the soil and water conservation districts in the state. For sixty years it's been our task to put conservation on the land. We've done that with the local conservation districts and the five electric commissioners and the 500 strong that are about putting conservation on the land.

I'm going to talk about the strengths we have, and that is in the strength in partnerships through the Iowa Department of Agriculture and NRCS, Iowa DNR, the State Soil Conservation Committee, and other private groups like, Farm Bureau commodity groups, we all came together to put conservation on the land and to conserve our resources.

The other strength that we have is conservation districts and CDI is directly in the middle. The funding starts at one end, the programs and the law and regulations that come down and the districts at the other end, we are in the middle to deliver those programs and that's what we do. Today we bring forth a couple thoughts relative to conservation programs that we have.

We want to talk a little bit about technical assistance. We believe technical assistance should be enhanced. We need to find and train technicians so that we can design and lay out the structures and processes by which we can deliver conservation. Our farmers today can put conservation on the land. Farmers by nature love to move dirt. They build things. They grow things. We need to give them the opportunity with all of their equipment, the technology and the size to deliver, and I think we can save some money in that process.

We can put conservation on our own lands if we have enough expertise and enough guidance to get it done. We need to be smart conservationists and smart with how we spend our money and our resources. We must target funds. We must get the most bang for our buck. In many cases we'll do this through a total watershed approach. Again, we have programs that work. I'll save the long title, as it takes too long, but we have CREP, we have EQIP, targeted CRP, wetlands, some with contracts to get the work done.

One thing I would caution is we would warn you we do this on a voluntary and local basis. That's how it will work best.

The next thing we want to talk a little bit about is conservation compliance findings. We believe that all land and production, whether HEL or non-HEL should be required to have a conservation plan to be eligible for USDA benefits. You work the plan and you get the benefits. We need more teeth in enforcement.

Successes: we have successes in the area of conservation. Forty-three percent reduction in soil erosion over the last thirty or forty years. In the last twenty years, the Iowa rural water survey shows that we have low detections of nitrates and herbicides in well water. Several species of wildlife are thriving and repopulating in Iowa. One DNR official recently said we have the best fishing we've ever seen in Iowa. I haven't been able to enjoy that yet this spring, but I hope to. We use conservation tillage and wetlands preservation to mantain working wetlands to improve water quality and keep our roots on the ground. We do a better job using nitrogen and phosphorus today.

We still have problems, you bet we do, we haven't solved. We still have too many pesticides leaving the soil, leaving the earth and going into our waterways. We have too many producers and citizens who just plain don't get it and don't do enough to conserve resources. In some cases conservation gains are moderated. We have to be careful about that. In some cases we are ill-equipped to deal with the biggest rain events. Last year and years before that have taught us that. Funds are always short and we always have more people who want to do the work than we have funds and technology and resources to provide them.

So in the end—and I've got another point I'm going to get into in a second—but in the end we must remember we didn't inherit this Earth from our parents, we borrow from our children. We must always try to polish and adopt the conservation, the future depends on it.

Sometimes when I am riding a tractor, or in this case last night riding the lawn mower, it occurred to me that I would go off script a little bit. It won't take long here, but there's a line in my testimony that I'd like to refer to that I didn't highlight enough, but needs attention. It's on the third to last paragraph. Sometimes other events and priorities rob us of the conservation focus.

I'm getting older. I've got grand kids. I'm beginning to think about things other than making a daily living now, and my kids and grand kids are important to me. It occurs to me today that other events and priorities are robbing us of the conservation focus. We have programs like Medicare or Medicaid, the interest on the national debt. When I borrow money, I have to pay back the interest. At sometime back in the 1980s the highest was 21 percent.

This country will have to deal with those issues. I think what that says in this scenario is that the *status quo* is not going to work anymore. We don't have enough money to do what we've always done, or what we want to do, and we asked for some of the trouble we got in.

So off script, I just wanted to mention that we have to use our head. We have to think. We've got to deliver and do things in ways that we haven't done, probably without the money that we've had before. And so I guess it's with this I'd love to answer questions and it's with this I conclude and thank the Committee for hearing me.

[The prepared statement of Mr. Weems follows:]

PREPARED STATEMENT OF DARRELL WEEMS, CATTLE, CORN, AND SOYBEAN PRODUCER, EARLHAM, IA

My name is Darrell Weems. I am here today as interim Executive Director of CDI and as a lifelong farmer and agriculturist. Conservation Districts of Iowa—CDI—is a nonprofit 501(c)(3) organization focused on the conservation of soil, water, and other natural resources.

CDI was founded in 1947 to provide a unified voice for the individual country-based soil and water conservation districts. Since that time, CDI was been working with the 100 soil and water conservation districts in Iowa and their 500 elected soil and water commissioners and staff to promote sustainable agricultural practices for the protection of soil and water resources. Today, work is also being done in urban settings, promoting conservation practices for homeowners, developers, and communities.

While each soil and water conservation district maintains its own programs, CDI helps districts combine efforts to address regional, state, and national issues. CDI teams with public and private partner organizations, such as Iowa Department of Agriculture and Land Stewardship, Natural Resource Conservation Service, Iowa Department of Natural Resources, State Soil Conservation Committee, Pheasants Forever, and others, to implement conservation practices on working lands.

CDI and the 100 Soil and Water Districts (SWCD) represent a key delivery mechanism for conservation practice. We are the middle organization between our partners and land owner/operators. Most conservation programming goes through the local SWDC office and its body of elected commissioners. We deliver conservation education and promotion. We allocate and deliver funds, local, state, and Federal. We match people, process, and programs. CDI and SWCDs facilitate the placement of conservation practices on working lands.

To build on the significant conservation provisions of prior farm program legislation, especially those of 1985 and 2002, we would offer these comments in advance of the 2012 Farm Bill:

Technical Assistance

Technical assistance must be enhanced. Funding and training for technicians should be increased so that we are able to design and lay out more conservation practices and structures. Farmers and/or their contractors own and operate large, sophisticated, technology-equipped machinery capable of placing conservation improvements on their land. Farmers, by nature, love to move dirt and build things. We should supply them with the technical guidance and planning necessary to do conservation work on their farms. In this time of tight funding, we believe there is considerable potential to put more conservation on working lands with less money.

Effects of Increasing Row Crop Intensity

Many factors, including but not limited to economic returns, technology, energy use, and food needs, have resulted in an increase in crop acres and a reduction in pasture/forage acres. Perhaps it is time to offer better farm program incentives for pasture/forage/small grain production than for row crop productivity. The farm bill should encourage protective seeding in sensitive areas.

Be Smart About Conservation and Water Quality

We must target funds and resources to the most sensitive areas first, where we can have the most impact and get the biggest "bang for our buck." In many cases that will be with a total watershed approach. We must use and enhance programs that work, such as the Conservation Reserve Enhancement Program (CREP, run by IDALS), prioritization of watersheds, EQIP, targeted CRP, working wetlands, and summer construction incentives. It is important to keep water quality improvement programs local and voluntary rather than mandated. Voluntary incentives work better than regulated directives.

Conservation Compliance Plans

All land in production, HEL and non-HEL, should be required to have a conservation plan to be eligible for USDA benefits. This would strongly encourage producers to create and follow that plan.

Successes

The nation's farmers and private land owners have made significant progress in recent years in protecting the nation's soil and water resources. From 1982 to 2007, soil erosion in the U.S. has been reduced 43%, according to the USDA National Resources Inventory Report. The Iowa rural well water survey of 1988–1989 and 2006–2008 show lower detection of nitrates and herbicides in well water. A recent U.S. Geological Service study reports declining levels of eleven herbicides and pesticides in Cornbelt waterways in 1996–2006. Several species of wildlife are thriving and repopulating in Iowa, and one DNR official reports the best fishing ever in Iowa. The use of conservation tillage and wetland reversion/construction is up. The use of better ag management practices and technology improvements like GPS systems and strategic placement have resulted in better use of fertilizer, nitrogen, and phosphorous.

But We Have More Work to Do

We still have too many nutrients and pesticides moving with the water and soil. We have too many producers and citizens who do not practice conservation methods and best management practices. In some cases, conservation gains are moderating. We are ill-equipped to deal with the biggest rain events. And funds are always short and we always have people who want to do more but are limited by resource availability. Sometimes other events and priorities rob us of conservation focus. We must guard against that. All groups, government and private, must rededicate themselves to working together and coordinating their conservation efforts.

And we must remember, "We didn't inherit this earth from our parents, we borrow it from our children." We must always strive to polish and adopt the conservation ethic. Our future depends on it.

On behalf of the Conservation Districts of Iowa and the 100 Iowa County Soil and Water Conservation Districts, thank you for the opportunity to comment.

Sincerely,

DARRELL WEEMS,
Interim Executive Director,
Conservation Districts of Iowa.

The CHAIRMAN. Thank you very much.

I thank all of the panel for your excellent testimony. We appreciate it.

I think that last comment kind of ties into something I want to say, and that is that we are not going to have any extra money for this farm bill. We'll be lucky to hold on to what we got. I saw on some of the testimony people wanting to raise loan rates because they are ridiculously low. If we get down to loan rates, we're out of business. It isn't going to happen. We can't—the money it costs to raise the loan rates, it's not realistic.

So one of the reasons we're starting this hearing process early is to see if there's a more efficient and better way to provide the risk management tools, safety net, and conservation that we all want to do.

Mr. Bailey, I see that you mentioned in your testimony about profit sharing. Do you think that there need to be changes? Are you familiar with the SRA negotiation that's going on?

Mr. BAILEY. Yes, sir.

The CHAIRMAN. What's your take on it? It has caused quite a commotion, with crop insurance companies and crop insurance agents coming to my office and telling me the world is coming to the end. So what's your take on where that's going?

Mr. BAILEY. Well, first of all, yes, I am familiar with the negotiations.

I'm not exactly up to date with the last minutes.

The CHAIRMAN. They're ongoing.

Mr. BAILEY. Ongoing, yes. Just refer back, I worked for Congressman Gansky in southwest Iowa for a number of years, and the crop insurance guys were in my office all the time as well.

Here, in this case, I think we've got to do what's right for the taxpayers, as well as what's right for the agricultural industry. One of the dilemmas we have is the way the subsidies are designed and everything right now, is that they provide an incentive to move crop production into marginal areas. And that is a dilemma because with that incentive and everything, you really increase the potential for disaster problems as well. So I don't have any specific numbers to put out or anything like that, what I'm saying is that we need to do a lot of analysis on it.

We have some competent people at the university, economists and ergonomists and everything, and I'm not sure that we're utilizing those people adequately here as we work on this problem. We need to give the farmers the risk mitigation and everything they need, and at the same time, we need to mantain the proper level of investment by the taxpayers.

The CHAIRMAN. Thank you.

Mr. Bayliss, you talked about, in your testimony at one point, here let's see if I can find it, you say the loan program can be very valuable tool if restructured to reflect a realistic loan price. Then you say gaining support for a loan program as opposed to a direct payment program should be easier.

So are you saying that you think the direct payments should be moved into the loan program situation, or is that what you're saying?

Mr. BAYLISS. Well, what my point was on that there, and you just told me that that was not a possibility, but if there was a higher loan rate on grain then you would not need so much of a support program under it, that would help offset it. You could take a look around and use that as operating captial and not have the risk involved through your normal lender or whatever to help put in the cost of production. So it was just a tool I could see where we could utilize a higher loan rate and offset the need for a some kind of a support program under it.

The CHAIRMAN. You think the revenue program can be fixed?

Mr. BAYLISS. Yes, I do. It's not going to be easy.

The CHAIRMAN. It's partly our fault that it got so complicated, and that's a long story. But, we're going to look at this and look at county prices instead of statewide prices, and try to design it so you can actually take it to the bank, so the bank can borrow money on it. I think there's a potential here with the revenue program and it's got to be reworked quite a bit.

Mr. BAYLISS. I totally agree. It has to make sense to your lender. If it's something he's going to buy off on, you're good to go, just so it has a support base.

The CHAIRMAN. Mr. Lang, you didn't mention anything about the support price program, and are you familiar with the work that's going on with the National Milk Producers Federation right now in terms of the new policy they're looking at for dairy?

Mr. LANG. Are you referring to the insurance, the income insurance? I guess I'm not sure what you're referring to.

The CHAIRMAN. Well, the National Milk Producers Federation have been on a 9 month effort to redesign the dairy program and some of the elements that you listed are in there. They're also talking about some other things like eliminating the dairy price support program altogether, getting rid of the $9.90 price support and going to a what they're calling marginal insurance program. They're going more towards crop insurance type program.

Are you familiar with that?

Mr. LANG. Slightly.

The CHAIRMAN. You don't know enough about it to know if——

Mr. LANG. No, I know a lot of people in this room know about it, but I do not. I'd like to point out that the co-op I'm a part of signed up for the Cooperatives Working Together, which use a private loan to remove cows from production, and that's over.

It is done. It's not coming back because as milk prices fail to improve from that, people thought well I'm tired of paying for all the free riders who are also benefiting from this. So I would hope that any new policy makes everyone pay so that everyone can reap the benefits.

The CHAIRMAN. What's being looked at is to see if there's any kind of a system to try to rein in production. It would apply to all areas including unregulated areas and California, equally. So whatever we end up doing, I'd like to guarantee you it will be across the board with everybody.

Mr. LANG. If the government would like to do something very cheap to improve milk prices, I would suggest that the California standards for solids, fat, and milk be immediately made nationwide. It's a fair basis for our milk, and it will immediately remove cows from production.

The CHAIRMAN. I think there's support for that from some Members of the Committee, but there is also interest out there that's very much opposed to it.

So anyway, I've run out of time, so I'll yield to Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman, and I should admit without any hesitation to the crowd here that coming from western Oklahoma, I'm a little envious that you get twice as much rain as I get at home. You, generally, measure your rainfall in feet in this state, which we generally measure ours in inches in Oklahoma. Western Oklahoma is a little traumatizing for me.

But with that said, it is a pleasure to be here, and first being a farmer from Oklahoma, let me ask the panels to compare the price of farmland in your area that trade in public auctions or public exchanges where the market reflects supply and demand accurately, describe for me what land prices have done in this year or in comparison in the last year or so to, say, 5 years ago. Up, down, sideways, no sales, up.

Mr. BAYLISS. Up, up, sky high.

Mr. LUCAS. Fascinating, fascinating.

The Chairman mentioned the budget situation we find ourselves in. In 2002 we had \$79 billion, \$17 billion of it went to conservation. In 2008 we had \$7 million, and I can say this in a bipartisan way. The Chairman was exactly right with a \$4 trillion deficit projected if you add the last 2 years and next 2 years together, we're going to be under incredible budget pressure when it comes time to write that 2012 Farm Bill.

So let me ask the group this: In the spirit of that kind of situation we may find ourselves in, looking at the conservation title, what's the most important thing to you? EQIP CRP, WRP? If anyone would dare or be willing to offer a response. What does you the most good? What does your community most good?

Mr. BAILEY. One of the things that maybe we ought to take a look at is a reverse auction for conservation projects, instead of using a flat 75 percent or 50 percent or whatever. Look at some of the ways the CRP has bid to try and get the maximum impact for the minimum amount of tax dollars that goes into it. Don't get me wrong, I don't have all the details worked out, but I'm just looking at a different way that you could interface with the producer to stimulate as much conservation effort as you possibly can.

Mr. LUCAS. Let's add the rest of the crowd in. I'd like to touch on that, Mr. Bayliss.

Mr. BAYLISS. I know in some areas the CRP program put more money back in the community and stabilized more things in the marginal ground areas than what it did in the high production. The CRP program was definitely a blessing in some of the areas, and especially for some farms and so on. In my area, it's right where we farm, it's not a big issue because we don't have CRP production, but I know that was a major thing.

Mr. LUCAS. Mr. Lang?

Mr. LANG. I milk cows. My brother handles all the farming aspects, but I know that we feed things we grow to our cows and without crop insurance, if we had a disaster, no crop insurance, we wouldn't have food for our cows and we couldn't afford to buy it.

Mr. LUCAS. But within the conservation program and your business with all the people coming at you with water standards and environmental standards, are any of those EQIP resources potentially useful to help meet your nutrient water issues and all of these things? I was getting at in the conservation title itself, I'm just asking. There's no right answer.

Mr. LANG. No.

Mr. LUCAS. Mr. Volz.

Mr. VOLZ. I feel the CRP, not so much the wetlands program, but the filter strips that protect our creeks and waterways, I feel most of these creeks, small rivers water——

Mr. LUCAS. My grandmother's pronunciation, crick to ditch.

Mr. VOLZ.—should be there because we put those on a couple of farms that we have, and it has stopped a majority of runoff, and a 100 year rain from going into the water waste. Now, I feel it's very important and it holds the soil back a little bit, and it cleans up the water.

Mr. LUCAS. Mr. Weems.

Mr. WEEMS. I am a fan, and I think most of the conservationists are a fan of the EQIP Program in some of those wetlands that approach, working wetlands. That's a concept in Iowa that's pretty intriguing, and we'll see how that works within the community to clean things up and take—get some infiltration there that will help.

Mr. LUCAS. At the risk of stirring up my appropriator friend in the front row here in the dam rehab program we have an allocation system where the money is targeted to rehab the upstream flood control dams based on the greatest need. Yet, new construction program is based on earmarks, not on a guaranteed thought-out flow. Do you have an opinion about moving new upstream flood control dams to a priority system instead of a targeted system? He hasn't thrown anything yet from the front row.

Mr. WEEMS. Does my face look blank? I think it might. I'm a big believer that the best place to stop soil erosion nutrient loss is, if you go to the source, high, do it right, put the right commitment to it. I guess that would be the answer from my perspective.

Mr. LUCAS. Thank you.

The CHAIRMAN. I thank the gentleman. The gentleman from Iowa, Chairmen Boswell.

Mr. BOSWELL. Thank you.

I go back a few years. We talked about a lot of things back in the farm crisis, and one of them we talked about, I'm sure we did, was capital intensity to putting a crop out, and they close to the vest that the bankers came then, and now cash flow is kind of hard to work out. And we've all talked about safety net, safety net, safety net.

So I'd like to address this to all of you. Some have mentioned that the ACRE Program did not offer enough. What would make a revenue program work better? What would you do to change ACRE? All of you, in fact, I'd like for you to all address that, if you will. I'll start with you, Mr. Weems.

Mr. WEEMS. I'm not a big enough practicing farmer to have looked at that. I'm going to pass on that question. It's a bigger scope than I'm working with currently in my agricultural experience.

Mr. BOSWELL. I understand.

Mr. VOLZ. Yes, my opinion on the ACRE Program, when they decided to decrease the DCP payment by 20 percent and your ceiling price by 30, that limited my end of income or prosperity, whatever you want to call it, and if they raise that up because we need to offset the cost of production. If I'm only going to get a $1.20 for my corn, plus if we do run into really hard times, if we don't keep our exports up, and we get into a situation where we have a 3 billion bushel carryover, we're going to be into that $2 corn range, in my opinion. When we do that, we've also eliminated another 30 percent of the LDP on my side, which was a guarantee, so in my opinion they should raise that up, just to improve the cash flow, I guess.

Mr. BOSWELL. Mr. Lang.

Mr. LANG. Because we feed what we grow to our cows and it doesn't run through a combine, we have no idea how much our land produces. And to fill out the paperwork for the past 5 years, we run into this problem as we have no idea. So the—we have an actual problem with ACRE because we don't know what numbers to put on the paperwork.

Mr. BOSWELL. Mr. Bayliss?

Mr. BAYLISS. Yes, that's—all of that is true. The first problem we had was is trying to sell the ACRE Program to landlords that are not familiar with that.

They're used to the old DCP Program where you're going to get payment right off the bat. Now you're trying to sell them, but you're going to take a 20 percent reduction right off the bat. Sell this to me, give me something to chew on here, and it's like, nope, that's the way it is. Why would I take a definite guarantee, established price on my acres and get a payment and now you want me to take a 20 percent reduction?

So it's hard to sell to someone that doesn't understand the program all the way through. I don't understand that program all the way through, to be honest with you, but that's a first thing.

Mr. BOSWELL. Do you have a suggestion?

Mr. BAYLISS. What's that?

Mr. BOSWELL. Do you have a suggestion of what you'd like to see happen?

Mr. BAYLISS. I think that that needs to be minimized somehow. It needs to be a payment right off the bat, not a 20 percent reduction. The second thing is that it needs to be based off countywide yield other than statewide yield because there are so many variables across our state. You can have a good program there, but not be eligible just because of difference in yields across the state.

Mr. BOSWELL. Thank you. Mr. Bailey?

Mr. BAILEY. I think as a general mechanism, the things that we can do with the ACRE Program to bring the triggers as close to the farm as possible will improve it. The statewide trigger maybe, move that to a crop reporting or even better yet the county triggers on it.

And I know everyone complains that ACRE Program is ultra complicated, but you have to remember we have computers now. The fact is that farmers can typically really figure out if a farm program, as they say, in a New York minute and figure out whether it's good for them or not.

So, basically, try and tailor the ACRE Program as much as we can to fit the individual farm would, I think, move forward.

The dilemma that we really have in changing the ACRE Program is the money problem right now, to make it work even better to bring it closer as my two colleagues have said, bring it closer to comparing with the countercyclical. But I mean, throw one in and the negotiations with Brazil on cotton, everything means that there's a lot more in play than what we think here. We may have to move some other things that make it more WTO compliant, and in that event I would look at any revenue that we can work on to enhance the ACRE Program long term would be a beneficial for farm programs here in the United States.

Mr. BOSWELL. Well, thank you.

The CHAIRMAN. I just commented that probably the only reason it got in the farm bill, is it saved a billion dollars at the end of the day, and the truth is we don't know yet what it's going to cost. I had one county signed up 80 percent, and they're going to get 2½ times more money out of the ACRE Program than they got out of the traditional program.

I think once people figure out, see these numbers, you might see things change, but your suggestions are well taken.

The gentlelady from South Dakota.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman. I thank our witnesses for their testimony.

Tim Walz is from Minnesota's southern district along with the border here with Iowa, Mr. Walz and I worked on the last farm bill on the beginning farmers and ranchers provisions. And Mr. Bayliss and Mr. Lang, you both mentioned some of the challenges we clearly face.

In South Dakota at the state level they recently put together some sort of a linked program, some retiring producers with younger producers as it relates to the transition there. I'd like to just go over a couple of the things that we did in the last farm bill and get your thoughts on what more we need to do to help beginning farmers and ranchers.

We increased the amount of direct farm ownership loans. We guaranteed farm ownership loans. We increased direct farm ownership loans reserved for down payment, as well as direct operating loans for beginning farmers and ranchers. We provided $75 million in mandatory funding for technical assistance, training, education, outreach.

Do you know of any beginning farmers in your area that are taking advantage of some of what was in the conference report in the 2008 Farm Bill? Are they running into some obstacles on accessing these programs to gain some credit, to gain the capital that you both mentioned is necessary to get them more firmly established?

Mr. BAYLISS. I know in our county the programs are available, some of the young farmers are using them to get going.

The main point I was making on the young farmers is that they're limited on what they can do with operating a sizable farming operation. For them to go to a lender to get the input costs it's going to take on it, then you don't help, and it's not only to get the initial money, but it's also about operating year to year on it, machinery and rent, inputs.

Ms. HERSETH SANDLIN. Okay.

Mr. Lang.

Mr. LANG. I don't know anyone in my county that uses the beginning farmer loan or program, but my brother and I looked into buying a farm several months ago. We went to the bank and had it all worked out with the banker, and we looked into what government programs would be helpful to us. It turned out that no government program was going to make land that 3 years ago was $6,000 an acre, affordable. So we gave up. The programs are there and I know about them, but it wasn't going to make a difference at all.

Ms. HERSETH SANDLIN. They're just not sufficient in light of the increase in land prices, primarily. At least for those that are looking to eventually own the land rather than the cash rents are being paid out in addition to the leased equipment.

Let me ask you, then, a question about a different program and see if this is working any better for anyone in your areas. Are you familiar with the REAP Program? Jeff Fortenberry and I worked on that in the last farm bill. Jeff's from Nebraska. The Rural Energy for America Program. Again, the Department just recently released rules on some of this, but do any—this is, again, to sort of provide a way to work with the local lender for rural businesses, farmers and ranchers to pursue energy efficiency projects. Any of you thinking of applying for any REAP grants?

Mr. BAYLISS. I'm not familiar with that grant.

Ms. HERSETH SANDLIN. Okay. Anyone else familiar with the program? Oh, that's a disappointment.

Mr. VOLZ. We looked at the machinery show this last winter, we looked into it and really haven't pursued it any farther. I think there's a benefit there, but the cost—we looked—10 years ago we looked into putting up a windmill, and we ran into all sorts of blockages to get it done——

Ms. HERSETH SANDLIN. Yes, our certified electric co-op.

Mr. VOLZ. Our REC would not hook up to it, and so that kind of put a wrench in that machinery and now that—and the cost of that, I think at that time, was about $75,000 to put up. Well, assuming the same size would be three times that today, so what it's done is the profits seem to have gone in.

What you can help us with is go right to the guys producing the windmills, does that make sense?

Ms. HERSETH SANDLIN. Yes, it does.

Any there any other comments on the REAP Program?

I think my time got started a little bit late, but a quick question, Mr. Volz, the Department of Justice and USDA are hosting competition workshops, as you know, around the country. You described your family's experience in the pork industry. Given that poultry and pork are essentially vertically integrated now, do you feel that that was one of the reasons you had to get out of the business in, what did you say, 2007?

Mr. VOLZ. Yes, we quit in 2007, we—well, we really quit my operation in 1998 when hogs got down to 10¢ or 12¢. My son got back into farming, and was doing his thing. We thought on our place we have the buildings, the buildings are paid for, so we thought we'll just buy pigs, so we bought feeder pigs. The price was a little on the high side, and then the cost of all the input, just went sky high and we ended up losing about $75 a head on 3,500 head. So that's kind of why we quit because we just got a lot of equipment and we just couldn't afford to lose anymore money, like the dairy business, just—not a bottomless pit.

Ms. HERSETH SANDLIN. Well, I think we'd appreciate any supplemental testimony you could provide us as it relates to the livestock title in the last farm bill and what more we might be doing. I've worked with Mr. Boswell on some provisions as it related to fairness of competitive markets. I think some of what we're hearing at the workshops will also provide us some insights and what more we can do, and additional changes we can make, so, again, with that, I appreciate your testimony and responses today.

Mr. BOSWELL [presiding.] Thank you.

Before we go to Congressman King, I would like all of us to know that we appreciated working with the Iowa State Fair to work out the use of these facilities, and if you see some of the board members of the Administration, tell them we appreciate it. They opened up the restaurant, if you get hungry or something, feel free to go out there and patronize them. They're here for us. They're normally not open except during the fair or occasions going on here.

At this time I'd like to recognize my colleague from Iowa, Congressman King.

Mr. KING. Thank you, Mr. Chairman. I thank the witnesses.

Mr. BOSWELL. Can you get your microphone up there, Steve?

Mr. KING. You might be able to hear that. I'd like to first make an observation. It's interesting to me at the beginning before the testimony began, I was having a discussion with Mr. Bailey about how you get your best thinking done from the seat of a tractor or a machine. Mr. Weems testified that he does the same thing. I imagine that's true for all of you. I think that's one of the reasons why we have so many clear thinkers out here in this part of the country, we could use more of you in Washington.

But it's also interesting that Mr. Bailey and Mr. Weems both talked about site-specific research in your case, and watershed-specific approach to conservation in your case, Mr. Weems, and I don't think that's a coincidence either. I think that some of those things you thought about from the seat of a machine. And so I just reflect us sitting here in this setting here in this city with a Ph.D. in environmental engineering to explain to me that there was a high amount of nitrates in the water in the Raccoon River and that it had gone up 60 percent in forty years. He had the tests to prove it, and I asked him where did you take those tests, and he said right out here in the river. And I know they come from the feedlots and the farms near the Raccoon River.

I'll tell you that's not site-specific and to point the finger for high nitrates at whomever you decide you might want to put the blame on isn't good enough for me. And I have long argued that we needed far more site-specific research done, and we had the debate in Iowa about credible data. There were many that arguably should not let people introduce data that didn't have their proper certification to do so. I argued that we should plug all that data and results from the spreadsheet, you'll know who's cheating and who's not and we'll have a lot of data. Well, now we have the Iowa soybean producers working in conjunction with others to do some real credible data research that is site-specific and watershed-specific. I want to ask Mr. Weems if you're familiar with that program and what you might have to tell this panel about it.

Mr. WEEMS. There are lots of projects in the state currently that are site-specific relative to banding watershed, people who live in a watershed together using resources, using technology, using our experts at hand that know about those things.

We're doing a lot of that and that refers back to my comment that we have to go after the worst first, or we have to identify the very sensitive areas, the most sensitive areas. We have to get the biggest bang for the buck. We have to go and take care of those areas first, and I think that happens through watershed-specific projects where everybody bands together. I think the end product is bigger than the individual pieces. The more people you put into it, the bigger the project, the bigger good you get out of it.

Mr. KING. Thank you, Mr. Weems.

I know there's a clock here, so I would like to ask the panel if they acknowledge or nod to me I'm going to go through a list of some of the programs, and if I leave some out, please remind me of what I missed. But has anybody in the last 2 years qualified for LDPs, or countercyclicals, or ACRE, or EQIP, or CRP, or CSP? How am I doing?

First one would have been CRP, probably, that's what I saw the nod for, and I expect that's the case. That program has been going on for more than 2 decades.

CSP?

So I've gone through the list. What about direct payments? Has anybody on the panel that's an active ag producer not qualified for direct payments? Let the record show that everybody has qualified—does qualify for direct payments.

So I set this up for this reason. Now I would ask the panel, I'll start with Mr. Bailey, what do the taxpayers get for the direct payments? What's the purpose of them, and what do the taxpayers get in return?

Mr. BAILEY. Well, the taxpayer gets a payment into the contract that I talked about at the beginning between agriculture and the rest of society. It is a bottom-line payment for participation for being involved in programs, and as far as I'm concerned, that is the general parameter of it, and I won't go further by evaluating whether that's a good sale for the taxpayers or not.

Mr. KING. Mr. Bailey, would that mean also that what it is is part of the contract with the consumers, with the broader society, but in exchange, would it be specifically the only thing that any—likely that any of the people who are ag producers that didn't qualify for any other benefits—would that be the only thing that is a government incentive to be conservation compliant?

Mr. BAILEY. It would be a dominant one, yes.

Mr. KING. Perhaps EQIP or something else of that nature?

Mr. BAILEY. Yes.

Mr. KING. That is the general dominant, and so its conservation compliance would be the purpose of direct payments.

Mr. BAILEY. One of them, yes, is critical.

Mr. KING. Well, I appreciate that.

Does anybody have any comment on that particular conclusion that we've reached, and if not, rather than open up another subject matter, I make the comment that I—I think Mr. Bailey also is the only active pork producer.

Mr. BAILEY. Not anymore.

Mr. KING. Not anymore. Mr. Volz is not anymore, so we don't have an active pork producer on the panel, nor in the next section of witnesses, which I regret that we left that out, that's probably partly my fault, unless Mr. Volz had a brief comment.

Mr. VOLZ. We have facilities out—we rent our facilities out to a neighbor that improves his hog flow because we get the tail enders so we can clean his building out quicker so he can get another turn a year. We end up getting a couple hundred head of pigs out of each of his facilities, and then finish finishing the rest, I would say, 190 to 240 or 50 or whatever they want them at, and we get paid a fee per head that's about all we have to do. There are still a few hogs on the place, but nothing like it was.

Mr. KING. Thank you, Mr. Volz, I appreciate it.

I thank all the witnesses.

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

The CHAIRMAN [presiding.] I thank the gentleman, the gentleman from California, Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman, for beginning this effort to set the dialogue for the 2012 Farm Bill on this first swing. I want to thank Congressman Boswell for hosting us here in this beautiful State of Iowa and my Iowa colleagues. I hear a lot about Midwest farming and it's always good to come out here and be able to see it.

Let me ask you first with the panel: Do any of you hedge your crops with future contracts? How effective of a risk management tool is it? I don't know, Mr. Bayliss, or the head nodding that's going on over here, Mr. Bailey?

Mr. BAILEY. Well, these are basically complicated marketing decisions, and——

Mr. COSTA. I know.

Mr. BAILEY.—the success you have depends on the skill by which you can evaluate the market and take those positions.

Basically, whenever you enter into a futures market or an options market, you either triple or quadruple your marketing decisions because if you deal only in cash you only have to make one decision when you sell it. If you go the futures, you have to go into the future to get out of the future and you still have to sell the cash. One of the——

Mr. COSTA. What's your rule of thumb?

Mr. BAILEY. My rule of thumb is an evaluation of a general marketplace to determine, in my mind, whether there's going to be a major swing in prices. If there's going to be a major swing in prices in order to protect your cost of production and so forth, you probably better go ahead and take the position on the futures market. I will not do it 100 percent of the time, but that's just my marketing plan and part of the problem I've got——

Mr. COSTA. What's your business plan?

Mr. BAILEY. Just the business. Part of my problem is that for the first forty some years of farming I was like Mr. Lang and I fed every kernel of corn and every silage and every bit of hay that I grew, and you didn't worry too much about the futures market at that time. So my son and I are still in transition of gradually moving towards a cash/grain operation and the use of those tools are different than when you were——

Mr. COSTA. But you're saying it's an effective risk management tool and a lot of your farmers surrounding you use it?

Mr. BAILEY. It can be, yes, with proper marketing skills it can be an effective tool.

Mr. COSTA. Mr. Lang, you talked about three generations of your family farming. How many dairy cows are you milking?

Mr. LANG. We milk about 500.

Mr. COSTA. Well, like you my family has been in the dairy business for three generations, so I could get a job elsewhere if I didn't have this one. I do have some redeemable skills.

You spoke about the California standards. I'm obviously familiar with them since we've been in that place for a long time. Would you go into more detail? I tried to get the California standards in the last farm bill, unsuccessfully. What benefits would there be, to not only producers, but also from a nutrition standpoint if these standards were adopted nationwide?

Mr. LANG. When they process milk, the first thing they do is take out every part that's good for you.

Mr. COSTA. Right.

Mr. LANG. And then they put some of it back in.

Mr. COSTA. That's why we always like the raw milk.

Mr. LANG. When they sell skim milk, it's had all the fat removed, and it's also had the protein removed. I believe the California standard makes us put protein, they can still sell nonfat milk, but the protein that's good for you has been put back into the milk.

It also changes how they pay you for the milk because all the important things they take out of the milk, well, they don't have to pay you for all of those important things that they take out of the milk. So it accurately pays people for the quality and components of the milk they produce, and it dropped down the price, not pricing, but the somatic cell count process. Somatic cell is the indicator of the quality and the healthiness of the milk.

Mr. COSTA. Before my time expires, you're saying it's good for the consumers?

Mr. LANG. It's good for the consumers. It's healthy.

Mr. COSTA. And good for the producers because more of that product is put back in the milk?

Mr. LANG. Yes.

Mr. COSTA. You also testified on the boom and bust cycles. You know, it started in California, the milk, in 2008 and we're trying to—the Chairman mentioned an alternative milk proposal with the National Holstein Association that's more market price sensitive. I think dairymen have to, at some point in time, have to get control of some level of the supply of milk if they're going to have any ability to have impact on their price. What's your thought?

Mr. LANG. Well, as milk price drops, it's a tendency of the producer to——

Mr. COSTA. If the prices are down, you produce more milk; if the prices are up, you produce more milk, that's not a joke anymore; it's this boom and bust cycle.

Mr. LANG. I think if someone was serious about taking care of the supply, oversupply, problem we have in the country, we make people sell better milk and that immediately removes cows from the market. If you have a cow that's not producing healthy milk, I can milk her, I can sell her milk, but we shouldn't do that. If you want to reduce the supply of milk, improve the quality of the milk.

Mr. COSTA. Well, my time has expired, but I want to thank, again, all of you, the witnesses here and look forward to reading all of your testimony.

Thank you very much, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. The gentleman from Iowa, Mr. Latham. We'll ask him at the beginning of the statement to explain to the audience about CHIMPS. I'm just kidding.

Mr. LATHAM. About what?

The CHAIRMAN. CHIMPS. Changes in mandatory programs, what you guys do over in Appropriations. I'm kidding.

Mr. LATHAM. We're trying to help you out, Mr. Chairman, that's all.

This maybe is kind of a different kind of question, not specifically about the farm bill itself, but family farm operations, and I think each and every one of you. What do you see today as the biggest threat to, I think generationally, maintaining a family operation? And it doesn't have to be pertaining to the farm bill, whether it be the death tax maybe not being fixed.

We have some environmentalists today that—the same lawyer that brought up the idea of indirect land use is also advocating now that the larger the farmers are, the better because then the government can better regulate farms. They can have more control, you have taxes, EPA. What do you see as the biggest threat to your operations, long term, to a family farm operation? Start——

Mr. BAILEY. Congressman Latham, short term it's that agricultural policy and basically policy of this country is going to be hijacked by special interest groups. I won't go any further and name any names. I think that we all understand that the forces of money behind the special interest groups to try and warp and use public policy for their end, is a real hazard.

The second one right behind it is the structure of agriculture. The fact that we've already talked about the culture being vertically integrated. You know what happened to the pork producers on this panel. We're not very far from the beef industry from being vertically integrated, and let's face it, with the patenting of DNA, it is now possible to vertically integrate the crop industry.

So to me those are the big hazards to family farms because basically when that happens, we become minimum-wage barn cleaners and tractor drivers.

Mr. LATHAM. Mr. Bayliss.

Mr. BAYLISS. I see one of the challenges is just with the high-tech industries going to get to compete in agriculture. It's getting the younger farmers the financing because, just like it was mentioned, I think we're going to be down basically to corn and soybeans in our area unless we want to get into putting up huge buildings and closing operations, but just be able to financially keep the young farmers going and our children going. Looking into the future, we need to have something in the farm bill that's going to be structured for way out, more than just next week, next month, next year, twenty years, thirty years down the road because they're well-educated, our young kids. They went to college and are well-educated kids, just keeping up financially to be able to operate in that structure, machine costs, cost of production that's my big concern to keep the family farms in the family.

Mr. LATHAM. Thank you. Mr. Lang.

Mr. LANG. The largest challenge for dairy farmers today and particularly young people who want to farm, particularly dairy, is the lack of return on your invested time and labor. I can do lots of things that pay a lot better than what I do now, and I wouldn't have to work nearly as hard. I do what I do because I love my cows, and I don't expect to get rich, and that's a sacrifice I make. I like what I do, but I don't make very much money doing it.

Mr. LATHAM. Thank you. Mr. Volz, do you have——

Mr. VOLZ. Well, the biggest one for us is the death tax. We're looking at the future, when your day comes, but when that happens especially when land is valued in our area $5,000 to $10,000 an acre. I would hate to see what we worked hard and what my grandparents did, my dad did, and what I'm doing, be gone because we can't afford to pay 50 percent in death taxes. Like the high cost of machinery inputs. It's everything going out of alignment. I don't know how it did it, but, well, ethanol started it there wasn't going to be enough corn, I guess that's that there.

Mr. LATHAM. Mr. Weems, very briefly, if you can.

Mr. WEEMS. Something along a little bit different line that I worry about is for people outside of agriculture to understand us and know us. As we get more efficient, as there are fewer and fewer of us, and it's generations two and three maybe even four generations from the farm, there are lots of people who like to have the impact on what we do or part of the impact is is that there isn't. They don't know how to make an impact, and that's a challenge for us, just to get the general population to understand what we do and why we do what we do, and how we have to do it, and that's my concern.

Mr. LATHAM. Thank you very much, Mr. Chairman. Thank you, panel.

The CHAIRMAN. Thank you, panel, and I thank all the witnesses for taking your time today and being with us today and providing your testimony and for answering questions. We appreciate that.

I'd like to recognize we have some people here from USDA, the Iowa State FSA Director John Whitaker. John stand up. Iowa State Rural Development Director Bill Menner. Iowa State Conservationist, Richard Sims. So give them a hand; they do a great job.

And I'd also like to recognize our friends from United Food and Commercial Workers who are with us today. They are an important part of agriculture and process our products, and so we appreciate you being with us today.

And so the panel is dismissed.

We'll call the next panel up, and Members, I'm going to give you a 5 minute break to stretch your legs a little bit.

[Recess.]

The CHAIRMAN. We'll welcome the second panel to the table, and Mr. Warren Erickson who's a dairy processor from Des Moines, and Jim Schaben from Dunlap, Iowa. Bob Skow, crop insurance representative from West Des Moines, and Jeff Stroburg, cooperative operator from Ralston, Iowa.

So, we welcome all of you to the Committee, and Mr. Erickson, you can begin when you're ready.

STATEMENT OF WARREN ERICKSON, DAIRY PROCESSOR, DES MOINES, IA

Mr. ERICKSON. Mr. Chairman, welcome to Iowa.

The CHAIRMAN. Get up close. I have seen it a couple times.

Mr. ERICKSON. Thanks for the opportunity to be here today. My name is Warren Erickson. As you know, I'm the Chief Operating Officer of Anderson Erickson Dairy. We're located just down the street here in Des Moines. This year AE is celebrating our 80th anniversary as a family owned and operated business. And I'm part of the third generation at AE and help run the company with my sister and my father.

AE is one of the few remaining independent dairy processors in the country and Congressman Boswell knows our company well, and I'd like to thank him on behalf of the entire dairy industry for his leadership.

Today we're at a crossroads regarding U.S. dairy policy. For more than a year, this Committee has heard from hundreds, if not thousands, of dairy farmers who have been ill-prepared to deal with the volatility and tumultuous downturn in 2009 milk prices. That's coming off a period of record high prices in 2007 and 2008. This dairy price volatility has driven some out of business, and it creates difficulties for all dairy-related businesses in their planning processes; however, we compete in a food marketplace where others have just as much, if not more, volatility with their agricultural commodities.

What's different for them? Well, to begin with, they don't have milk as a primary ingredient, and so they're not subject to the vagaries of the USDA's milk price regulations and their intervention in the marketplace in the dairy price support program. In addition, they have better marketplace financial tools to mitigate their risks. As a result, their entire supply chain can, and usually does, use those tools to plan their business activities despite that greater volatility. And from what I can tell after observing some of the proposals from dairy industry groups and the hearings this Committee has held in the past year, I'm encouraged that the dairy industry seems to be agreeing that we need significantly better risk management tools.

But before talking about risk management, I did want to spend a moment to talk about the notion that price volatility can be controlled by regulating this U.S. milk supply. This concept hasn't worked for other agricultural products, and I don't think it will work for dairy either.

In the past decade, the milk supply in Iowa has grown about 11 percent. Today at AE we use 100 percent Iowa farm milk. That's compared to 65 percent just 3 years ago. This growth in Iowa milk production has been good for our state. It's created investments in jobs that would not have been possible if the supply management policies being proposed by some had been in place.

That's not saying it's been easy with the dairy producers in Iowa. They've struggled just like everybody else, but the point I'm making is the solution to manage price volatility is not to have the government manage the milk supply. They tried that in Canada and that supply management hasn't worked. Now, in Canada, they are stuck in stagnant production, stagnant consumption and Canadian dairy investment is moving to the U.S. because of some supply concerns. We should encourage growth as it leads to increased investments and jobs.

I want to get back to the discussion of risk management because I think that's where the Members of this Committee can really be helpful in leading the dairy industry toward new, better policies. USDA spent $5.4 billion on crop insurance premium subsidies in 2009, but none of that was spent on dairy revenue subsidies. Proposals, including one they mentioned earlier by the National Milk Producers Federation, that focus on margin protection, make a lot of sense to me. This approach makes sense because it allows the producers to protect the margin between the milk prices and the feed prices and other costs. That's the same thing you have to do at AE. We have to protect our margin and sale price and our milk price. And this fundamental business model should be the same for the farmers.

As I told this Committee 3 years ago, I'm not a big fan of the Federal Milk Marketing Order system. It constrains our ability to innovate and price milk according to the highest value in the marketplace. I recognize this Committee is not likely to throw the whole system out. So I ask that you would significantly simplify it and support efforts and discussions within the dairy industry on what details of such a simplification would look like.

I feel optimistic about the future for dairy producers and processors in Iowa and across the country. I'm proud to help supply AE's customers with nutrient rich dairy products. We keep all that good stuff in there when we process it. We were a little bit set back earlier, but our industry has great potential to prosper if our policies and regulations encourage rather than discourage creating new and innovative dairy products customers are looking for, as well as not limit in any way our milk supply to grow and meet market demand both domestic and abroad.

I respectfully ask this Committee to focus on putting in place appropriate dairy farm safety nets and encourage great use of financial tools to mitigate risks, while getting rid of the current dairy policies that aren't working and to simplify the Federal milk pricing system. Supply management in all its shapes and forms is a threat to the future of AE and to the entire U.S. dairy industry. Thanks again for the invitation.

[The prepared statement of Mr. Erickson follows:]

PREPARED STATEMENT OF WARREN ERICKSON, DAIRY PROCESSOR, DES MOINES, IA

Thank you for the opportunity to be here today. I'm Warren Erickson, Chief Operating Officer of Anderson Erickson Dairy Company in Des Moines, Iowa. This year AE is celebrating 80 years as a family owned and operated business. I am a third generation dairy operator and run the company with my sister and father. AE is one of the few remaining, large independently-owned dairies in the country. Congressman Boswell knows our company well, and I would like to thank him for his leadership as our Congressman on behalf of the Iowa dairy industry.

I don't need to tell any of you that today we are at a crossroads on U.S. dairy policy. For more than a year, this Committee has heard from hundreds, if not thousands of dairy producers who have been ill-prepared to deal with the tumultuous down turn in 2009 milk prices following the period of record high prices in 2007 and 2008. This dairy price volatility has driven some out of business. It creates difficulties for all dairy related businesses, from input suppliers to grocery stores and restaurants, in planning their business activities.

However, we compete in a food marketplace where others have just as much if not more agricultural commodity price volatility. What is different for them? To begin with, they do not have milk as their primary ingredient and therefore are not subject to the vagaries of USDA's milk price regulations and interventions in the marketplace under the dairy price support program. In addition, they have much better marketplace financial tools to mitigate risk. As a result their entire supply chain can, and usually does, use these tools to plan their business activities despite greater price volatility than seen in the dairy industry in recent years.

From what I can tell, after observing some of the proposals from dairy industry groups and the hearings this Committee has held in the past year—I'm encouraged that the dairy industry seems to be agreeing that we need significantly better risk management tools. But before I talk more about risk management—I want to address the ill conceived notion that price volatility can be controlled, or avoided, by regulating the U.S. milk supply.

Can you imagine if today corn or soybean growers came in and asked you to write a law that would take us back to acreage set asides in an attempt to control production and limit their ability to meet growing domestic and export demand? Basically, that is exactly what some dairy producers and their organizations are asking for. Corn and soybean prices both experience more price volatility than dairy—in fact most commodity markets have more volatility than dairy—but these other commodity markets have two things the dairy industry does not.

First of all, government policy for other agricultural commodities focuses on providing subsidized insurance programs and direct payments as a farm safety net. In addition, there are not government programs that dictate prices that must be paid to farmers each month.

Second, they have market based risk management tools that allow them to **manage** price volatility. These other commodity industries understand the very negative market consequences of trying to **control** price volatility through government intervention; that is a key reason there are no longer acreage set asides. For these commodities, the last thing they would want Congress to do is limit their potential to meet growing demand, both domestic and abroad, with a mandatory, government run supply management policy.

In the past decade, the milk supply in Iowa has grown by over 11%. Today AE uses 100% Iowa farm milk—compared to just 65% 3 years ago when we imported farm milk from other states. **This growth in Iowa milk production, investment and job creation would not have been possible if the supply management policies being proposed by pockets of producers in a few states had been in place.** That's not to say that it's been easy for dairy producers in Iowa—far from it, our dairy farmers both large and small have struggled like those everywhere. But the point I'm making is that the solution to managing price volatility is not to have the government manage the milk supply.

I get really nervous when I look north to Canada and see what has happened to their dairy industry since they implemented supply management in the 1970s:

- Canadian farm milk production is lower today than then; U.S. farm milk production has grown by over 60% during that time.
- Per capita dairy consumption in Canada has been flat over the past 30 years; U.S. per capita dairy consumption has grown by 11% during that period.
- The total value of Canadian dairy exports is down in recent years; meanwhile, U.S. dairy exports have nearly doubled in recent years—in 2002, U.S. dairy exports accounted for about 5% of U.S. milk production only due to significant use of government export subsidies (DEIP), while dairy exports have accounted for about 10% of U.S. farm milk production since 2007 with very little use of export subsidies.
- Canadian dairy processors are expanding here in the United States, through acquisitions and new investments because their milk supply at home is constrained.

Government supply management in the U.S. dairy industry would take us in this same direction. If you restrict growth, no matter how cleverly designed a policy might be, or the rhetoric behind it, the U.S. dairy industry loses—it would lead to job reduction and reduce incentives for this industry to reinvest in its infrastructure and cultivate new investment to meet growing dairy demand both here and abroad.

Now I want to get back to the discussion of risk management—because I think that is where Members of this Committee can be most helpful in leading the dairy industry towards new and better policies.

USDA spent $5.4 billion on crop insurance premium subsidies in 2009, but none of that was spent on dairy revenue insurance premium subsidies. The one dairy-oriented program in existence today—the Livestock Gross Margin insurance program (or LGM-Dairy) started in late 2008, but is hardly used by dairy farmers even though it is designed to protect against unexpected declines in gross margin (market value of milk minus feed costs) on a target quantity of marketed milk. This program certainly needs to be more affordable for producers, and USDA needs to focus on education and outreach to get more farmers protected. There are also other proposals, including one that the National Milk Producers Federation is proposing that focuses on margin protection, and we think that is an idea that looks promising.

This type of approach makes sense because it would allow producers to protect the margin between milk prices and feed and input costs. At AE, we have to protect the margin between what we receive for our packaged dairy products and the regulated minimum prices we pay our farmers. This fundamental agribusiness model should be the same for farmers. When milk prices are high and feed costs are also high, a price based farm safety net is completed outdated. There have been times when farm milk prices were higher than they are today, but feed costs were even higher and farmers still needed help then. There are other times when milk prices are lower, but feed costs are also low, and farmers may not need as much assistance during those periods. For this reason, I believe the concept of a farm safety net program that is designed around protecting a farmer's margin between their milk price and feed costs should be the central focus of this Committee, and the resources currently used for other programs, such as the dairy price support program, should be redirected.

I would also likely to briefly address the Federal Milk Marketing Order (FMMO) system and the current mandatory price reporting we have in the dairy industry.

As I told this Committee 3 years ago, I am not a fan of the FMMO system. It constrains our ability to innovate and price milk according to the highest value it has in the marketplace. But I recognize that this Committee is not likely to throw the system out entirely. So I ask that you significantly simplify it and support efforts and discussions within the dairy industry on what the details of such a simplification would look like.

Recently a number of dairy groups asked USDA to consider requiring more frequent price reporting on a greater number of dairy products. I'm certainly all for better access to market price information, but frankly, over 70% of the milk in the U.S. is priced off monthly announcements from USDA, using weekly average mandatory price reports. Until the marketplace is allowed to determine milk prices, and that would only come through significant changes to the Federal order milk price regulations, changing USDA's frequency and volume of price reporting requirements would only be window dressing.

The current weekly reporting is based on each day's sales, and is still only used to change Federal order farm milk prices once a month. What good would reporting and publishing that data more frequently do if the industry cannot use that information to change farm milk and other prices more often as desired by both buyers and sellers? The current system does not allow for tailoring procurement and sales price changes more often than once per month, so what good is having daily price information if we can't use it.

I am also concerned that, rather than simplify the Federal order price regulations, others would call for this newly reported data to be used to make the price formulas more complex or increase the number of classes of milk. More regulation and reporting will not help Iowa dairy farmers and Iowa dairy processors like my company stay competitive.

I feel optimistic about the future for dairy producers and processors in Iowa and across the country. I am proud to help supply AE's customers with nutrient-rich dairy products. Our industry has great potential to prosper if our policies and regulations encourage rather than discourage creating new and innovative dairy products consumers are looking for, as well as not limit in any way our milk supply to grow and meet market demand both domestic and abroad. I respectfully ask that this Committee focus on putting in place appropriate dairy farm safety net and encourage greater use of financial tools to mitigate risk while getting rid of current dairy policies that aren't working, and to simplify the Federal order milk pricing system. Supply management, in all its shapes and forms, is a threat to the future of AE and the entire U.S. dairy industry.

Thank you again for the invitation to speak today.

The CHAIRMAN. Thank you, Mr. Erickson for your testimony.

Mr. Schaben, welcome to the Committee.

STATEMENT OF JIM W. SCHABEN, JR., LIVESTOCK OPERATOR, LAMONI, IA

Mr. SCHABEN. Chairman Peterson, Congressman Boswell, Agriculture Committee Members, staff and guests, I want to thank all of the Members of the Agriculture Committee and staff for the invitation to give testimony here today and allowing each of us the opportunity to express our feelings and concerns, apprehensions and enthusiasm about agriculture both here and all across the United States.

My name is Jim Schaben. I reside in Dunlap, Iowa, a town of less than a thousand people in western Iowa. Like most towns the size of Dunlap in the Midwest, our community is heavily dependent on the health and well-being of agriculture.

I'm a part owner in the Dunlap Livestock Auction, a now third-generation family business that was started in 1950 by my parents. Most recently we've expanded our business to include a livestock auction in eastern Nebraska in the town of West Point. Between the two markets, we are currently selling between 175,000 and 190,000 cattle annually. Our business is made up of all facets of the cattle industry including selling finished weight steers and heifers ready for harvest to packers across the Midwest, selling locally raised feeder cattle for feed yards both large and small in a mostly seven-state region, and selling replacement females to help populate the pastures in the upper Midwest.

Having a cattle auction nearly every week, every day of the week has its ups and downs, but it does allow me to conduct business on a day-to-day basis with some of the best people this country has to offer. I'm excited to tell folks that most recently my son has joined our business with the hope of being able to raise one more generation in the heartland serving America's cattle producers.

Some of the events of the recent past that are a cause of concern, I want to address today. In the last 5 years, I have watched a huge change in the cow/calf business in the Midwest. There's been a flight out of the cow business at paces I've never witnessed in my thirty years at the livestock auction. Those huge numbers of cow dispersals have been caused by an economic disparity when you compare profitability with the cow business, with other aspects of agriculture, most notably farming. With the recent rally in grain prices and the advances in yield technology, we have watched the demand for pasture increase from the pressure of crop farmers to the point it is either driving the cow men off the land, or turns the pasture into grain crops because of the higher dollar acre return.

I do understand economics and the forces of supply and demand, but the field of play has not always been level in the livestock industry. In order to keep the livestock producer on the land, and ensure that his way of life is kept intact for generations to come, something is going to have to change and hopefully change quick.

In the writing of the 2012 Farm Bill, I would ask Members and staff to explore a greater length and depth for the possibility of furthering the idea of a partnership of sorts that could bring cow producers, conservationists, and grain farmers to the table allowing a more aggressive set aside program that would give more consideration to the cowmen. Partial grazing of CRP acres is a great start, but the programs need to be enhanced and allow the cowmen more access to those acres. Being able to graze the CRP acres for only a few months in already a short season poses all sorts of problems. Allocating the cost of fencing for short grazing period is just not cost effective. What happens with the cows during those months you cannot graze the CRP. There are serious extra trucking costs, moving costs in bringing animals back and forth from the CRPs in the short period of time. These expenses add to an already thin profit margin making the decision to disperse a cow herd a disappointing realty.

If marginal farmland could be set aside with the program that puts the emphasis on encouraging cow/calf production along with conservation, I believe it could be a good situation for all involved. We need to encourage participation from young cattle producers, landowners or landlords and the Federal Government. All the while the primary concern should be a level playing field and enhancing economic vitality in the cow industry in this country. We've had a good start with the last farm bill, but the program needs to be improved. Anything that can be done to ensure the survivability of our young agricultural producers has proven to yield all kinds of positive results in our community both economic and societal. I hope you'll keep the economic well-being and survivability of the livestock producers as a high priority in the 2012 Farm Bill.

Again, I want to thank all the Members of the Agriculture Committee for your time and commitment to this country and all of agriculture.

Thank you.

[The prepared statement of Mr. Schaben follows:]

PREPARED STATEMENT OF JIM W. SCHABEN, JR., LIVESTOCK OPERATOR, LAMONI, IA

I want to thank all the Members of the Agricultural Committee and staff for the invitation to give testimony here today and allowing each of us the opportunity to express our feelings, concerns, apprehensions and enthusiasm about agriculture both here in Iowa and all across the United States.

My name is Jim Schaben and I reside in Dunlap, Iowa, a town of less than 1,000 people located in western Iowa. Like most towns the size of Dunlap in the Midwest our community is heavily dependent on the health and well being of agriculture.

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It is some of the events of the recent past that are a cause of concern that I want to address today. In the last 5 years I have watched a huge change in the cow/calf business in the Midwest. There has been a flight out of the cow business at a pace that I have never witnessed in my 30 years at the livestock auction. Those huge numbers of cow dispersals have been caused by a economic disparity when you compare profitability of the cow business with other aspects of agriculture most notably grain farming. With the recent rally in grain prices and the advances in yield due to technology we have watched the demand for pasture increase from the pressure of crop farmers to the point it is either driving the cow man off the land or he himself turns the pasture into grain crops because of the higher dollar per acre return. I do understand economics and the forces of supply and demand but the field of play has not always been level when the livestock industry is involved. In order to keep the livestock producer on the land and ensure that his way of life is kept intact for generations to come something is going to have to change and change quick.

In the writing of the 2012 Farm Bill I would ask that Members and staff explore at a greater length and depth the possibility of furthering the idea of a partnership of sorts that could bring cattle producers, conservationists and grain farmers to the table allowing for a more aggressive "set-aside" program that would give more consideration to the cow man. Partial grazing of CRP acres is a great start but the program needs to be enhanced and allow the cowman more access to those acres. Being able to graze CRP acres for only a few months during an already short season poses all sorts of problems. Allocating cost of fencing for a short grazing period is not cost effective. What happens with the cows during the months that you cannot graze the CRP. There are extra trucking costs moving animals back and forth from CRP. These expenses add to an already thin profit margin making the decision to disperse a cow heard a disappointing reality.

If marginal farmland could be "set aside" with a program that put the emphasis on encouraging cow calf production along with conservation I believe it could be a good situation for all involved. Encourage participation from young cattle producers, land owners and/or landlords and the Federal Government. All the while the primary concern should be to level the playing field and enhance the economic vitality of the cow industry in this country. We've had a good start with the last farm bill but the program needs to be improved. Anything that can be done to ensure the survivability of our young agricultural producers has proven to yield all kinds of positive results in our communities both economic and societal.

I hope you will keep the economic well-being and survivability of the livestock producers as a high priority in the 2012 Farm Bill.

Thank you again to all the Members of the Agriculture Committee for your time and commitment to this country and all of agriculture.

The CHAIRMAN. Thank you very much for that testimony. Mr. Skow.

STATEMENT OF BOB SKOW, CROP INSURANCE AGENT REPRESENTATIVE, WEST DES MOINES, IA

Mr. SKOW. Thank you. I'm here on behalf of the Independent Insurance Agents of Iowa who represent the business interests of every Iowa independent insurance agency. We represent over 720 agencies in the state and have about 291 branch offices, so we have over a thousand door fronts located in virtually every community in this state. We appreciate the opportunity to provide our perspective today on what role the independent insurance agent plays in the delivery of the Federal Crop Insurance Program.

Independent agents offer all lines of insurance: Property, casualty, life, health, employee benefit plan, and retirement products. Our agents live in their communities and serve the needs of their communities not only offering insurance products, but we serve typically as key leaders, for example serving as volunteer firefighters, youth leaders, school board members, city council members, *et cetera*.

The typical agency employs support staff who helps service the product in addition to the writing agent. They have considerable overhead; computers with downloadable fast Internet connections to the companies, office space, advertising, auto, payroll, and they have insurance taxes, and other expenses, which need to be paid out of their commission dollars that they collect for selling insurance.

From 1938 to 1981, the United States Department of Agriculture was solely responsible for delivering the Federal crop insurance program. Beginning in 1981 continuing until the late 1980s, Congress began a transition period when the Federal crop insurance program was delivered by both the USDA, through the structure known as master marketers, as well as private sector companies, through a structure known as the standard reinsurance agreement. In mandating the transition, Congress recognized that the sales talents and experience of the private sector commissioned agents are essential to fulfilling the goal of nationwide, generally accepted all-risk insurance protection. As a result, Congress placed the large burden of the program delivery on the agents' shoulders and required them to provide full service to the client including, but not limited to, the sales.

Crop insurance agents have proven instrumental in achieving the program's goal of helping farmers make well-informed risk assessments and choices about the coverage that they purchase. These agents are knowledgeable about the technicalities of the crop insurance program and are skilled at assisting farmers with the concerns that directly impact their coverage, such as unit structures and yield guarantee weakness. They also have the training and experience necessary to encourage participation of small, limited resource, and minority producers such as required under the SRA.

Statistics for the 2008 crop year, as reported by the Risk Management Agency, show how widely the program is accepted and utilized by farmers, and how effectively and efficiently it serves their risk management and cash flow needs of American farmers. The 2008 crop year, the program provided coverage on more than 272 million acres in all 50 states, which is more than 80 percent of the insurable acres with liability protection exceeding $90 billion. Today an agent does more work per policy than ever before. They do all the data entry. They keep the yield records per unit, not per policy. The reality is that there's more work and expertise required of an agent in servicing this product per acre.

Crop insurance agents are proud to have been a partner in the successful transition and expansion of the invaluable program to farmers. Unlike property-casualty insurance industry, a crop insurance agent's responsibility requires a more hands-on approach, which increases the threshold for errors and omissions exposure.

On average with advanced meeting preparation, travel, and meeting time, an agent spends 7 hours on a policy during the sales window alone. A transaction typically begins when the agent quotes the wide variety of different plans of insurance available. There can be as many as 247 in some states like Iowa, and they go on explaining the production reports and supporting record requirements for the farmers. The agent explains different date requirements by crop insurance for application and actual production history. The agent reports the farmer's options and claims.

The agent, in addition, is responsible for implementing procedures for prevention planning, yield adjustment, unit division, power of attorney, and I think you probably understand there's a lot of work.

As we move forward, the Federal Crop Insurance Program is an indispensable tool. Without crop insurance, many farmers would be unable to obtain financing. Crop insurance makes the process for farmers to obtain annual operating loans much easier and more efficient. In the case of farmers who purchase crop insurance, banks require less collateral because they consider these farmers to be better protected.

I would like to thank you all for your leadership during this difficult time in agriculture, and I'd like to take this opportunity to express our concerns, as Iowans, regarding the components of the current 2011 SRA negotiations as outlined in the second draft release. I know our Congressmen, and those at the table, have all signed a letter expressing some of their concerns, and I will go to my conclusion because of the limited amount of time. I do suggest that we all take a hard look at that and the impact it will have as we move forward.

We thank the Committee for allowing us to present our written testimony at today's hearing. We'd be happy to work with the Committee at any time to further explain the vital role that crop insurance agents play. Thank you.

[The prepared statement of Mr. Skow follows:]

PREPARED STATEMENT OF BOB SKOW, CROP INSURANCE AGENT REPRESENTATIVE, WEST DES MOINES, IA

The Independent Insurance Agents of Iowa (IIAI) represents the business interests of almost every Iowa independent insurance agency. We are proud to report 720 member agencies, who serve the citizens of Iowa with another 291 branch offices, more than a thousand door fronts located in virtual every town in the state, we represent over 8,000 licensed Iowa agents. We also have 97 companies who give IIAI support by being Affiliate members. We appreciate the opportunity to provide our perspective today on the important role independent agents play in the delivery of the Federal Crop Insurance Program (FCIP). Independent agents offer all lines of insurance—property, casualty, life, health, employee benefit plans, and retirement products. Our agents live in their communities and serve the needs of the communities not only offering of insurance products but also typically serve as key leaders, for example serving as volunteer firefighters, youth leaders, school board and City Council members. The typical agency employs licensed support-staff who help in servicing of the products, in addition to the writing agent. They have considerable overhead; computers with downloadable fast Internet connections to the companies, office space, advertising, auto, payroll, insurance (Liability, Workers' Compensation, Health) taxes and other expenses which must be paid out of the commission they collect from selling insurance products.

Private Delivery of the Federal Crop Insurance Program

From 1938 until 1981, the United States Department of Agriculture (USDA) was solely responsible for delivering the Federal crop insurance program. Beginning in 1981 and continuing until the late 1980s, Congress began a transition period when the Federal crop insurance program was delivered by both the USDA, through a structure known as "master marketers," as well as private sector companies, through a structure known as the "standard reinsurance agreement" (SRA).

In mandating this transition, Congress recognized that "the sales talents and experience of the private sector commissioned agents . . . are essential to fulfilling the goal of nationwide, generally accepted all-risk insurance protection." As a result, Congress placed the "large burden of program delivery" on agents' shoulders and required them to provide "full service to the client" including, but not limited to, sales.

Crop insurance agents have proved instrumental in achieving the program's goal of helping farmers make well-informed risk assessments and choices about the coverage that they purchase. These agents are knowledgeable about the technicalities of the crop insurance program and skilled at assisting farmers with concerns that directly impact their coverage, such as unit structures and yield guarantee weaknesses. They also have the training and experience necessary to encourage participation of small, limited resource and minority producers, as required under the SRA.

Statistics for the 2008 crop year, as reported by the Risk Management Agency (RMA), show how widely the program is accepted and utilized by farmers and how effectively and efficiently it serves their risk management and cash flow needs. For the 2008 crop year, the program provided coverage on more than 272 million acres across all 50 states, which is more than 80 percent of the insurable acreage, with liability protection totaling almost $90 billion.

Today an agent does more work per policy than ever before. They do all the data entry, they keep the yield records per unit—not per policy. Reality is there is more work and expertise required of an agent in servicing this product per acre. Crop insurance agents are proud to have been a partner in the successful expansion of this invaluable program for farmers.

Agent Workload and Program Complexity

Unlike the property-casualty insurance industry, a crop agent's responsibilities require a much more hands-on approach, which invariably increases the threshold for errors and omissions (E&O) exposure (Professional liability). On average, with advance meeting preparation, travel, and meeting time, an agent spends approximately 7 hours on a policy during the sales window alone. A transaction typically begins with the agent quoting the wide variety of different plans of insurance available (as many as 247 in some states) then explaining production reporting and supporting record requirements to the farmer. The agent explains different date requirements by crop and coverage for application, the actual production history (APH), the acreage report, and the farmer's options and claims. He completes APH-related forms for the farmer, calculates preliminary yields, reviews production early to determine if there is a revenue loss, reviews the APH form for completeness and accuracy, and forwards the signed form and any applicable worksheets to the company. The agent must also review approved APH from the company to ensure accuracy, explain approved APH yields to the farmer, and provide him with a copy.

Additionally, the agent is responsible for implementing procedures for Preventive Planting, Yield Adjustment, Unit Division changes, Power of Attorney requirements, or any of the other technical policy provisions. All of preceding goes into writing the policy—and does not even factor in the consequences of a potential loss, which occurs more often than any other line of insurance.

Compared to the sale of life, farmowners, homeowner's, or auto insurance, the sale of crop insurance is indeed extremely complex and challenging. Life, auto, farmowners and homeowner's insurance each only require one form (application) to fill out and file, and the claims made on those products are relatively rare in comparisons to crop insurance.

Crop Insurance—an Indispensable Financing Tool

The Federal Crop Insurance Program is an indispensable financing tool. Without crop insurance, many farmers would be unable to obtain financing. Crop insurance makes the process of farmers obtaining annual operating loans much easier and more efficient. In the case of farmers who have purchased crop insurance, banks usually require less collateral because they consider these farmers to be better protected. Many younger farmers with less collateral would be unable to obtain financing without crop insurance.

Farmers understand more and more that crop insurance is another cost of doing business. However, the purchasing cost of crop insurance provides certain benefits for the farming operation, including greater ability to finance land purchases, enter into land rental contracts, and arrange production input purchases. Protection provided by the program gives a lender much more confidence in extending credit.

Standard Reinsurance Agreement

I would like to thank you for your leadership during this difficult time in agriculture, and I would like to take this opportunity to express our concern, as Iowans, regarding components of the 2011 SRA renegotiation as outlined in the second draft released on February 23, 2010. The current draft, which fundamentally changes the delivery of the crop program, concerns us because the proposals would impact Iowa disproportionately compared to the rest of the country. As a leader in crop insurance participation, the proposal to create reference prices for two staple crops in Iowa corn and soybeans would result in price cuts close to 30%. In 2009, insurance for these two crops represented $735 million out of $744 million (nearly 99 percent) in premiums written in Iowa. Additionally, Iowa will not receive the five percent delivery adjustment increase proposed for all other states because it falls into the State Group 1 category.

The reinsurance terms for State Group 1 also appear to reduce the potential underwriting gain of companies by nearly 30 percent, while increasing overall risk on the loss side. Clearly, this type of risk/reward change will force companies to consider changes to their participation in the crop program in Iowa, relative to other parts of the country. These proposed changes to the delivery cost system concern Iowans because of the disproportionate effect the changes have on our state. Our large agriculture economy employs thousands of workers and creates thousands of sustainable jobs. The number of agents and companies writing in Iowa make this program highly competitive. Jeopardizing the solid structure of the FCIP may have far reaching and unintended consequences for a state like Iowa whose economy depends so heavily on agriculture.

Conclusion

The IIAI thanks the Committee for allowing us to present this written testimony at today's hearing, and we would be happy to work with this Committee at any time to further explain the vital role that crop insurance agents play in the FCIP.

As this Committee and Congress begin to consider the 2012 Farm Bill, it is imperative that any and all proposals keep in mind the strength and security that the FCIP has brought to American farmers, and the role that independent insurance agents have had in the success of the FCIP. In particular, we ask that the Committee take into account the increased efficiency of the private delivery of the FCIP over direct government sales, the small business jobs produced in rural America through the crop program, and the extraordinary workload crop insurance agents face as compared to other property and casualty insurance lines. The strength of the FCIP rests upon the partnership that exists between the government, insurance providers, agents, and farmers. We commend this Committee for continuing to examine ways to improve both these partnerships and the program, and we look forward to continuing to work with the Committee in this effort.

The CHAIRMAN. Thank you, Mr. Skow, we appreciate your testimony.

Mr. Stroburg, welcome to the Committee.

STATEMENT OF JEFF STROBURG, GRAIN AND INPUT COOPERATIVE OPERATOR, RALSTON, IA

Mr. STROBURG. Thank you, Chairman Peterson, and thank you to the Members of the Committee for the opportunity to testify today regarding the 2012 Farm Bill. I'm Jeff Stroburg, and I serve as President and CEO in West Central Cooperative in Ralston. I also serve as Chairman and CEO of Renewable Energy Group.

In the mid 1990s West Central began using soybeans to manufacture biodiesel as a way to add value to local producers. Since that time, Renewable Energy Group as emerged from West Central to become the largest biodiesel manufacturing and marketing business in North America.

The Farm Bills of 2002 and 2008 energy titles have increased value for agriculture commodities and co-products by promoting biodiesel use. According to the Untied Soybean Board, 25¢ has been added to every bushel of soybeans as a result of the growth of the biodiesel industry.

In 2009 the Iowa Cattlemen's Association stated that Iowa livestock producers earn more than $9 per head as a result of the demand for animal-based biodiesel.

In October of 2009, the National Biodiesel Industry used more than 50 million pounds of inedible fats from our partners in the livestock slaughter and render industries. REG also been purchasing inedible corn oil from the DDG Coke product stream for use as biodiesel feed stock. A pound of inedible corn oil averages 25¢ per pound. A new value returned to ethanol producers and in turn corn growers through the use of inedible corn oil and biodiesel.

These successes from the 2002 and 2008 energy titles lead me to Renewable Energy Group's comments and recommendations regarding the 2012 Farm Bill. The foundation of my remarks stem from the serious economic uncertainty of financial institutions. Today, banks are simply not willing to partner with commercial-ready bioenergy projects. I'll address three areas of the energy title sections 9003, 9005, and 9007, and I'll make a recommendation for a new program concept utilizing countercyclical payments.

First, each of the loan guarantee programs in the section 9003 and the Biorefinery Assistance Program and in section 9007, Rural Energy for America Program, that was referenced earlier, allow for grants, but what was not allowed is a package where a loan guarantee and a grant together would form the 80 percent government threshold. We recommend packaging loan guarantees and grants together at the 80 percent threshold regardless of the total project loan. Having a grant package with a loan guarantee, a lender reduces his risk of exposure. We recommend that USDA is allowed to determine what portion is a loan guarantee and what portion is a grant, in order to encourage lenders to partner with projects more easily.

We believe a package of loan guarantees and grants promote more banks and lending institutions to step forward, more projects to be awarded, and more competition as a result. For example, REG currently has two commercial ready biodiesel plants in construction on hold. One in New Orleans and on in Emporia, Kansas. These facilities are strategically located to add value to midwestern agriculture, and to quickly integrate biodiesel into the petroleum infrastructure of the southern U.S. However, due to a lack of debt financing, these plants are more than 18 months overdue. Being able to package loan guarantees with grants would entice our lending partners to approve the financing and finalize construction, and then of course begin manufacturing biodiesel.

Next under section 9005, the Bioenergy Program for Advanced Biofuels we would like to introduce a new concept for your consideration. This program is designed to assist the industry's transformation to assist the next generation of feed stocks and next generation of biorefinery technology. As currently written, the incentive payments are based on production capacity and actual gallons produced. Our recommendation is to create a countercyclical payment or safety net directed to biodiesel producers to manage risk during high commodity price trends.

Agricultural co-products and by-products as feedstocks account for 85 percent of the cost of the gallon of biodiesel. As the cost of soybean oil increases as it did in 2008, up to 75¢ a pound, soybean farmers receive additional value per bushel, which is great for farmers, but it adds to the cost of soybean oil feedstocks. In response to soybean oil price pressures, the biodiesel industry looks to alternative agricultural feedstocks, so in turn animal fats, inedible corn oil, and other feedstocks increase in value. As the cost of all biodiesel feed stocks increase, agricultural producers are rewarded, but biodiesel producer's margins tighten or disappear. A countercyclical program for biodiesel producers would create a safety net when the cost of feedstock prices biodiesel out of the market, and as feedstock prices go down, the safety net would recede.

Our final suggestion for section 9005 is remove the cap of 150 million gallons. This limitation has a chilling impact on future growth. Mr. Chairman, I've heard it said that Congress should not decide how big a farm should be. Likewise Congress should not decide how big a biodiesel producer should be.

Thank you for your time this afternoon, and we stand ready to work with you regarding these recommendations at your convenience.

[The prepared statement of Mr. Stroburg follows:]

PREPARED STATEMENT OF JEFF STROBURG, GRAIN AND INPUT COOPERATIVE OPERATOR, RALSTON, IA

Comments Regarding Bioenergy Titles of the Farm Bill

The results of the previous Bioenergy Titles (2002 and 2008) Farm Bill have helped transform farm producers and agribusinesses to not only feed the world, but feed and *fuel* the world. The forward thinking work this Committee has pioneered has forever changed rural America.

The U.S. biodiesel industry stands in support with you in achieving our national priorities for increasing energy independence, reducing greenhouse gas emissions, supporting green collar jobs and advancing American agriculture. The 2012 Farm Bill offers tremendous opportunities to advance current Bioenergy Title programs and further promote biodiesel utilization.

Here is a brief summary of the tremendous results our industry has achieved as a direct result of previous energy titles.

- *Biodiesel Promotes National Energy Independence and Reduces Greenhouse Gas Emissions*

  Today, the U.S. has the capacity to produce more than 2 billion gallons of biodiesel which can be integrated into existing petroleum industry infrastructure. Our feedstocks are renewable; we use the fat Americans don't want in their burgers and the oil left over from cooking their French fries.

  Biodiesel is today's only commercially-available renewable fuel which qualifies as an advanced biofuel. Biodiesel significantly reduces harmful greenhouse gas emissions as compared to petroleum diesel. With an energy ration of 4.5:1, we intend to continue improving fuel production efficiency while continuing to produce clean burning fuel.

  Becoming an advanced biofuel is not our final goal as an industry; we have already achieved status as an advanced biofuel which can be produced from hundreds of fats and oils. On the horizon, integrated biorefineries will produce high value specialty chemicals and jet fuel from current renewable oils and fats. Biorefineries will continue to displace industrial and consumer petroleum-based products and in turn reducing dependency on foreign oil while supporting American agriculture.

- *Biodiesel Supports Green Collar Jobs*

  Many of our staff grew up on family farms, surrounded by production agriculture. I concur with Secretary Vilsack's comment that more and more farm families need off-farm income to make ends meet. REG and our partners offer full-time, highly skilled employment in rural areas like Wall Lake, Ralston, Farley and Washington, Iowa. Several of our employees or their spouses are involved in production agriculture today and sought out positions at our biodiesel plants in order to be able to continue their commitment to agriculture. I believe maintaining these green collar positions and creating new jobs in these rural areas is a valuable piece of the USDA's role in biofuels and bioenergy for the next farm bill.

- *Biodiesel Advances American Agriculture*

  In the 1940s in rural Iowa, West Central cooperative built a soybean crush facility to add value to local farmers' grain, producing soybean meal and its co-product, soybean oil. In the early 1990s, West Central partnered with Iowa State University to determine the feasibility of using excess soybean oil to manufacture biodiesel. This feasibility study was funded in part by the USDA.

  Today, our REG network of commercial scale biodiesel plants utilize a multiple feedstock strategy that currently includes soybean oil, choice white grease, beef tallow, poultry fats, canola oil, corn oil from ethanol production, used cooking oil from restaurants and other virgin fats and oils. These fats and oils are the co-products or by-products of the U.S. agricultural industry.

  - Value to soybean producers:
    - $0.25 of value added to every bushel of soybeans produced in Iowa, according to the United Soybean Board.
    - In 2009, almost 60% of all biodiesel produced in Iowa was produced from soybean oil.
    - $121.5 million in additional value for 2009 alone for Iowa soybean producers.
  - Value to livestock producers:
    - In October 2009, the national biodiesel industry used more than 50 million pounds of inedible fats.
    - $9.00 per head earned by Iowa cattlemen due to value of beef tallow-based biodiesel production.
  - Value to corn and ethanol producers:
    - Inedible corn oil from ethanol production utilized in Iowa biodiesel plants.
    - $0.25 per pound of value returned back to ethanol producers and in turn, corn growers.

2012 Farm Bill Considerations

Considering the Energy Title programs currently underway and the results that I just outlined; these recommendations are designed to build on a few key programs that will ensure that the previous investments are indeed—the solid foundation for the next generation of bioenergy technologies.

However, given the serious economic difficulties of the financial industry, banks and lending institutions are hesitant to partner with commercial-ready bioenergy projects. Financing options should be kept open to keep this critical industry moving forward. Therefore, we recommend the following adjustments in order to remain within your priorities and restore confidence in the marketplace.

- *Under section 9003, Biorefinery Assistance*

  Currently the USDA proposed rules allow for loan guarantees and grants to be awarded, but right now only loan guarantees are offered. Our recommendation is to package grants and loan guarantees together, more banks and lending institutions would be willing to step forward, more projects would be awarded, and more competition would result. Under this scenario, the total coverage from the government would remain at 80%, but that coverage could be split between a grant and a guarantee at the discretion of the USDA. By combining grants with loan guarantees; more banks would step forward and more projects would compete and commercialization would occur at a faster rate.

- *Under section 9005, Bioenergy Program for Advanced Biofuels*

This program has particularly been one of the most helpful to our industry at this time in history. We would encourage you to continue funding these incentive payments. The biodiesel industry has the capacity and is poised to meet the volume requirements of RFS2. However, the goal for the industry is to not only meet the reduced green house gas emissions levels, but to exceed these reduction levels. The incentives in this program will assist the current infrastructure's transformation to the next generation of feedstock and next generation of biorefinery technology that will exceed reduced green house gas emissions levels. If your goal is to transform the biodiesel companies of today to the next generation of biorefinery production of tomorrow, this program will keep the pace moving forward. That said, removing the 150 million gallon cap will help accelerate this progress.

- *Under section 9007, the Rural Energy for America Program (REAP)*

  A combination of grant and loan guarantees are allowed for REAP, but at only 75% of project costs. A penalty is allotted if a grant and loan guarantee is packaged. Our recommendation is to remove the penalty and the total coverage from the government would remain at 80%, but that coverage could be split between a grant and a guarantee at the discretion of the USDA. This adjustment will encourage more banks and lending institutions to fund more projects and commercialization would occur at a faster rate.

- *New consideration for countercyclical payments for biodiesel feedstock risk management*

  The Renewable Fuels Standard, created by the Energy Independence and Security Act of 2007, contains the nation's first carve-out for biodiesel utilization. While this program, in combination with the reinstatement of the biodiesel blenders tax credit, are major milestones for our industry, we would like the USDA to consider an additional option for promoting the growth of the biodiesel industry.

  Agricultural co-products and by-products account for more than 85 percent of the cost of a gallon of biodiesel. For example, as the cost of soybean oil increases, soybean producers are rewarded and the biodiesel industry looks to alternative ag feedstocks. In turn, animal fats and inedible corn oil increase in value. As the cost for soybean oil and other biodiesel feedstocks increase, soybean producers and other agricultural producers are rewarded, while biodiesel producers margins' tighten significantly.

  Our recommendation is a countercyclical payment directed to biodiesel producers, which would offer a risk management opportunity when soybean, corn and livestock producers receive value from high commodity prices and the biodiesel industry is exposed to squeezed margins. In turn, when soybean, corn and livestock producers are struggling with low commodity values, our current risk management strategies offer sufficient support for our business progress.

Renewable Energy Group believes our nation's energy security needs are more sensitive and costly than ever and will only get more acute in the future if investments in biofuel production, with these program adjustments, are not put into operation. We stand ready to work with you and any of these recommendations at your convenience.

Comments Regarding Impact of the Loss of the Federal Biodiesel Blenders Tax Credit

Failure to extend the tax credit for biodiesel produced in the U.S. would have a substantial negative impact on biodiesel production and the consequent economic and environmental benefits made by the biodiesel industry.

The original biodiesel tax credit was passed in 2004 and has been extended twice, most recently as part of the Emergency Economic Stabilization Act of 2008 (P.L. 110–343), signed into law in October 2008. Biodiesel produced from both virgin feedstocks (such as soybean oil) and non-virgin feedstocks such as yellow grease and animal fats qualifies for the $1.00 per gallon excise tax credit. An incentive such as the biodiesel tax credit is necessary to offset the higher cost of producing biodiesel compared to petroleum diesel.

The biodiesel blenders' tax credit lapsed on Jan. 1, 2010. Currently, demand for biodiesel is extremely limited because our customers are no longer taking the risk of purchasing biodiesel without the tax credit. Manufacturing plants have idled. This dire situation is occurring not only in Iowa, but all over the country.

According to a December 2009 study by John M. Urbanchuk, Director, LECG LLC, "without the tax credit the price of biodiesel would be insufficient to provide a positive return over variable costs and the biodiesel industry could be expected to collapse." This would have several notable adverse economic impacts including:

- a loss of jobs and income.
- increased demand for petroleum diesel and a degradation of energy security.
- lower demand for soybean oil and soybeans for crushing leading to lower soybean prices and a negative impact on farm income.
- stranded investment as biodiesel capacity is idled.
- lost tax revenue for states and local governments.

The biodiesel industry will spend about $1.3 billion on raw materials, goods and services to produce 475 million gallons of biodiesel this year. In doing so the biodiesel industry will add $4.1 billion to GDP this year, increase household income by nearly $1 billion, and support nearly 23,000 jobs in all sectors of the economy. In addition the biodiesel industry will provide $445 million of tax revenue to the Federal treasury and $383 million to state and local governments.

TAKE-AWAY ATTACHMENT

Located in the heart of United States agriculture, West Central is a leading grain, agronomy, and value-added processing entity. With headquarters in Ralston, Iowa, this member-owned cooperative boasts a national and international agricultural presence. The policies within the 2008 Farm Bill provides a positive, sound foundation for the future of our industry and our business.

Comments Regarding the 2012 Farm Bill

We would recommend consideration of the following:

- Reduced complexity and increased flexibility to plant in response to market demand;
- Maintenance of a farm income safety net that includes consideration of an energy escalator clause that addresses high fuel and fertilizer prices;
- Compliance with WTO agreements;
    - Reduce trade-distorting domestic support (amber box) in exchange for a proportionate increase in agricultural market access, elimination of export subsidies and fully funded "green and blue box" eligible programs.
    - This could be accomplished through working lands conservation programs, risk management, the Market Access Program, enhanced crop insurance, the concept of a revenue based safety net program, or government programs that increase producer profitability that may include direct payments and/or tax credits; and
- Inclusion of a commodity loan program.

In considering the new farm bill policies, we oppose:

- Mandatory government supply management programs and acreage reduction programs, (excluding Conservation Reserve Program and conservation easements, for marketing loan commodities under the current farm program);
- A farmer-owned reserve or any federally controlled grain reserve with the exception of the existing, capped emergency commodity reserve;
- Income means testing;
- Payment limitations; and
- Targeting of benefits being applied to farm program payment eligibility.

Regarding the USDA proposed cuts to the Standard Reinsurance Agreement (Crop Insurance Program), by almost 30%—

- Iowa would be hit harder by the proposed cuts to than anywhere. Iowa producers buy more crop insurance than most other states, and Iowa has more crop insurance agents than most other states. There were $735 million in premiums written in Iowa last year alone for just two crops—corn and soybeans.
- Let Congress decide how to best handle crop insurance during its farm bill process.

The CHAIRMAN. I thank all of the panelists for their testimony, and, Mr. Erickson, I too am encouraged by what is going on within the dairy industry.

I think it is a sea change from anything I've ever seen before, but there does seem to be—seems to me if they're going to get this together at the end of the day, they're going to have to find some kind of way to manage their excess production in order for them to come together on something. And one thing that's being looked at is, something I proposed 10 years ago, is some way to have like an assessment on all producers when they over-produce and use that to try to increase to market through feeding programs or exports or whatever. I think Congressman Costa is working on a bill that I think has some elements of that as well. Is that not true, Mr. Costa? Yes.

I don't know how much has been discussed about what they're considering, but are you and your industry completely opposed to any kind of—you know, the problem is, the price goes up, dairy farmers produce more, the price goes down, they produce more. And that's just causing all the volatilities, so there has to be some way to try to even this out. I think insurance helps, but people are not convinced that's going to be the complete answer. So what's your reaction?

Mr. ERICKSON. Mr. Chairman, thank you for the question. I get nervous when we talk about supply management because——

The CHAIRMAN. I'm not talking about supply management.

Mr. ERICKSON. I work on the demand side. Milk is a wonderful product, nutrient rich, gives you nine essential nutrients, and I think we ought do all we can to espouse the benefits of milk. I've been a benefactor of the growing milk supply in Iowa, and when you try to freeze something in time——

The CHAIRMAN. We're not talking about freezing anything in time. I don't think anybody's talking about that.

Mr. ERICKSON. Okay. I apologize

The CHAIRMAN. We're talking about some rules to try to increase the demand, to try to get things back into balance. I would just encourage you guys to work with us so we can get, at the end of the day, with something we can all support.

I think we can do that because we don't disagree, but I would say, when I had the Canadian Agriculture Committee people in to see me, they were complaining about all kinds of different things. We had an hour meeting, but dairy never came up, and I said, "What about our dairy farmers?" Oh, we don't hear a word out of them; they're happy. So, it's a little extreme what they're doing and they are driving people to the U.S. and so forth. But, it also has maintained a situation for dairy guys that are in business, and so there's maybe some balance here that we can work on, so we look forward to working with you on that.

The CHAIRMAN. Mr. Schaben, one thing we're looking at is crop insurance, obviously there is the SRA going on, but there has also been a lot of discussion, a lot of GAO reports and a lot of work we've been doing on the Committee. One of the things we're looking at is seeing if there's someway we can develop crop insurance so it covers everything on the farm, not just your traditional crops. We've moved in that direction to some extent on capital but not to the extent we've done on the crops and so forth. Would that be something that people in your industry would be—find helpful if we could expand crop insurance to make it risk management?

Mr. SCHABEN. You're referring to some sort of risk management program?

The CHAIRMAN. Yes.

Mr. SCHABEN. I think in this day and age anybody in agriculture would embrace any sort of risk management tool as long as it's especially in the cattle industry, I guess, is what I'm going to speak to, but if it was done on a voluntary basis.

The CHAIRMAN. Yes.

Mr. SCHABEN. But the problem seems to be that we are losing a generation of cow/calf producers, the grass roots part of the cattle industry, and like all of this agriculture, it's a generational thing.

And when you lose a generation, you don't get them back. Once they're gone, it's kind of over with, it's extinguished, and that's my concern. I've watched it happen in our area, so I think some sort of—any time that there's some sort of a risk management program, I think would be pretty inspiring, but I think it would limit the problem.

The CHAIRMAN. My time has expired, but I have to say, Mr. Skow, we are also looking at simplifying crop insurance significantly, so your people won't be spending as much time as they are and they won't be—if we're to get more successful, there won't be 400 different policies and so forth, so get ready to work with us. I don't know how successful we'll be, but I think there is some potential here to simplify the program. We think we need to get rid of CAT coverage and NAP. They have outlived their usefulness. There are just some fundamental things we need to look at it, and we look forward to working with you as we go forward with the farm bill. We don't have all the answers, but we have some of the questions, and we're trying to figure out in these areas what the answers are.

Mr. Stroburg, we'll work with your industry. We understand the problems. We don't control all of that in our Committee, but we'll do what we can from our end, and your people from Iowa have been at the forefront of this, as you know, so——

Mr. STROBURG. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from Oklahoma.

Mr. LUCAS. Thank you, Mr. Chairman.

Mr. Skow, would you expand a little bit more on what the effects on the delivery system of crop insurance would be with the second draft of the SRA, as proposed, is implemented.

Mr. SKOW. It specifically here in Iowa, we think it would be very problematic, the reality of the situation is that there would be significant cuts to the delivery system—what I refer to the ice stage or the one stage, and I have some reference to it in my testimony. I would also refer you to a letter that our Congressional delegation wrote to the department on that, and we think that there would be price cuts close to 30 percent.

Mr. LUCAS. So quite literally products might be available everywhere in Iowa and there might not be any one to deliver those products even in the second round implements.

Mr. SKOW. I think the issue is is that there are probably some people who deliver crop insurance, both insurance companies that service it, as well as insurance agents would be forced out of the marketplace. I think that, based on the delivery system, some would simply say it's not worth noting the recourses any longer, so farmers would have to go further to find somebody willing to serve them. I think you would see a compression or a contraction of companies willing to offer, and I think that has been spoken in a number of documents to RMA.

Mr. LUCAS. Mr. Schaben, you mentioned in your testimony about how we need to focus on some kind of a program that would emphasize production along with conservation, potential conservation. I just note for the record in 2002 when I wasn't a part of the Minority political party, as Subcommittee Chairman, we tried to create something called GRP; the goal of which is to provide perhaps not only a transition for some of the CRP acres, which should be rolled over time, but to provide a way for those acres to stay in grass, and perhaps not go back to the plow or additional acres to come in and enable producers to fully utilize the equipment. Unfortunately, from the time we write bills we pass them on the floors of the United States Congress, persuade Presidents to sign them or override the veto, whatever the case might be, and they're implemented and things might change.

That program essentially became a Green Zone Program around urban areas. And I'm perfectly supportive of those kinds of efforts. The GRP started as a way for real producers to be able to access the conservation dollars, utilize every potential from soil and water, air, wildlife conservation, so I'm frustrated along with you on those issues.

A similar question to what I asked the earlier panel: What's the price of land in your part of the state compared to 5 years ago, trade publicly, public auctions, whatever?

Mr. SCHABEN. Sure, actually, I sell land at auction. We do quite a bit of that. We don't—the inherent problem in our part in western Iowa in regards—this is a long answer to a short question, but in regards to the grassland, we don't have much left, it's gone, it's plowed, that's the problem. Now, I will tell you that the average price, whether it's a sheep, but if I found grassland in our area now that's strictly grassland and that means it's timbered, it's probably in the $400, $500, $600, $700 range. That is a large part to do with our location, which is we're 60 miles from Omaha, when I sell that piece of timber land, it doesn't usually go through a farmer. Obviously it's not economically feasible. So we lose that cow/calf man. He goes to permanent grassing in Oklahoma or Kansas or Nebraska. That's part of the problem.

Mr. LUCAS. That truly is a challenge. There's no doubt about it.

Speaking of the farmer and ranchers and the topic that we've touched on numerous times today about the death tax it's not a section of statute that the Agriculture Committee has direct jurisdiction over, nonetheless capital gains rate, income tax rate, have very dramatic effect on processors, producers, and everyone in between. From your perspective, if we don't do something before the end of this year, what will the effect be on your people when the death tax goes back to the 2001 level, capital gains go back up to 15 to 20, and those kind of things, what's the impact? Not just in the pocket book, but the decision making.

Mr. SCHABEN. I think that's where the impact is. I think it causes people that make decisions that probably aren't first and foremost the best for their business or their industry. I guess that briefly is the answer because as people made some of the decisions or try to out-think what the next move may be and, of course, in agriculture it obviously causes a big problem with taxes.

Mr. LUCAS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

The gentleman from Iowa, Mr. Boswell.

Mr. BOSWELL. Thank you, Mr. Chairman.

I'll just stick with you for a minute, Jim, and I'll move on. You're doing pretty well. I'm still concerned about animal ID. We went through quite a discussion on this and we didn't get too far, and now it's back to the states. You deal with livestock every day, and I continue to worry about the rural economy and rural market if something would happen that we couldn't put the face on it, then what does that do to us? Do you have any comments about that.

Mr. SCHABEN. I certainly do. As you well know within your office and we've met with the Chairman and staff different times in Washington about animal ID, and I guess when I speak about animal ID, I only speak about it from a cattle perspective, not understanding the rest of the industry's to that degree. The cattle industry is so inherently different than the hog industry, the sheep industry in the way that it moves, in the way that it travels, the interstate commerce that's involved and the small load lots. I have been convinced. I started out thinking that animal ID was wrong. I became a believer, and now I'm going back.

So I've run the gamut, and I've been going to these meetings for over twelve or thirteen years, and I think what we need to do, Congressman Boswell, I think we need to work on enhancing the programs and again speaking about the cattle industry, but enhancing the programs that we have out there today, and that is through veterinaries ID, through interstate commerce, through traceability, through identifying all of the females, if they all had an ID tag, that maybe doesn't give us 24 hour traceability, but it could easily give us 48 or 72 hour traceability.

So I think we need to enhance the programs that are currently out there in the Federal programs and state programs, and enhance those as it deals with the cattle industry, rather than the ID tag.

Mr. BOSWELL. Thank you. I will just divert here just a moment. Yesterday, this had nothing to do with this meeting, Mr. Chairman, but I was with Senator Harkin in the Rose Garden when the national teacher of year was awarded to a teacher from Johnston, and Senator Harkin said to give you his greetings.

I see John is here, so I wanted to recognize he's in the crowd as well in case someone needs to visit with him. But, I appreciate that.

Mr. Erickson, the who dairy industry has been whacked all over the place the last couple years. We know that, and I feel like the USDA has been pretty responsive to us to do the different things they've done. What, for the most, in those conditions was helpful? All of the above?

Mr. ERICKSON. We're all a big fan of Secretary Vilsack here in Iowa, so I think he's done an admirable job in a tough environment. He has put some extra money toward dairy producers, which

I think is warranted given the current situation. I wish he'd take a look at the Federal Milk Marketing Order system and give us a break and simply it a little bit and maybe we can get to that too.

Mr. BOSWELL. Thank you.

Mr. Stroburg, the concern about the biodiesel industry is something that's carried heavy on you, as we talked about it quite a bit. How do you think this—is there going to be a recovery period when we get the tax extension back in and so on? Are you going to be able to find the people out there to do what you need to do? Tell us about your situation is in that respect.

Mr. STROBURG. Congressman Boswell, the longer we go without a blender's tax credit, the more difficult it's going to be to bring workers back that have been laid off. We've laid off about 45 percent of our workforce since the blender's tax credit has expired. So the longer it goes, the harder it will be to attract good people back to these plants, to run the plants.

I think more critical than that is the investment that almost 10,000 Iowans have made in biodiesel plants within Iowa. And these are all what I would call retail investors, they're farmers, they're people that own the local hardware store, they run their local dentist, or have other businesses in small towns. These are rural jobs that have been created by rural investors, and once those investors get wiped out, and their equity is eroding daily as we go without a blender's tax credit, once those investors are wiped out, there's no coming back. Those plants may get sold for pennies on the dollar to other companies, and hopefully the jobs will come back, but those investors are gone.

Mr. BOSWELL. Thank you.

Mr. Chairman, on that issue, we've talked about it. That's something for—we've all, in agriculture, as farmers, producers, say we would like to be part of the value-added, and this was a chance, and so we share a deep concern. I know you do, too. We've talked about it. But, I guess, we did respond on our side of the rotunda, we've just got to figure this out. And I'm very concerned about this, and I appreciate the fact that you are, too. I yield back.

The CHAIRMAN. Well, I'm being told we're going to get this resolved by May 31, so we'll keep our fingers crossed. The gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman. Again, I thank the witnesses and enjoyed listening to all of the testimony.

And I came in a little late, Mr. Erickson, but I've read your testimony and appreciate that as well and the generation impact you had each year.

It's interesting to me, Mr. Schaben, to hear where you've been on livestock ID, back and forth two ways, and hopefully I can pick up that conversation another time in more depth. But, I do want to ask you more specifically that sometime back, coming in actually in the last farm bill, I worked with a number of people across the state, and we put together a proposal to try and preserve some of this grassland and enhance the grazing in Iowa. That was a combination of CRP, CSP, EQIP. There's another one, CP29 or something that I forget, grazing, water, those things that you have to do in order to manage pastures and be able to reach some of the goals of CRP, and work in conjunction with conservation groups across the state. The answer I got back from our producers was we don't want unfair competition; we're in the cow businesses, and we don't need our competition subsidized.

Would you speak to that particular conflict that exists within the cattle industry with regard to anything we might do to encourage more pasture land?

Mr. SCHABEN. Well, I certainly agree that the cattle producers is—has been an awful independent animal, to say the least, and I guess that's part of their makeup and part of their style. But I think—I really truly believe, Congressman King, I think the situation is grave enough in this loss of the industry in most of the upper Midwest, I would say, that I think it needs to be addressed. It's not necessarily a question of direct income for those producers as much as it might be for the area as a whole because I had some CRP land that came out. I'm in the cattle business. I had a cow pasture. I rented it to my brother for $200 an acre. It only made good sense. It only made good economic sense. That's my point.

I didn't miss any money by doing what I did. I benefited by doing it, but in my area I miss quite a bit because I don't have cows anymore. We don't have, basically, don't have the feed store in Dunlap anymore, but, those dollars, and I don't have the figures. I'm sure that you do or staff does, about the turn over in the animal agriculture *versus* some other types of agriculture, and I think that's where we see it more indirectly. It isn't so much that we can't find something to do with that track of land, because we can, but I think that we need to try to promote for the sake of animal agriculture, specifically, I should say cattle industry, we need to promote that in some fashion.

Mr. KING. Mr. Schaben, let's do this: Let's come back to this subject and have those conversations to see if we can put together a plan again, at least propose as we go forward to the farm bill, 2½ years, that's a worthy discussion. I'm glad you brought it up. Seems to me that if we're going to spend money for CRP to take land out of production so that we can do a Conservation Reserve Program, well, we should also be able to look at how we keep things in grass, which also is a Conservation Reserve Program and has some of the same results.

But I think the important point that I want to make sure that gets made here today, and I'm going to turn it over to Mr. Stroburg, just a question first and then a follow-up question on that. Is anybody in Iowa right now, today, producing biodiesel, or are they all mothballed, all 14 or all 15 plants that we have in this state?

Mr. STROBURG. Congressman King, I don't know about all the production. I can tell you that the plants that are associated with Renewable Energy Group are running at—take all the capacity maybe running at 10, 15 percent capacity, so it's practically shut down, but there are a few sales still being made.

Mr. KING. Then I'd ask you to just to take this where you need to go with it, but a couple of things have happened here with renewable energy altogether with ethanol and biodiesel. Do you find those as first generation renewable fuels; the industry was initiated by our friends north of us in Minnesota, but we've picked up on that pretty well and developed an industry and an infrastructure here. So with the 6¢ reduction and formally 51¢ blender's credit for ethanol and for the failure to extend the blender's tax credit for biodiesel, now we're looking at—it was essentially zero new capital coming into the industry. We understand the urgency to renew the blender's credit for biodiesel, but can you imagine a second generation ethanol say cellulosic, if we can't be viable? How would we possibly attract capital if we can't get our money back out of what's already invested in ethanol and biodiesel?

Mr. STROBURG. Yes, I think that second generation is very much dependent on what we do be right now because most of the second generation feed stocks will actually be produced in first generation manufacturing plants, whether it's ethanol or biodiesel. There may be additions to the front end or the back end to accommodate second generation feed stocks, but if we kill the industry now, second generation feed stocks will be years before they come on.

Mr. KING. Thank you, Mr. Stroburg.

I thank all the witnesses, and Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentleman. The gentlelady from South Dakota.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman.

Well, Mr. Stroburg, I appreciate your thoughts on combining the loan guarantee programs and grants and packaging those together. We look forward to working with you to see the evidence of how the other sections are working to determine whether or not that makes sense for us going into the next farm bill and making that change. The only thing we have to be vigilant about is, in light of the Chairman's initial remarks about the money available, is that we wouldn't want that to result in less being available to leverage by USDA to help in biorefinery assistance or other renewable energy project assistance. We just have to be vigilant about how we package them together and how far that would go for how many projects. I appreciate the insight and the other project that you put on the table, a program with countercyclicals to our biorefineries in times of high commodity prices.

And then, Mr. Skow, we'll keep working with you. As you know, Mr. Conaway and I led the "Dear Colleague letter" in January to the Administrator of RMA expressing our concerns. Those concerns remain with the second draft. The third draft is due any time here in early May, but in light of what's happening to many in the northeastern part of South Dakota, the concerns are great in terms of the impact, particularly, on the importance of the crop insurance program. It is the most important part of the safety net right now for many of these producers who are facing flooding conditions, as well as in the central part of the state.

But I did want to focus my time and we'll keep working with the both of you, and perhaps get a chance after the hearing to talk in greater detail. I wanted to focus my questions to you, Mr. Schaben, because in the last farm bill the Chairman came to South Dakota, to western South Dakota, as did some of my colleagues here and others on the Committee, because of the concern given that we still have virgin prairie and grasslands in South Dakota of the conversion that was going on and what that meant for livestock producers and availability of pasture. And I just wanted to explore with you maybe a couple of other factors that are driving this rapid and disconcerting development in the cattle industry, and I think some of the independant streak within our producers comes from the nature, but also learning lessons from pork and poultry and wanting to avoid the same kind of integration and what that means for smaller and mid-size operations.

What is your—from your perspective, what do you think is the state of competition in the cattle industry today?

And the other issue is about crop insurance; should we look at modifying a crop insurance program so you give livestock producers a risk management tool where you're covering all on-farm activities including livestock production?

Mr. SCHABEN. Well, the—to address the first question, the relative health, I guess, is that what you're asking, the competition involved in our industry within our industry, the competition?

Ms. HERSETH SANDLIN. You think there's healthy competition, do you see any signs of market manipulation?

Mr. SCHABEN. I believe there's healthy competition on my level, which is the running of a livestock auction. Ours is transparent and open, obviously there's good reason to keep some other aspects of the industry under close watch, some of those things that maybe are done behind closed doors. Again, my segment of the industry, which is livestock auction and it's done out in a room like this, everybody is invited in to participate, so it's pretty transparent.

I know the packing industry, there has been some concern over time, and, thereby, the livestock administration was started. So I don't worry about that as much, and I know I have some things in South Dakota that caused a heated debate over the last 10 or fifteen years in the packing industry, Herman Schumacher being one of them.

Ms. HERSETH SANDLIN. Well all know her.

Mr. SCHABEN. Everybody knows Herman Schumacher. He's a dear friend. But—so I don't worry about it as much. I don't think, I don't believe that I worry about it quite as much in my facet. In the packing industry it's obviously a cause for concern.

The second question you had dealt with risk management, and I firmly believe in any risk management tool that is offered to a cattle producer is a good tool in agriculture in general, probably is a good tool. I've stated earlier that I don't think it's anything that anybody wants in our industry to see as mandatory. If it's out there, there have been some programs in the past, safety net, other things, and I think that's great if it's an option.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentlelady. The gentleman from California.

Mr. COSTA. Thank you very, Mr. Chairman.

Mr. Stroburg, you talked in a lot of detail with regards to the biodiesel industry and the impacts. And would I be left with the wrong impression that if the Federal support for this biodiesel program is no longer available, then it's going to be very difficult to sustain at all?

Mr. STROBURG. I think at this stage in the industry, if we do not have the blender's tax credit, the biodiesel industry as we know it will go away.

Mr. COSTA. I mean, that's the sense I got from your comments. I just wanted to be clear. Mr. Erickson, you talked about simplifying the Federal Milk Marketing Order; is that correct?

Mr. ERICKSON. That is correct.

Mr. COSTA. You think bringing in California, that produces 23 percent of milk products of the country, would make it simpler or more complicated?

Mr. ERICKSON. It depends on the implementation. I think it has the—it can have the benefit of putting everybody on an even playing field, including the whole country. I don't think would be a bad thing.

Mr. COSTA. I think I know the answer to this question, but what do you think about implementing, as I tried to, California's standards?

Mr. ERICKSON. Well, I'd let the customer decide. There has been some product out there with fortified skim, and it's not popular.

Mr. COSTA. Well, it's popular in California, but, I mean, I think we're talking about healthy proteins. We're talking about trying to ensure that we have healthy diets.

Let me move on. Did I hear you correctly as I was walking back that any efforts to provide some supply side management tools for producers would be a disaster?

Mr. ERICKSON. I'm not a fan of supply side because I've been the benefactor.

Mr. COSTA. Why would it be a disaster?

Mr. ERICKSON. I've been the benefactor of the growth of dairy in Iowa, where I think that dairy should be responsive to the marketplace.

Mr. COSTA. I agree with you, but I'm not talking about limiting supply. What we're trying to do is to help dairymen, who are the most prolific producers probably anywhere in the world, a third generation dairy family—I know how effective we are in producing, but having some ability to have some tool to determine whether or not they want to grow or stay the size they are, and that's different than putting limits on it.

I mean, I think if—certainly I hear good things about the processing work you do, but, I think there's a different level of interest if you're a processor than if you're a producer. Obviously over-supply of milk has a different impact on producing to processors.

Mr. ERICKSON. That's correct.

Mr. COSTA. I just want to acknowledge that. I mean——

Mr. ERICKSON. That would be true, but to the extent I need producers——

Mr. COSTA. That's true.

Mr. ERICKSON. Producers need processors. We need to work together.

Mr. COSTA. And that's correct. The Chairman said that earlier, and I concur with him wholeheartedly and to do that, but there are different interests. I think it's important that we acknowledge those different interests to producers and processors, but you need each other.

Mr. ERICKSON. We do desperately need each other.

Mr. COSTA. There you go. We agree on that point.

You talked about the insurance program that the National Milk Producers Federation is proposing and they're measuring. I'm concerned about it, and I think you also said something about less government influence, but we lost an estimated between $11 and $12 billion in equity in the last 2 years in the U.S. milk program. Some say it's even higher, maybe $20 billion.

How do you insure those kinds of losses? How do you create an insurance program that would insure some of the devastation that we've had nationwide?

Mr. ERICKSON. Well, I think some of the point is is that price supports aren't indicative of the cost of production. If you have a high price——

Mr. COSTA. I concur.

Mr. ERICKSON.—high input costs, they're not aligned. I think the point is the current system is somewhat flawed.

Mr. COSTA. No, I think many of us have felt that way for years, but I think it's taken $9 per hundredweight milk to finally get the industry willing to—as the Chairman and I have spoken, there's nothing like $9 per hundredweight to make folks wake up and figure out maybe we need to change things.

Mr. ERICKSON. Yes, Congressman, and I think——

Mr. COSTA. When you have $15, $16 per hundredweight input cost.

Mr. ERICKSON. That's where we need to look at margin protection as opposed to price supports.

Mr. COSTA. Well, but you didn't answer my question. How would you create an insurance program for over $11 or $12 billion of the losses and maybe higher losses in the last 2 years?

Mr. ERICKSON. I'm not an insurance genius; I'm a small processor in Iowa, but I think it's——

Mr. COSTA. You're a very good processor, Mr. Boswell tells me.

Mr. ERICKSON. I appreciate that.

Mr. COSTA. My other Iowa colleagues tell me.

Mr. ERICKSON. I do think it's important to think about how to create margin insurance. The implementation, Congressman, I'm unsure of, but I think it would be a better approach than price support.

Mr. COSTA. I think we need to look at all of that, and obviously price supports have limits and certainly curtail more production of milk where we have stored powder and cheese, I don't think it's good food policy.

My time has expired.

Mr. Chairman, I'll look forward to continuing this conversation. Once again, thank you very much.

The CHAIRMAN. I thank the gentleman.

I thank all the witnesses for being with us for your excellent testimony and answers to the questions, and if the Members have more questions, they can get them to you, you'll answer them, like I said.

So the panel is dismissed.

I wanted to tell people again that we are very much interested in getting comments from anybody that has good ideas. I find that sometimes folks that don't necessarily get on these panels for what—have some pretty good ideas, and so you can go on our website, *www.agriculture.house.gov*, and log on there and tell us what you think about what's going on, if you have new ideas, what we should consider, very much would appreciate that input. And those of you that have been watching on this web-cast, we'd like comments about how that all works and what you think about it. More feedback is better.

I'm going to yield the rest of my time for closing statements. Thank you Mr. Boswell, the host of this event.

Mr. BOSWELL. Thank you, Mr. Chairman, Ranking Member Lucas, both of you, I appreciate you coming to our state, our district, sharing in this.

I want to thank the Iowa State Fair Board and Administration for providing this facility, especially wanted to thank the witnesses; some of them had to drive a long ways, and took you away from business today, and I appreciate that very, very much. As we discussed in the full Committee and other times when we talk together, we have one thing in mind what we want to do; we want to make agriculture as strong as we can make it, and do the best we can with the resources we have, and so that's what this is all about.

So thank you for participating, and it's a challenging time. We all know that. I'd be singing to the choir, and we were talking about the challenging time as a country and as a world community, and we know that too. And I appreciate John, Bill, and you for coming today to sit in with us, appreciate all of that, and I think that we've had a good meeting and look forward to proceeding on to the process.

Mr. COSTA. Would the Chairman yield for a moment?

The CHAIRMAN. The gentleman from Iowa? Oh, Mr. Costa.

Mr. COSTA. The gentleman from California.

The CHAIRMAN. Can't see you down there, I'm sorry. I figure you'd be out here further so I can see you.

Mr. COSTA. I understand.

I just wanted to thank, again, Congressman Boswell for hosting all of us. Though I do have somewhat of a question. All of us who represent ag country around the country have had the pleasure to be in auction pavilions in our districts and around, and they always can be a lot of fun. I just was wondering Leonard, what this meant when you put those of us down in the pit, I was a little concerned that the witnesses, and those in the lower part of the panel in the pit, you might have some ulterior motives. Usually when we're in the pit, we're selling someone or selling something or being sold, so hopefully we weren't getting sold anything here today, but just good information.

Mr. KING. This isn't how we mark up the farm bill, is it, Mr. Chairman?

The CHAIRMAN. I thank the gentlemen for their comments and for the people watching, this is the first of eight hearings; we're doing seven more of these in the next couple weeks, so we're going to hear a lot. The gentleman from Oklahoma, Mr. Lucas, do you have a closing statement?

Mr. LUCAS. Just simply, Mr. Chairman, that thank you and our Iowa friends, Mr. Boswell, Mr. King, and Mr. Latham for being such good hosts and cooperative and our witnesses today. It's always worth noting that in the nature of Committee process, which is critically important to Congress, that the House Agriculture Committee is bipartisan, non-partisan committees. We may disagree occasionally on particular parts, agriculture economic philosophy, we might have slightly different perspective on commodity groups, but when we team up in that every 5 year process to write a farm bill, we work together for the good of the country as a whole. Sometimes we work with Administrations, and sometimes we educate Administrations, but the bottom line is we're going to try to write you a good farm bill.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank all of the Members for being here today. So under the rules of the Committee, the record of today's hearing will be left open for 30 calendar days, to receive additional materials supplementary, written responses to witnesses and any questions posed by a Member. This hearing of the Committee on Agriculture is adjourned.

[Whereupon, at 3:59 p.m. (CDT), the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED LETTER BY BRIAN FREISE, PRESIDENT, AGPERSPECTIVE INC.

April 29, 2010

Hon. COLLIN C. PETERSON,
Chairman,
House Committee on Agriculture,
Washington, D.C.

Representative Collin C. Peterson,

My name is Brian Freise and I am the owner of AgPerspective Inc, a risk management and insurance firm in Dixon, Illinois. I have recently read that the Administration, as well as the Congressional Agriculture Committee, has begun discussion on the 2012 Farm Bill. I am writing today to express my opinions on how the 2008 Farm Bill can be improved upon in 2012. Specifically, I would like to address the farm safety net and the ACRE (Average Crop Revenue Election) program.

I believe that the ACRE program was designed to improve upon the counter-cyclical program and attempt to make payments more specific to where actual farm losses occur. To better understand the program and explain it to our client base, I created the spreadsheet enclosed with this letter. It walks the client through the program step by step. Clients found this spreadsheet to be a tremendous resource when deciding whether to enroll in the program or not. I also created a PowerPoint presentation to explain all of the other details. I enlisted the help of Dr. Carl Zulaf from Ohio State University to help insure my details were accurate. As I created these materials, I noticed one major flaw in the program.

This has to do with the requirement for the individual FSA farm number to have a revenue loss. I can appreciate why this component was added. I suspect it was included so that farmers who have windfall revenue cannot collect through the ACRE program on top of their already stellar year. However, the practicality of this component is very questionable. For example, using the attached spreadsheet, I have determined that if the State of Illinois has a $40.47 per acre ACRE corn payment, the average producer would need to have a yield in excess of 35 bushel over his Farm Benchmark Yield to NOT qualify for the state level payment. Obviously, the larger the state level ACRE payment the higher the farmer's yield would be to be to not qualify for payment. That being said, if ACRE triggers a substantial payment it will be very difficult for the farmer not to qualify. Again, I understand why this component was added, but it is my opinion that this feature adds far more complexity and administration cost than it is worth.

I believe this feature has much to do with why less than 15% of producers across the Midwest enrolled in the program. Very few Farm Service Agency (FSA) employees truly understood the program, and in many cases farmers were convinced not to sign up because of this lack of knowledge, and the paperwork burden of reporting all of their yields. The reporting of yields to the FSA is also redundant as many producers already report yields to their crop insurance agent. Not only does this feature not accomplish the goal of not paying farmers when they have windfall years, but it creates an administrative nightmare that adds substantial cost to the implementation of the program.

Farm policy is something that I take a very active interest in and feel that I have many excellent ideas to share. I am by no means an expert on all levels of farm policy, but I believe I can offer great insight into programs that are designed to serve as a safety net for row-crop producers. I would welcome the opportunity to discuss the ACRE program or other areas of farm policy with you. Thank you for your attention to this letter.

Regards,

BRIAN FREISE,
President, AgPerspective Inc.

ATTACHMENT

ACRE - Average Crop Revenue Election

In order for a payment to be made TWO triggers must be met.
1.) The STATE must have a revenue loss.
2.) The INDIVIDUAL FSA FARM NUMBER must have a revenue loss.

1.) STATE LEVEL ACRE ANALYSIS — ILLINOIS

CORN

Benchmark Price (2 yr avg.) = $4.13
Benchmark State Yield (5 yr olympic) = 172
COVERAGE LEVEL = 90%

$639.32 = REVENUE GUARANTEE
$159.83 = MAX PAYMENT/AC (25% of Guarantee)

	NATIONAL AVERAGE MARKET YEAR CASH PRICE SCENARIOS												
	$2.00	$2.25	$2.50	$2.75	$3.00	$3.25	$3.50	$3.75	$4.00	$4.25	$4.50	$4.75	$5.00
STATE YIELD	Per Acre State Level Payments												
130.0	$159.83	$159.83	$159.83	$159.83	$159.83	$159.83	$159.83	$151.82	$119.32	$86.82	$54.32	$21.82	
140.0	$159.83	$159.83	$159.83	$159.83	$159.83	$159.83	$149.32	$114.32	$79.32	$44.32	$9.32		
150.0	$159.83	$159.83	$159.83	$159.83	$159.83	$151.82	$114.32	$76.82	$39.32	$1.82			
160.0	$159.83	$159.83	$159.83	$159.83	$159.32	$119.32	$79.32	$39.32					
170.0	$159.83	$159.83	$159.83	$159.83	$129.32	$86.82	$44.32	$1.82					
[illegible]	$159.83	$159.83	$159.83	$159.83	$126.02	$83.25	$40.47						
180.0	$159.83	$159.83	$159.83	$144.32	$99.32	$54.32	$9.32						
190.0	$159.83	$159.83	$159.83	$116.82	$69.32	$21.82							
200.0	$159.83	$159.83	$139.32	$89.32	$39.32								

EXAMPLE = In this case a final state yield of 171.1 and price of $3.50 would net a payment of $40.47
= where CCP and LDP payments would likely begin to occur

2.) FARM LEVEL ACRE ANALYSIS — Farmer XYZ

The individual FSA farm number must fall below it's Benchmark Revenue in order to trigger.

FARM BENCHMARK REVENUE = (5 year olympic yield average * Benchmark price) + crop insurance premiums paid

ACTUAL FARM REVENUE = (Farm's Actual Yield * National Market Year Price)

EXAMPLE =
5 year olympic farm average = 180
Actual farm yield = 215
National Market Year Price = $3.50
Per acre crop insurance premium = $25.00
Benchmark Price = $4.13

FARM BENCHMARK REVENUE = (180 yield average * $4.13 Benchmark price) + $25 crop insurance premium = $768.40
ACTUAL FARM REVENUE = (215 bu * $3.50 NMYP) = $752.50

IS FARM TRIGGER MET? = YES......Actual Farm Revenue of $752.50 is less than the farm benchmark of $763.40

PAYMENT EXAMPLE

1.) Were both triggers met = YES

If both triggers are met the STATE level payment will be adjusted by an individual farm yield ratio = (States per acre payment rate) X (farm avg. yield/state avg. yield)

2.) Payment Calculation = $40.47 X (180/172) = $42.35

* Payment will be made on 83.3% of acres planted (not to exceed base acres) and is subject to a $65,000 payment limit + foregone direct payments.

*Payment will not be made until National Market Year price is set. For the 2009 crop this will not be until August 31st, 2010

This handout is based on information that AgPerspective deems reliable. There is no guarantee of accuracy implied. Please consult your local Farm Service Agency for more details.

SUBMITTED LETTER BY DAVID KUBIK, PRESIDENT, IOWA STATE ASSOCIATION OF ASSESSORS

June 1, 2010

Hon. COLLIN C. PETERSON,
Chairman,
House Committee on Agriculture,
Washington, D.C.

Re: Farm bill field hearings

Dear Congressman Peterson:

County assessors in Iowa have the specialized task of assigning an assessed value to each agricultural parcel for property tax purposes. We gather as many pieces of information as we can, at the lowest cost, to estimate the most accurate productivity value possible.

One of the pieces of information that would aid us in this process is a Geographic Information System (GIS) crop field shape layer that was created by each local FSA office, and was reviewed for accuracy by each landowner. Unfortunately, the 2008 Farm Bill declared the bulk of this GIS layer confidential and will not release it to other governmental entities, including county assessor offices. I am unsure as to why it was declared confidential as it contains no personal information, no ownership information or actual crop production information. The FSA office will release a GIS layer with the shape, but all details regard crop or non-crop designations have been purged from the file, rendering it virtually useless. This information could be recreated from aerial photos and inspections, but the cost to taxpayers would be substantial.

The Iowa State Association of Assessors respectfully requests that the next farm bill require that the unmodified GIS field layer be available to county government officials, thereby saving substantial tax dollars and receiving a more accurate layer than could be reconstructed locally.

We realize that this is a relatively insignificant request when considering the magnitude of the entire farm bill, but making this information available to local government would produce more accurate assessments with no added cost to the local taxpayer.

I thank you for allowing our concerns to be heard and would welcome any questions you or other Committee Members may have regarding this issue.

Sincerely,

DAVID KUBIK,
President,
Iowa State Association of Assessors.

SUBMITTED LETTER FROM MONTE SHAW, EXECUTIVE DIRECTOR, IOWA RENEWABLE FUELS ASSOCIATION

April 29, 2010

Hon. COLLIN C. PETERSON,
Chairman,
House Committee on Agriculture;

Hon. LEONARD BOSWELL,
Chairman,
Subcommittee on General Farm Commodities and Risk Management, House Committee on Agriculture,
Washington, D.C.

Dear Chairman Peterson and Congressman Boswell:

As the largest trade association representing Iowa's ethanol and biodiesel producers, the Iowa Renewable Fuels Association (IRFA) welcomes the House Agriculture Committee to Iowa and thanks both Chairman Peterson and Congressman Boswell for their leadership in convening this important meeting in the epicenter of renewable fuels production.

Without question, the Energy Title of the 2008 Farm Bill made important strides for both Iowa farmers and the Iowa renewable fuels industry. IRFA strongly encourages the Committee to include an Energy Title in the 2012 Farm Bill in order that the full potential of renewable fuels advancements and improvements can be realized. While not a comprehensive list, we appreciate the opportunity to highlight a few issues that IRFA would like to see addressed in the upcoming bill's Energy Title.

Before addressing specific issues in the farm bill, we would like to generally state that IRFA sees significant room for improvement in near and medium term programs that can assist with the eventual success of cellulosic feedstocks for biofuels production. First, we feel that current biorefineries and the residues of traditional crops will play a huge role in the future production of cellulosic biofuels. In Iowa, these feedstocks and biorefineries will likely be the first commercial cellulosic success stories and in all likelihood will dominate the foreseeable cellulosic future. We understand there will be an important role for dedicated energy crops as well, but crop residue feedstocks are expected to be preeminent in the Midwest.

Current renewable fuels plants have the infrastructure in place (rail, storage, admin.) to make them the most attractive places for the adoption of cellulosic ethanol production. Congress needs to keep in mind that once the cellulose is broken down into simple sugars, the "back" ⅔ of a cellulosic biorefinery can be the same as a corn starch ethanol plant.

Even as public and private research perfects the cellulosic conversion process and determines the proper harvest/storage/transportation system for the cellulosic feedstocks, one of the most significant practical hurdles to overcome is the cautious nature of most farmers. Given the challenges of turning a profit in farming, it is to be expected that most farmers aren't going to risk their entire operation on the equipment and other costs associated with cellulosic feedstock collection and storage until the system has been proven both to work efficiently and profitably.

This presents a major challenge for cellulosic biofuel production. When a cellulosic biorefinery is built, the area around the plant likely had no demand for cellulosic material one year, but then, as the plant begins operations, there is a massive demand for cellulosic material literally overnight. If that scenario is allowed to play out, it is difficult to see a smooth transition. Resulting financial pressures on the new cellulosic plants could pose problems. However, there is a model that allows for the rapid but phased-in adoption of cellulosic residue harvesting by farmers while at the same time providing meaningful carbon and energy security benefits to biorefineries.

Repowering Assistance Payments to Eligible Biorefineries

IRFA believes the synergies between existing biorefineries and future cellulosic conversion hold the key. As current plants look to lower costs and reduce their carbon footprints, there is growing interest in "repowering" plants with biomass instead of, or in addition to, natural gas or coal. Initiatives such as the Repowering Assistance Payments to Eligible Biorefineries program have great potential because technology does not require that a plant go "cold turkey" in transitioning to biomass for heat and steam. Several promising technologies allow biomass to work into the equation even as natural gas and coal are still partially utilized. This key fact would allow area farmers to get into the biomass business over time and not require hundreds of farmers to take the plunge at once.

As "repowering" spreads to more plants and biomass replaces a greater percentage of fossil fuels, harvest/storage/transportation (and possibly even on-farm pretreatment) systems can be improved and proven. This will lead to more rapid adoption of the processes by additional farmers. Later, as cellulosic biofuels production is commercially adopted throughout the industry, we will have solved these hurdles instead of the hurdles posing yet another uncertainty for the infant next generation biofuels industry.

For these reasons, IRFA supports the continuation of the Repowering Assistance Payments to Eligible Biorefineries program in the 2012 Farm Bill. In order to be successful, the payments from this program must be robust enough to provide necessary incentives for renewable fuels producers to move forward with biomass repowering projects. However, IRFA believes the rural location and domestic ownership requirements of the program are unnecessary and should be eliminated. Regardless of whether or not a renewable fuels facility is located in an area that meets USDA's definition of "rural," the facility will still be creating demand for agricultural products and services by operating on feedstocks produced by Iowa farmers. Therefore, an "urban" facility's participation in the program will positively impact Iowa agriculture and rural development nearly as much as the participation of a "rural" facility.

Biomass Crop Assistance Program (BCAP)

Further, demand created by repowering must be matched with supply. In order to attract early adopters of cellulosic harvesting, IRFA strongly supports the continuation and enhancement of the Biomass Crop Assistance Program (BCAP) in the 2012 Farm Bill.

IRFA supports the matching payment option for eligible material owners delivering to a biomass conversion facility as proposed in the Notice of Funds Availability, which would provide cost-share payments for collection, harvesting, storage, and transportation costs at a rate to match the biomass sale price, up to $45 per dry ton. IRFA also supports the continued eligibility of Title I crop residue such as corn stover and corn cobs for the matching payment component of the BCAP program. Similarly, IRFA encourages Congress to follow the example of the proposed rule issued by the USDA Commodity Credit Corporation by eliminating the 20 percent payment cap for corn stover, corn cobs, and other Title I crop residue. Finally, we believe the payment period should be extended beyond the two year limitation to a duration long enough to ensure these fragile ventures are able to take firm root. We are hopeful that Iowa farmers will be able to utilize this program in the near future as demand for cellulosic biomass increases.

Advanced Biofuel Payment Program

The 2012 Farm Bill must also encourage the continued production of advanced renewable fuels. For this reason, IRFA supports the extension of the Advanced Biofuel Payment Program, which is crucial to Iowa's biodiesel producers. IRFA encourages Congress to once again follow the example of USDA's proposed rule by removing the rural location requirement for this program (for the same reasons stated above in the section covering the Repowering Assistance program).

We also encourage Congress to adopt an approach that makes program payments based on total gallons produced rather than the "base production" *versus* "incremental production" payment approach currently recommended in USDA's proposed rule. As we are still in the infant stages of the advanced biofuels industry, it will be just as important for this program to help ensure the continued operation of existing facilities as it will be to encourage expanded production or new facilities.

Finally, we believe that the domestic ownership requirements included in the proposed rule should be eliminated. While we certainly agree that locally-owned plants provide additional benefits, even foreign-owned plants who participate in this program will have a significant positive impact on Iowa agriculture and the rural Iowa economy.

Chairman Peterson and Congressman Boswell, IRFA thanks you once again for coming to Iowa to hold this important Committee hearing. We certainly appreciate your passionate leadership and your personal commitment to issues that affect the renewable fuels industry, and we hope we have identified some areas to be addressed in the 2012 Farm Bill that are vital in moving the clean energy economy ahead in the next decade. We stand ready to work with you going forward. Please do not hesitate to ask for any additional information or assistance that we can provide from the Iowa Renewable Fuels Association.

Sincerely,

Monte Shaw

MONTE SHAW,
Executive Director.

SUBMITTED STATEMENT BY KEVIN VIERKANDT, FARMER, ALDEN, IA

To whom it may concern:

Back Ground: The current farm bill has a disaster component that provides Supplemental Revenue Coverage or SURE. This program uses Federal Crop Insurance as a component to calculate an additional payment to producers who meet certain criteria. This program was designed to stabilize farmers' incomes in disaster situations.

Situation: In 2008 many Iowa and other state counties were declared US Secretary of Agriculture disaster counties. Depending on the type and coverage level of crop insurance a producer purchased for Spring Crops in Iowa prior to 3–15–2008, this selection will greatly influence the dollar amount of SURE payment a producer will receive. The other component is the producer's own production or crop yields.

Many producers in these counties and other counties experienced low yields due to excessive moisture and cool temperatures in 2008.

The Problem: It appears there are some unintended consequences in the 2008 Farm Bill involving the SURE program using Federal Crop Insurance as a component in the formula to establish a revenue threshold to trigger SURE payments, based on a producer's proven yield or county expected yield, and 2008's marketing year price and finally the producer's actual yields. In 2008 due to excessive price volatility during the 2008 Crop Insurance selling season from around 12–1–2007 to 3–15–2008 different spring prices were established for various Federal Crop Insurance products. Looking only at Corn (however Soybeans are in a similar situation) for GRP crop insurance spring price was established at $3.75/bu. for MPCI $4.75/bu. and for all revenue based products a price of $5.40/bu. In past and subsequent years from 2008 this level of price variation between insurance products has not existed.

One particular group of producers who purchased 90/100 GRP Federal Crop have been adversely affected due the use of the $3.75/bu Spring price in establishing their SURE revenue trigger guarantees. Producers choose this type of product due to high coverage levels (90%) and were aware of the spring price, but knew if there were low yields in their county they would be paid at a price of $6.25/bu for every bushel the county was short below the guarantee or trigger county yield level. This is all due to GRP products having a 150% multiplier which a producer may take advantage of if they choose a 100% on their price selection. There are many producers in counties in Iowa and other states, that selected 90% coverage and 100% price that were paid $6.25 on every bushel the county was short in 2008 from the established trigger yield. A producer who chooses the 90/60 GRP product would have received a payment of $3.75/bu. for every bushel the county was below its trigger yields.

Some producers who purchased very inexpensive lower levels (exp. 75% RA or CRC revenue products or 75% MPCI federal crop are fairing much better in SURE payments than a producer who purchase the mush higher coverage product GRP 90/100 product. This probably was not intended by the 2008 Farm Bill and the knowledge of exactly what the rules were to establish how the FSA was going administer and pay producers for the 2008 disaster SURE program were not known until the spring of 2010. About 2 years after the 2008 crop insurance buying decision had been made.

The Result: Producers who choose MPCI insurance policy such as a 75% coverage level are being rewarded with higher SURE payments resulting in higher overall farm income *versus* producers who purchased GRP 90% Coverage/100% Price selection Federal Crop Insurance and who experienced the same disaster conditions.

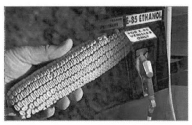
Solution: To Perhaps bring the producer who choose 90/100 GRP up to spring price of $6.25 equaling what they actually were paid by Federal Crop Insurance for the resulting county yield losses below a certain county trigger yield.

Other Solutions: To provide some level of fairness and payment to affected producers who had disaster level revenues in their operations for 2008. Perhaps the RMA and FSA should consider using a harmonized price on all bushel guarantee Federal Crop Insurance products in 2008. Perhaps the spring price of $4.75 could be used on GRP policies as is being used on MPCI Federal Crop Insurance products.

By Kevin Vierkandt: For the good of all affected producers who purchased GRP Federal Crop Insurance in 2008 and who have been negatively impacted by the 2008 Farm Bill's SURE program.

ATTACHMENT

Sure 2008



Kelvin Leibold
Area Farm Business Specialist
Iowa State University Extension
[Redacted]

Materials referenced:

Chad Hart, Iowa State University, [Redacted]

William Edwards, Iowa State University, [Redacted]

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University Extension

Supplemental Revenue Assistance (SURE)

A Permanent Disaster Program

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Supplemental Revenue Assistance (SURE)

- New in the 2008 farm bill
- "Add-on" coverage to crop insurance
- All crops, not individual crops
- Administered by Farm Service Agency
- In place through 2012

Impact of the 2008 Farm Bill

- Both ACRE and SURE provide additional revenue risk protection.
- Prices, yields, timing differ from crop insurance.
- Probably should not influence the crop insurance decision.

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Impact of SURE

- SURE provides 15% added coverage above the crop insurance guarantee (up to 90%).
- All crops must be insured except crops that are less than 5% of total crop value.
- Can use CAT level coverage for minor crops
- Can use NAP coverage for noninsurable crops.
- All crops and all acres per producer are added together to calculate coverage and losses.
- Payment is 60% of loss not paid by insurance.

To be Eligible:

- Land must be in a "disaster" county (U.S. Secretary of Ag designation)
- Or, in a contiguous county
- Or, production loss on all crops on the farm must exceed 50% of expected gross value.
- At least one crop must have a 10% or greater production loss.
- Must have bought crop insurance – was a one time opportunity to "buy in" with a late fee of $100 per crop before May 18th, 2009 to get eligible for 2008 and required to purchase crop insurance the following year.

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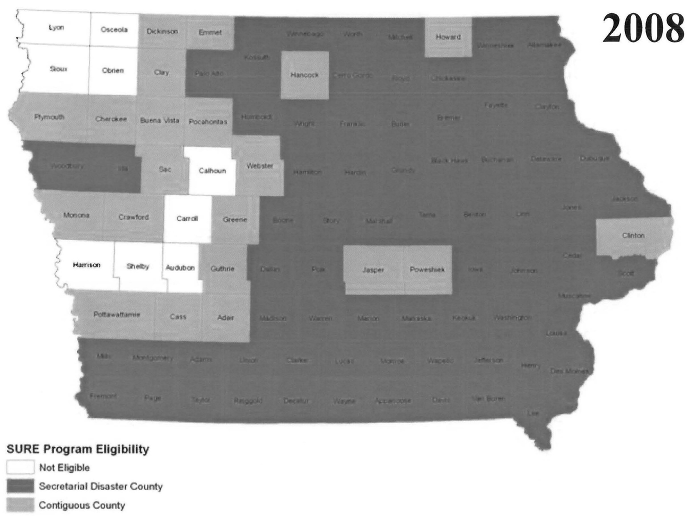
"Secretarial Designated" Disaster Counties



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Corn and Soybean SURE Guarantee Prices (used to calculate guar. rev.)

	MCPI	CRC/RA HP	GRP	GRIP
2008	$4.75	$5.40	$3.75	$5.40
2009	$4.00	$4.04	$4.00	$4.04
2010	$3.90	3.99 est.	$3.55	$3.99 est.

	MCPI	CRC/RA HP	GRP	GRIP
2008	$11.50	$13.36	$8.70	$13.36
2009	$9.90	$8.80	$9.90	$8.80
2010	$9.15	$9.23 est.	$8.55	$9.23 est.

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Example GRP 90/100-60

- Crop insurance - Hardin
  - Insurance yield is 174.7 bu. per acre @ 90% = 157.2 bu. coverage
  - Insurance is 174.7 bu. X $3.75 X 1.5 X (60%-100% factor) = $589 to $983
  - Actual county yield is 154.7 = 2.5 bu. loss
  - 100% factor pmt = $983 X 0.0161 = $15.81 or $15.81/2.5 bu. = $6.25/ bu. of loss
  - 60% factor pmt = $589 X 0.0161 = $9.48 or $9.48/2.5 = ~$3.75/ bu. of loss

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Corn Income per Acre

		Price	$3.96	market
		Yield	150 bu.	
	APH	RA HP	GRP	GRP 100
crop	$ 594	$ 594	$ 594	$ 594
insurance	$ -	$ 127	$ 9	$ 16
SURE	$ 69	$ 67	$ -	$ -
Total rev.	$ 663	$ 788	$ 603	$ 610

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GROUP COVERAGE

COUNTY: **Hardin**

Corn Price $3.75

Corn Loss Scenario

Expected County Yield	174.7	Bushels
Level of Coverage	90%	
Trigger Yield	157.2	Bushels
Max.Cov. Per Acre (1.5 factor)	$983	*174.7 bu x 3.75 x 1.5 factor = $983*
Total acres	1.0	100% interest
	0.0	50% interest
Total Liability	$983	

$983 divided by 157.2 guar bu = $6.25

Actual County Yield	154.7	Bushels

Calculation for payment factor = (Trigger Yield - County Yield) > 0 / Trigger Yield	157.2	minus	154.7	=
	2.5	Divided by	157.2	=
		Payment Factor equals		0.0161

Indemnity payment = Total Liability x Payment Factor	$983	X	0.0161	=

HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

SATURDAY, MAY 1, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Nampa, ID.

The Committee met, pursuant to call, at 1:00 p.m., at the Northwest Nazarene University, Old Science Lecture Hall, Nampa, Idaho, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Minnick, Costa, Herseth Sandlin, and Lucas.

Staff present: Nicole Scott, Pelham Straughn, Robert L. Larew, John Konya, Keith Jones, Lisa Shelton, and Jamie W. Mitchell.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

The CHAIRMAN. This hearing of the Committee on Agriculture to review the U.S. agricultural policy of the 2012 Farm Bill will come to order.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good afternoon, and thank you for joining us for today's House Agriculture Committee hearing. We are glad to be here in Nampa to hear from area farmers and ranchers about the issues facing agriculture and rural communities.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business. But we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture.

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of this busy time of year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. A bill this large and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process that is open, transparent, and bipartisan.

For all those joining us today in the audience, I hope that you will also participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on our Committee website, and we have cards available today with that web address so that everyone has a chance to tell the Committee about what is working and what new ideas we should consider for the next farm bill.

We have a lot of ground to cover, so let's get started.

The CHAIRMAN. First, I want to recognize Mr. Minnick for a welcoming and opening remarks.

OPENING STATEMENT OF HON. WALT MINNICK, A REPRESENTATIVE IN CONGRESS FROM IDAHO

Mr. MINNICK. Thank you very much, Chairman Peterson.

I would like to thank you, and Ranking Member Lucas for coming here, and joining us in Nampa. And thank you for recognizing that Idaho needs to be an important voice as we put together our next 5 year farm program.

It's most appropriate that this Committee choose to have a field hearing in Idaho. As I think everyone in this room recognizes, Idaho is the number one state in the nation in the production of potatoes. I know that's self-evident, because really there is no other state in the nation that produces real potatoes. We hope to——

The CHAIRMAN. Now wait a minute.

Mr. MINNICK. We're also just a little—I think a little less well known, the number three state in the production of dairy products. We're number three in barley. We're in the top five in beef, number seven in wheat. And in a number of smaller specialty crops, particularly, those grown in the lower Treasure Valley. We are a leader—or the leader—among the leaders in the nation.

I want to commend the witnesses who have joined us today, taking time out of a weekend to offer their testimony. It's thoughtful. It's well reasoned. And it's important that we listen carefully to it as we put together the next Federal farm program.

What I hear in talking with farmers and agricultural interests generally, and I think we will hear again today, is a number of recurring themes with respect to Federal farm policy.

One is, that unintentionally, but to a significant extent, Federal farm programs punish efficient producers. And that has deleterious consequences, not just for the producers, but for the country, and its international competitiveness.

Existing farm programs, to a significant extent, also favor certain geographic areas, and disadvantage others, sometimes Idaho, sometimes other places. Existing Federal farm programs also tend to discriminate against large producers, particularly the commodity programs, and certain specialty producers, such as our emerging organic industry. Existing Federal farm programs don't fit these emerging industries very well.

I think you will also hear consistently, I certainly do when I talk to farmers anywhere, that compliance with existing Federal farm programs is far too paper intensive and bureaucratic. And that we need to come up with a farm program, which will allow our efficient producers to spend less time fighting the government, and more time farming their land.

Also, it's evident in this era of runaway record budget deficits, the farm programs on balance are extremely expensive. Some will say, too expensive, and do a relatively poor job of protecting the income of various producers during times of stress. And here in Idaho, we're talking this year about the dairy industry, and more recently about the potato industry, both of which are suffering from low prices.

In addition, we need a couple of things that are beyond the scope of the Agriculture Committee, the Department of Agriculture, but need to be done on a national level in order to make agriculture more successful, more productive.

One is, we must have immigration reform in this country. And it's critically important to a number of the industries we're going to hear from today, who simply do not have access to the labor that they require to put in, process, and manage their production.

The dairy industry, grape industry, apple industry, and various specialties crops, all are suffering, in my belief, from the absent skilled workers that would be available under a more enlightened immigration program.

And finally, the United States is an efficient producer. We need access to foreign markets. If we have a level playing field, we compete very, very well globally with respect to almost every agricultural commodity. So, we need help from the U.S. Government in opening foreign markets, and on leveling the playing field.

Well, these themes are ones that we in the community are sensitive to; we want to hear your views. And as we spend the next couple of hours listening to your testimony, I think there is nothing that we could be doing this afternoon that is more important, not just for agriculture in the country, but for my State of Idaho.

The CHAIRMAN. I thank the gentleman.

And Mr. Minnick is one of the outstanding new Members of our Committee. We're pleased to have him on the Committee. He's made a lot of great contributions already in this short time. And we're pleased to be here in his district.

And we also have with us, Mr. Simpson, who is not a Member of the Committee. And we may have some magic words that I have to read about him, since he's here.

Mr. Simpson is on the Appropriations Committee. And a lot of what we do outside the farm bill and in the farm bill is authorize programs that need appropriations. And Mike has been great to work with us. He and I are good friends. And we work together. And he and Walt are good friends, and work together. And that's important for Idaho.

And those of us in agricultural generally tend not to be partisan. We try to work on a bipartisan basis. Please take some time to make some comments.

STATEMENT OF THE HON. MICHAEL K. SIMPSON, A REPRESENTATIVE IN CONGRESS FROM IDAHO

Mr. SIMPSON. Thank you, Mr. Chairman. I just want to thank you, and Ranking Member Lucas, for being here, and coming to Idaho to hold this hearing.

As you mentioned—this may be the only time you have in whatever state you go to, the entire delegation at the hearing. You are bookended by Idaho's First District down there, and Second District down here. I thank the other Members for coming to Idaho, too. The last time I did this was in the year 2000, I think it was. We went around the country before we wrote the 2002 Farm Bill. And then I went to the Appropriations Committee later on when we wrote the 2008 Farm Bill.

I can tell you how important agriculture is to Idaho. When I was first elected to the Idaho Legislature, and when we would do our revenue projections at the very first of the year, we would just have the price of potatoes, the price of wheat, and the price of silver. And you knew what your revenue was going to be the next year.

Now, Idaho has changed a lot. And the economies have diversified a lot, but agriculture is still the most important industry in this state. So I thank you for coming here today, and look forward to the testimony. I'm mostly here to learn from all the witnesses about what they think needs to be done in the rewrite of the next farm bill.

Thank you, Mr. Chairman.

The CHAIRMAN. And thank you.

And the gentlemen from Idaho, Mr. Simpson, is not a Member of the Committee, but has joined us today. And I've consulted with the Ranking Member, and we are pleased to welcome him in joining the questioning of the witnesses. Those are the magic words.

We're also web-casting. This is the first time that the Committee has web-cast field hearings. And so we have people watching us on the Internet around the country. And we have cards for those of you that aren't able to testify today. It has the address of our website, which is *www.agriculture.house.gov*.

And so anybody that's watching or in the audience can log on to the website, provide your input, suggestions, questions, whatever you have in mind. And that will become part of the record as well. So we encourage everybody that has ideas to get involved, and that's what we're trying to do here.

So, I welcome everybody to this hearing. And as I said, we're glad to be here. We demonstrated in the 2008 Farm Bill, that it's much more than just about the farms. We continue the safety net that protects farmers and ranchers, and provides some certainty that they rely on to stay in business, and to manage their risks.

But we also made historic investments in nutrition, conservation, renewable energy research, fruits and vegetable products and organic agriculture.

While traditional farm programs have a relatively small proportion of the funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land. And without the certainty that the farm programs provide, these farmers would not be able to get the financing in a lot of cases that they need to put the crop in the ground.

I want to welcome our witnesses. And thank them for taking time today out of their busy time of the year to talk to us. The farm bill hearings are the first step of the process to arriving at that farm bill. A bill this large covers so many important issues. It takes a lot of time, and a lot of effort to get it right.

And I'm committed to taking the time, and having a process that's open, transparent, and bipartisan, like we did in writing the 2008 Farm Bill, and I have no doubt that we will accomplish that.

As I said, for those in the audience, we hope that you will participate in the process by going on our website. And we have cards available to you today. So we want to welcome input.

And a lot of times, we get some great ideas from folks that don't necessarily get identified, so we appreciate that.

So we have a lot of ground to cover. Let's get started. I recognize the Ranking Member, my good friend and gentleman from Oklahoma, Mr. Lucas, who will make an opening statement.

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

Mr. LUCAS. Thank you, Mr. Chairman. I want to thank you for calling the hearing, and being so proactive in preparation through the debate we're going to have on future farm policy in the 2012 Farm Bill.

I realize we have an extremely difficult road ahead of us. One thing I do look forward to is listening to our producers. While I get to listen to my folks back home, my producers every time I go to the coffee shop, the feed store, when I do my town meetings across the Third District of Oklahoma, I think it's vitally important to hear from producers from a broad range of places, who grow a broad range of products.

My goal for the next farm bill is quite simple. I want to give producers the tools to help them do what they do best, and that is produce the safest, most abundant food supply in the history of the world.

I think it will be extremely important to hear from you about what's working, and what's not working, and what changes we can make to the farm bill to allow you as producers to work more efficiently.

The 2008 Farm Bill was another investment in the future of rural America. Not only did we provide a safety net for our producers, but we also made substantial investments in conservation and nutrition programs, which are very important during any time of great need for Americans.

But I would say this, and we should always remember, a lot of people fail to remember that 75 percent of the present farm bill spending goes to nutrition programs. That's ¾ of every dollar to the nutrition programs.

In addition to those investments, this Committee, led by Chairman Peterson, accomplished substantial reforms, especially in the realm of payment.

And this is a fact that should not be forgotten by those who seem ready to attack the programs. It is very, very likely that 2012 will be the year the Administration's priorities seem to differ greatly from what I believe my producers priorities are.

There was very little mention by the Administration, in a recent hearing, about safety net conservation programs, and many of the things that my producers consider to be so important. I believe it is imperative that Congress work together with the Administration to come up with workable solutions to the many problems our rural communities face.

But first, this Administration must provide its commitment to production ag. I also want to hear from you today about the impediments that you face when you bring a crop to market. And how we can help alleviate some of those impediments. I have serious concerns of the effects of an overreaching EPA, and what that's going to do to you in rural America in production of agriculture.

Hopefully, with your guidance and input, this Committee can help to reduce some of those impediments.

The CHAIRMAN. All right.

I thank the gentleman, very much. I would also like to recognize that we have the leadership of the USDA of Idaho with us today.

The FSA Director, Mr. Richard Rush. Are you here? There he is.

Mr. RUSH. Yes.

The CHAIRMAN. And the Idaho Wildlife Director, Wally Hedrick. And the Idaho State Conservation, Mr. Jeffrey Brewen.

I want to give them a hand at the great job they do.

[Applause.]

Mr. SIMPSON. Mr. Chairman, I would like to recognize the Director of the Idaho Department of Agriculture, Celia Gould is here today.

[Applause.]

The CHAIRMAN. Thank you. So we'll call our first panel officially to the table. They are lined up and ready to go.

Mr. Fred Brossy, organic wheat, bean, potato and hay producer from Shoshone, Idaho.

Mr. Scott Brown, wheat and barley producer from Soda Springs, Idaho.

Mr. Doug Gross, potato producer, Wilder, Idaho.

Mr. Kelly Henggeler?

Mr. HENGGELER. *Hang-ler.*

The CHAIRMAN. Henggeler, okay, apple, plum, and peach producer and packer from Fruitland, Idaho.

Mr. Galen Lee, sugarbeet, mint, asparagus, hay, grain, corn and cattle producer, from New Plymouth, Idaho.

And Mr. Brian Kernohan, a forester from Coeur d'Alene, Idaho.

So, gentlemen, welcome to the Committee.

And, Mr. Brossy, you are on. We have a 5 minute rule. I think there is a screen there that will tell you that. It will go to yellow at 1 minute. And so your full testimony will be part of the record. So if you could summarize, and try to stay within the 5 minutes, we would appreciate it.

Mr. Brossy.

STATEMENT OF FRED BROSSY, ORGANIC WHEAT, BEAN, POTATO, AND HAY PRODUCER, SHOSHONE, ID

Mr. BROSSY. Thank you. My name is Fred Brossy. My wife and I farm 300 irrigated acres around the Little Wood River west of Shoshone, on the Snake River Plain east of here. We began managing our farm in 1983 for an absentee owner. And in 2005, thanks in part to the Federal Farm and Ranchland Protection Program, through which we placed a conservation easement on the farm, we were able to purchase it.

And I want to put a plug in here for that program, because I think it is one of the great farm bill programs that helps preserve farmland. And it sure helped us.

As you mentioned, I am an organic farmer. I've been certified for 15 years producing hay, wheat, barley, potatoes, dry beans, garden beans, seed, and other vegetable seed crops.

I really appreciate the invitation to address the Committee today. I would like to thank, Chairman Peterson, the Committee Members, and staff for the opportunity to do so.

For those of us in the Intermountain West, farm bill programs often appear focused primarily on the Midwest. And we are pleased, very pleased that you are here in Idaho to hear our concerns.

And I'm also particularly honored to be, as far as I know, the first organic farmer from Idaho to be invited to address the Committee. Thank you very much, Congressman Minnick, for this opportunity.

The 2008 Farm Bill was notable in its recognition of organic agriculture as a viable contributor to the food production in this country. And we appreciate that Congress chose to provide financial assistance to organic farmers and those transitioning towards organic, as well as funding increased enforcement of the USDA organic standards through the NOP.

As well, we are very appreciative of the expanding crop insurance protections that recognize organic. And this is another plus for the 2008 Farm Bill from our perspective. This financial assistance provided a start towards leveling the playing field for those of us who choose to farm organically. But there is obviously more to do.

Another important part of the 2008 Farm Bill were the research budgets that recognized organic. And we feel this is very important for the future of our organic farming methods. Particularly because organic is really a systems approach to farming. And there is plenty more scientific research that we need to be more effective in managing agroecological ecosystems without all the outside influence that traditional agriculture relies on.

As far as the 2012 Farm Bill goes, the EQIP program is something I participated in. And I would like to recognize the organic initiative for the EQIP program. And what I would like to suggest for improvements there, is that we would like to see more of a systems approach to EQIP. Right now, it's a piecemeal approach to addressing specific resource problems. And often in an organic system, really what we would like to see, is a holistic approach to conservation.

And that pertains to the CSP, as well, which I also participated in last fall. That's been an extremely arduous process to get involved in CSP. And yet, I really think it's a great program. And I'm hoping that it will be continued in the new farm bill.

Again, it probably needs to be a little bit less tied to the heartland, and a little bit more tied to smaller farmers with unique crops, other than corn, soybeans, cotton and rice. I think there are some funding concerns about a program like that, and I have a suggestion for that, as far as funding CSP.

It's probably a little bit radical. But those of you who were on the Committee back in the 1980s probably recall in the 1985 Farm Bill, that commodity program payments were linked to highly erodible lands and wetlands qualifications. So lands that didn't meet the criteria for those, were not eligible for Federal farm program funds.

I would suggest that commodity payments be linked to conservation stewardship through some modification to the CSP program. And I think that would go a long way towards improving conservation across our nation, as well as funding commodities produced in a more conservation approach. This would really link food production to conservation stewardship. And it is an appropriate national policy and worthy purpose for a farm bill.

A couple other concerns that I have about the 2012 Farm Bill, is that we need to see more focused on small farm, especially crop farmers. We're being faced with the GAP regulations. And some of those are going to require infrastructure. And I think it would be very helpful if we were to have more access to specialty crop grains. Maybe—I'm not sure exactly how to do that, but that's another thing that we would like to see funded.

And in summation, I would just like to say, organic agriculture provides important benefits to our country besides healthy, nutritious food. If it receives a fair share of research and development resources and conservation funding, organic farming will lead the way towards a much lighter impact on the nation's soils, waters, and wildlife from agriculture. This is a worthwhile goal for national agricultural policy. And we look forward to further cooperation with Congress in this direction.

Thank you very much again for the opportunity to address these important issues.

[The prepared statement of Mr. Brossy follows:]

PREPARED STATEMENT OF FRED BROSSY, ORGANIC WHEAT, BEAN, POTATO, AND HAY PRODUCER, SHOSHONE, ID

My name is Fred Brossy. My wife and I farm 300 irrigated acres along the Little Wood River just west of Shoshone, which lies on the Snake River Plain in South Central Idaho. We began managing our farm in 1983 for an absentee owner, and in 2005, thanks in part to the Federal Farm and Ranchland Protection Program (FRPP), through which we placed a conservation easement on the farm; we were able to purchase the operation. The farm has been certified organic for fifteen years, and produces alfalfa and grass hay, wheat, barley, potatoes, dry beans, garden bean seed, and other vegetable seed crops. I have served two terms on the Wood River Soil and Water Conservation District Board in the past, and am presently Chairman of the Water District 37M Board and a member of the Wood River Land Trust Advisory Board.

I really appreciate the invitation to address the Committee today, and would like to thank Chairman Peterson, Committee Members, and staff for the opportunity to do so. To those of us in the Intermountain West, farm bill programs often appear focused primarily on the midwestern region of the country, and we are pleased that you are here today in Idaho to listen to our concerns. I am particularly honored to be, as far as I know, the first organic farmer from Idaho to be invited to address the Committee. Thank you, Congressman Minnick for this opportunity.

The 2008 Farm Bill was notable in its recognition of organic agriculture as a viable contributor to food production in this country. We appreciate that Congress chose to provide financial assistance to organic farmers and those transitioning towards organic, as well as funding increased enforcement of USDA Organic Standards through the National Organic Program (NOP). This financial assistance provided a start toward leveling the playing field for those of us who choose to farm organically, but there is more to do. Organic agriculture in this country today is not a reversion to past ways of farming, but a melding of modern scientific knowledge of ecological systems and contemporary agronomy, and as such is continuing to evolve as new information comes to light. This approach includes growing, as much as possible, needed fertility on-farm, and maintaining and enhancing natural habitat for pollinator species as well as beneficial insects to help keep crop pests in check. Because agroecological farming systems, unlike those in conventional agriculture, do not rely on a multitude of external inputs, there is not a great deal of incentive for privately funded research for organic agriculture. The 2008 Farm Bill provided USDA funds for this, but due to the inherent long-term nature of this work, continued and increased levels of funding are needed. Ultimately, out-comes of research on agroecological farming systems will move all of agriculture towards greater sustainability. The organic farming community is grateful for the support Congress initiated in 2008, and looks forward to further the process with you in drafting the 2012 Farm Bill.

2012 Farm Bill

Having participated in both the Organic EQIP Program and the Conservation Security Program (CSP) this past year, I have some suggestions that I believe would improve them. To begin with, EQIP is designed to focus on resource concerns, *i.e.,* treating symptoms of apparent problems with soil, water, air, plants, and animals. However, like many similar programs which have preceded it, EQIP ends up being a piecemeal approach rather than holistically addressing agroecosystems. In the years I served on the local Soil and Water Conservation District Board, I came to the conclusion that many NRCS Conservation Practices were mechanical attempts to solve biological problems, *i.e.,* soil erosion is caused more often by lack of biologically active organic matter and living vegetation than tillage. The Organic EQIP Program would better serve organic farmers if it were redesigned to enhance whole systems instead of focus on specific "problems" (this will require not only more scientific research, but a change in culture and attitude within NRCS). It would also help if it were geared toward smaller farmers who may measure their production in square feet rather than acres. This particular situation may be exacerbated by the variation between states (differences between what they cost-share on and how much they pay per practice). Here in Idaho, we are working with the State NRCS Office to make Organic EQIP more available to smaller acreage farmers, but in the 2012 Farm Bill, we would like to see Congress emphasize the value and importance of small-acreage farmers by insuring that they receive financial assistance proportionate to that provided to larger producers.

When the CSP was revised in the 2008 Farm Bill, it was advertised as rewarding stewardship, as well as recognizing the conservation benefits of organic systems. In actual practice, that recognition only opened the door to the program, and in order to receive payment, new conservation practices had to be applied. In some ways this makes sense, but for example, on our farm we already have a Resource Conserving Crop Rotation in place that works well, and so are not eligible for payment for that practice without making modifications that do not really make sense, where another farm would qualify merely by adding another crop to an existing two-crop rotation. While this rewards increasing diversity on the landscape which is good, it also overlooks the conservation benefits of existing systems which was the purported intent of the new CSP. Despite its shortcomings, CSP is a good program and should be continued with some fine tuning in the 2012 Farm Bill. It could and should be made more user-friendly for organic farmers if Congress is serious about rewarding good conservation stewardship. I am aware that funding this type of program is a concern given the current deficit situation, and one possible approach would be to make eligibility for commodity program payments (DCP) tied to CSP qualifiers, similar to the Highly Erodible Lands (HEL) and Wetlands limitations in the 1985 Farm Bill. **This would really link food production to conservation stewardship, an appropriate national policy and worthy purpose for a farm bill.**

Smaller organic farmers often do not have the same access to capital needed for necessary infrastructure that larger growers do. In past farm bills, Congress has funded Specialty Crop Grants which small-scale growers have been eligible to apply for. As food safety concerns continue to grow, and more and more companies require Good Agricultural Practices (GAP) from their growers, the need for on-farm facilities increases regardless of farm size. USDA Grants and low-interest loans are an important source of financing to help smaller producers meet this requirement, and should be more accessible and better funded.

As an organic seed grower, I see a real need for developing plant varieties specifically for organic production systems. One way to facilitate this is to provide funding support to public plant breeding programs, which are fast disappearing in part because their releases are public and not patentable, so do not attract private dollars. Organic growers do not need and cannot use varieties that contain GMO's for herbicide resistance or built-in pesticides. We do need cultivars that are bred with broad-based genetic diversity for increased resilience in a variety of agroecosystems. This will become even more important in the future as all farmers learn to adapt to using less fossil fuel. As the seed industry continues to consolidate with fewer and ever-larger players, public support for classical breeding programs is more important than ever, and should be recognized by Congress with policy and financial help.

Organic agriculture provides important benefits to our country besides healthy nutritious food. If it receives a fair share of research and development resources and conservation funding, organic farming will lead the way toward a much lighter impact on the nation's soil, waters and wildlife from agriculture. This is a worthwhile goal for national agricultural policy, and we look forward to further cooperation with Congress in this direction.

Thank you again for the opportunity to address these important issues.

The CHAIRMAN. Thank you very much for that testimony.

And, Mr. Brown, welcome to the Committee. Just to remind Members and witnesses, apparently you have to get these microphones pretty close to make sure that everybody can hear you.

STATEMENT OF SCOTT W. BROWN, WHEAT AND BARLEY PRODUCER, SODA SPRINGS, ID

Mr. BROWN. Mr. Chairman, Ranking Member Lucas, and Members of the Committee, welcome to the great State of Idaho.

On behalf of the association I represent, thank you for allowing me the opportunity to come today and discuss and express my views regarding the 2012 Farm Bill and the future of U.S. ag policy.

Idaho has a long and proud history of grain production. Idaho's wheat farmers harvest an average of 99 million bushels spread all over six classes of wheat. Idaho ranks seventh in the top seven states in wheat production.

Although our state is normally recognized for our famous potatoes, Idaho's barley producers are a top supplier to the world's brewing industry. Seventy-five percent of our 48 million bushels of barley is malted by brewers from Mexico to Canada and beyond. Currently Idaho ranks second in production only to the State of North Dakota in the United States.

As a fourth generation farmer, my father, my son, my son-in-law, and I, farm over 8,000 acres of wheat and barley in southeastern Idaho.

Mr. Chairman, and Members of the Committee, as President of the Idaho's Grain Producers Association, I will speak briefly to specific policy and program areas identified as priorities by our growers.

One concern we have is the farm bill baseline. IGPA is well aware and concerned with the real possibility of a severely constrained budget baseline within which to develop a new farm bill.

Like you, we believe that innovation, creativity, cooperation, and commonsense will overcome this trying obstacle. As the picture becomes clear with the baseline challenge, we ask that this Committee and your staff work closely with those of us on the ground, who will ultimately bear the brunt of the funding issue.

And as far as Federal farm programs go, the Direct and Counter-Cyclical Payment program, and the marketing loan programs are widely used by our producers.

And in particular, the direct payment program is very popular with Idaho grain farmers. In many cases, the direct payment program has meant the difference between producers abandoning their farm, or giving producers another chance with their bankers to stay in business.

Direct payments serve as a stimulus program for Idaho's many rural families and communities. The direct payment translates into farmers purchasing equipment, seed, chemicals, parts, and fuel from local suppliers and dealers. Ultimately, this means jobs for our rural communities.

The IGPA is aware that the Direct Payment has a big red target painted on it by the global community, and by others who are concerned with trade distortion, and waste, fraud, and abuse of the Federal taxpayer dollar.

As the Committee moves forward with crafting new farm bill legislation, IGPA asks that careful consideration be given to the impact the direct payment has on farmers, their families, and their communities. Your decisions could have a profound ripple effect on the rural fabric of our country.

The ACRE and SURE programs, although relatively new, are catching on in our state, and show some real promise. While the majority of the Idaho grain farmers opted for the traditional support program over the ACRE program in 2008, we have heard very favorable reports from farmers who did sign up for ACRE.

We look forward to working with the Committee on more revenue options and improvements to the disaster program like SURE. We currently have a situation in north central Idaho where significant SURE dollars might be—they're within reach, but they might be not obtainable due to an administrative oversight. Problems like this need to be worked out.

IGPA also supports the continuation of an improvement to Federal crop insurance programs. As a dryland farmer growing wheat and barley at an elevation of over 6,000 feet, I can attest to how critical and effective the crop insurance program is.

In 2009, 78 percent of all of our wheat acres were insured at an estimated value of $400 million; 63 percent of our barley acres were insured in 2009.

We are excited about the new COMBO insurance product, and the new insurance for specialty types of barley. Both of these will help provide our producers with the diversity in their production operations. And they will be able to remain viable.

Our growers would like to see crop insurance coverage be more robust, specifically, crop insurance should be offered at higher levels, and they should include indemnities for quality loss issues. We ask that the Committee continue its diligence for these proceedings, and carefully consider the impact on the growers.

Conservation: IGPA recognizes the popularity and increased focus on agriculture conservation practices and programs, since the passage of the 2002 Farm Bill. IGPA supports the wide use of CRP as the natural resource tool on environmentally sensitive lands.

Although the CSP has proven as a significant addition, it's fairly new for Idaho growers. We support the CSP program, and producers seem excited to join that program.

Mr. Chairman, and Members of the Committee, there are many more critical areas affecting Idaho's wheat and barley producers. Estate tax policy, rail transportation, immigration, renewable energy production, and the need to ratify pending free trade agreements are among these critical issues.

We look forward to engaging our Idaho Delegation in the future and this Committee on these issues. But today we're grateful for the opportunity to gather here to discuss how Congress, the Administration, and stakeholders can craft a Federal farm policy that is innovative, responsible, and sustains a vibrant farm sector to ensure that production agriculture can continue to provide a safe, abundant, and affordable supply of food for U.S. consumers.

Thank you.

[The prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF SCOTT W. BROWN, WHEAT AND BARLEY PRODUCER, SODA SPRINGS, ID

Mr. Chairman, Rep. Minnick and other Members of the Committee, welcome to the great State of Idaho. On behalf of the association I represent, thank you for allowing me the opportunity to appear before you today to discuss and express my views regarding the 2012 Farm Bill and the future of U.S. farm policy.

The Idaho Grain Producers Association is proudly celebrating fifty-three years of service advocating for Idaho's wheat and barley producers. The IGPA currently represents over 700 farm families across the state, with formal grassroots leaders in twenty-five of Idaho's forty-four counties.

Idaho has a long and proud history of grain production which has now earned us a second-place and top seven ranking in the production of our nation's barley and wheat crops respectively.

Idaho's wheat producers harvest an average of nearly 99 million bushels spread over all six different classes. Although our state is globally recognized for our famous potatoes, Idaho barley producers are a top supplier to the world's brewing industry. Seventy-five percent of our 48 million bushels of barley is malted by brewers from Mexico to Canada and beyond. Currently, Idaho barley production is second only to North Dakota.

As a fourth generation producer, I, my father, my son, and other family members farm over eight thousand acres of primarily wheat and barley in southeastern Idaho. In my spare time I "moonlight" as a Certified Public Accountant which I believe gives me a unique perspective on crop production and the impact of Federal farm policy on my farm operation.

Federal farm policy and its impact on rural American is the focus of the Committee's field hearing today. Mr. Chairman and Members of the Committee, as President of the Idaho Grain Producers Association I will briefly speak to specific policy and program areas identified as priorities by our grower-members.

Farm Support Programs

Farm Bill Baseline

The IGPA is well aware and concerned with the real possibility of a severely constrained budget baseline for future Federal farm programs. The case could be made that agriculture is a victim of its own success. Our country's farm bill policy coupled with our efficient and innovative farmers has minimized safety net expenditures thus chipped away at the baseline for these programs.

However, now more than ever, agriculture producers face unprecedented challenges both in the volatile global marketplace and in the regulatory arena. If it is not a priority that the U.S. sustain a domestic agriculture industry that provides a safe, abundant, and cheap supply of food, then so be it.

I submit that American's *do* enjoy cheap and domestically produced food—but the majority of our consumers are disconnected and uneducated about how food gets to the store shelf. We in agriculture are partly to blame for this situation. If agriculture told their story more effectively, we might have more support for Federal farm programs which ensure over 300 million American citizens never miss a meal.

Federal Farm Programs

Thanks to the excellent management, service and expertise of our local Farm Service Agency, and others, Idaho's grain producers participate widely in Federal farm support programs.

The Direct and Counter-Cyclical Payment (DCP) program and marketing loan programs are widely utilized by our producers. Newer farm programs like ACRE and SURE are catching on and showing some real promise in our state. However, the majority of producers have taken a cautious approach to these new programs. The IGPA supported both programs as options in the 2008 Farm Bill, and we have heard positive comments from producers who did sign up.

During the 2008 Farm Bill debate, farm support programs faced unprecedented pressure to be reformed, reduced, or completed eliminated. The IGPA and its national affiliates were primarily focused on, and thanks to the Committee's fantastic efforts, successful in maintaining the Direct Payment.

The DP has been and is very popular with Idaho's grain farmers. In many cases, the DP has meant the difference between producers abandoning the farm or giving producers another chance with their banks to stay in business.

Aside from its crucial benefit to grain producers, the DP has served as a "stimulus program" for Idaho's many rural families and communities. DP's translate into farmers purchasing equipment, seed, chemicals, parts, and fuel from local dealers and suppliers. Ultimately, that means jobs which rural areas desperately need to exist.

I farm in Caribou County in southeastern Idaho. There are roughly seven, 300 citizens in our county and the vast majority are directly or indirectly involved in agriculture. Our county FSA director told me that our county receives $3 million annually in Direct Payments. There is no doubt in my mind that farm programs are integral to keeping the communities in our county from making Idaho's list of ghost towns.

The IGPA is aware that the Direct Payment has a big red target painted on it by the global community and others concerned with trade distortion and waste, fraud, and abuse of Federal taxpayer dollars.

As the Committee moves ahead with crafting new farm bill legislation, the IGPA asks that careful consideration be given to the Direct Payment program. It is a simple, minimally trade-distorting mechanism that has a profound ripple effect on the rural fabric of our country.

We are also aware of the Chairman's efforts to look at revenue programs, like ACRE and SURE and others, as an innovative and effective approach to farm support. While the majority of Idaho grain farmers opted for the traditional support program over ACRE, we have heard very favorable reports from farmers who signed up for ACRE.

Program Administration

The IGPA plans to monitor and receive input from producers on these new programs. One common theme our Association continues to sense from rank-and-file Idaho farmers is strong frustration with the process and requirements of participation in Federal farm programs.

Farmers tell us they are overwhelmed with the paperwork they must sign. They are frustrated with the ever-changing rules and regulations associated with the programs they do participate in. In addition, many are simply confused by what they perceive as duplicity in several program areas.

We know of several producers who have followed through, and won, appeals through the National Appeals Division (NAD) as a result of the issues I outlined. While these farm programs are meant to assist producers, the process provides a strong disincentive to participate. I would urge this Committee to explore these issues to its fullest extent.

Crop Insurance

The Idaho Grain Producers Association supports the continuation and improvements of Federal risk management programs including crop insurance. We feel fortunate for the fantastic relationship we enjoy with our regional Risk Management Agency office based in Spokane, Washington. The technical and consultative support we receive from these folks is something we greatly appreciate.

Idaho, with its varied climatic and production-specific regions, maintains robust participation in grain crop insurance programs. As a dryland grain producer farming 8,500 acres of grain at an elevation of 6,000 feet above sea level, I can attest to how crucial an effective crop insurance program is.

In 2009, nearly a million acres (or 78 percent) of all wheat-planted acres were insured at a 74 percent coverage level. Wheat insured in 2009 carried an estimated value over $400 million: 63 percent, or over 335,000 acres, planted to barley were insured in 2009.

Idaho wheat and barley production is found on dryland and irrigated acres. The consistency and quality of irrigated Idaho barley is a big reason why the world's biggest brewers have a strong presence in our state. Although irrigation helps alleviate some plant stress, crop insurance is still vital to production.

The IGPA and the Idaho Barley Commission have lead a national effort to bolster malt barley crop insurance to more accurately reflect the higher value and unique quality of the crop. Thanks to the work of many, the RMA recently unveiled a new insurance product for specialty types of barley. We hope this will diversify and increase Idaho's barley production.

Another significant improvement to the Federal crop insurance program is the work being done, called the COMBO project, which combines several existing crop insurance programs and streamlines the information and paperwork related to the program. The IGPA is excited for the roll-out in this program in Crop Year 2011.

In recent years, Idaho wheat farmers were subject to weather events that caused severe quality problems across the state. Upon further investigation, we found that crop insurance indemnities for wheat quality problems were extremely inadequate. After raising this issue to RMA, FSA, and in collaboration with the National Association of Wheat Growers, we are close to providing producers with coverage for quality losses.

Looking to the future of crop insurance, we can build on these successes. But our first step must not be backwards. The ongoing Standard Renegotiation Agreement (SRA) negotiations are a cause for concern for our growers.

We understand and agree with the Administration's desire to find budget savings whenever and wherever possible. However, the USDA's draft SRA proposal seeking $8 billion in cuts over 10 years to Federal crop insurance programs has the IGPA very concerned.

A reduction of this magnitude could significantly reduce the accessibility, competitiveness, and quality of crop insurance and thus negatively impact grain producers. Needless to say, the impact to the farm bill baseline by such a reduction would be another major hurdle in crafting effective and innovative farm policy legislation.

The IGPA understands that negotiations between insurance providers and the RMA are ongoing. We certainly support a mutually agreeable and expedient outcome. We ask that the Committee continue its vigilance of these proceedings and carefully consider the impact on producers.

Conservation

Idaho's unique topography has allowed grain farmers to lead in direct seeding technology, implementing practices that reduce soil and wind erosion, and methods to maintain water quality.

The IGPA recognizes the popularity and increased focus on agriculture conservation practices and programs since the passage of the 2002 Farm Bill. Three programs, the Conservation Reserve Program (CRP), Conservation Stewardship Program (CSP), and the Environmental Quality Incentives Program (EQIP) are the most prominent in the grain farming areas of Idaho.

Conservation Reserve Program

The IGPA supports the wise use of the CRP as natural resource tools on environmentally sensitive land. Our growers support the ability to employ Best Management Practices on CRP lands to control pests, weeds, and soil quality.

While we recognize the concerns of the environmental community regarding emergency use of CRP lands for haying and grazing, we support a more reasonable policy to allow early haying and grazing of CRP land in a responsible manner.

A high volume of CRP acres in Idaho will be due for re-enrollment, termination, or extension by September 2010. The decisions made and the ultimate outcome could significantly change the environment and culture of certain areas in Idaho. The IGPA would request that the Committee work closely with the USDA–FSA and NRCS and local leaders as this deadline approaches.

Conservation Stewardship Program

The CSP has proven a significant addition to the management practices of Idaho's grain farmers. For example, in Idaho's northern region grain production occurs on rolling hills in volatile weather conditions. Farm land in this region is particularly susceptible to the threat of soil and water erosion.

With the support from the CSP, producers have adopted or continued management practices and technologies that mitigate or eliminate erosion threats. The evolution since 2002 of the CSP is welcomed by the IGPA.

The change from a watershed-by-watershed approach to a competitive application process for the CSP has made the program more accessible to all growers and thus more equitable. In addition, the IGPA supports the CSP as a voluntary, consistent, and fully funded stand alone program.

The IGPA continues to hear concerns and complaints from grain producers regarding administration of the CSP by the NRCS. Growers have experienced delays in timely contract delivery and payment which has caused disruption in farm budgeting.

The IGPA recognizes the NRCS's traditional role as a technical provider of conservation practices. We respectfully request that any new Federal farm policy consider shifting the administrative functions of the CSP to the USDA FSA, which has expertise in this area.

Environmental Quality Incentives Program

The EQIP program is very popular in Idaho, particularly on irrigated ground in southern Idaho. Producers in this region have utilized this cost-share program to install irrigation pivots and other technologies to conserve water.

Idaho is home to several endangered species and the program has also assisted producers in establishing critical wildlife habitat while maintaining their farming operation.

The IGPA supports the continuation of this program in future Federal farm legislation. However, we are concerned about the recent activity of the Senate Agriculture Committee to shift $2 billion in EQIP funding away from the program to boost child nutrition programs.

As we understand, there currently exists a backlog of requests for EQIP-related projects. Reducing this valuable program by $2 billion seems incongruent with the call for more conservation practices in production agriculture. We urge the Committee to find alternative areas in which to assist the nutritional programs administered by the USDA.

Mr. Chairman and Members of the Committee, there are many more critical areas affecting Idaho's wheat and barley farmers. Estate tax policy, rail transportation, renewable energy production, environmental regulation and the necessity of ratifying pending Free Trade Agreements are among the many items.

The IGPA looks forward to engaging our Idaho Congressional Delegation and the Committee on these issues at the next opportunity. Today, we are all here to discuss how Congress, the Administration, and stakeholders can craft a Federal farm policy that is innovative, efficient, and maintains a vibrant farm sector.

As one of the nation's top producers of wheat and barley, the IGPA is honored to represent 700 farm families before this Committee. We look forward to working with you, your staff, and the rest of our Idaho Congressional Delegates to ensure that production agriculture can continue to provide a safe, abundant, and affordable supply of food for U.S. consumers.

I would be happy to respond to any questions that Members of the Committee might have.

Thank you.

The CHAIRMAN. Thank you, Mr. Brown, for that testimony.

Mr. Gross, welcome to the Committee.

STATEMENT OF DOUG GROSS, POTATO PRODUCER, WILDER, ID

Mr. GROSS. Thank you, Mr. Chairman. Thank you for the opportunity to provide input on the key issues for the 2012 Farm Bill from the perspective of a specialty crop producer and potato grower. My name is Doug Gross. I grow fresh market and processing potatoes, and small grains on a 1,300 acre family farm in Wilder, Idaho. I've been actively involved in the potato industry for 35 years.

The 2008 Farm Bill included historic changes in Federal farm policy as it relates to specialty crops. For the first time, our nation's farm policy included programs that acknowledged the need of specialty crop growers. Such a change was long overdue, since it is now commonly recognized that specialty crops represent nearly 50 percent of the total farm gate revenue of all ag products produced in the United States.

During the consideration of the 2008 Farm Bill, potato growers were directly involved in developing the policy options that became part of the legislation. As active members of the Specialty Crop Alliance, potato growers worked actively to support policies that maintain market based decision making for specialty crops, and provided Federal support for increasing the competitiveness of specialty crop producers.

Members of the SCFBA support Federal farm policy for specialty crops that is not based on any direct income support for individual farmers, but that provides support for the industry's efforts to manage pests of concern, conduct research relevant to growers, expand export markets, and increase the consumption of fruits and vegetables. The Federal commitment to those goals has made a very positive difference during the tenure of the 2008 Farm Bill.

At this time, I would like to provide the Committee with a broad overview of some of my thoughts on key items that are being watched most closely by potato growers in the 2008 bill.

Number one is planting flexibility restrictions. It's clear from the price debacle that we're facing today in Idaho, and in the nation in potatoes, that small increases in supply can have devastating impacts on grower returns.

It continues to be clear that it is disruptive to markets when acres that receive direct or other Federal payments are allowed to be planted in non-subsidized crops. The allowance made for individual states to plant fruits and vegetables on program crop acres, provided ample opportunity for growers to meet the demand for processing fruits and vegetables.

I believe that the potato industry would strongly oppose any additional relaxation of the current planting restrictions. It simply sends the wrong market signals to the producer.

Specialty Crop Block Grants: The enhanced funding for the Specialty Crop Block Grants has been positively utilized by growers at the state level. As a result of the local decision-making on these grants, it offers state departments of agriculture the opportunity to address the needs of local growers. While in some states, there are undoubtedly ways to improve the operation of the granting process to ensure that the funding goes to new, innovative grower requested and developed programs. It appears that the block grant program is meeting the goals intended by Congress.

The introduction of exotic pests and disease can have devastating effects on grower's ability to produce and sell a crop. The funding provided to APHIS in the 2008 Farm Bill to take a more comprehensive approach to pest exclusion and management provides the opportunity to develop a more effective approach to address, quarantine, and eliminate pests.

The program encourages a more effective partnership between APHIS and the state departments of agriculture on pests and disease issues. I think the time has come to look at developing some type of an insurance program, similar to what exists in the livestock industry, to help when federally quarantined pests are discovered on the farms.

Research continues to be the key to both crop production and consumer preference related issues. The Specialty Crop Research Initiative provides the opportunity for specialty crop researchers to access significant multi-year funding for multi-disciplinary, multi-institutional research projects.

The potato industry has worked to encourage the multi-state collaborations envisioned by this program. Competition for the grants is intense. Grower input prior to proposal submission is a critical component of identifying the relevant projects.

Potential exports of specialty crops are impacted by both phytosanitary and structural barriers to trade. The current farm bill provides funding to address phytosanitary barriers through the Technical Assistance for Specialty Crop program.

The TASC program has a successful track record in providing funding for projects to remove phytosanitary barriers to trade. The increased funding provided by the 2008 Farm Bill for TASC is important. Additional education is necessary to familiarize the industry with the type of projects that can be completed with the help of the TASC monies.

The potato industry has successfully used MAP funds to develop new markets for fresh and processed potatoes. The 2008 Farm Bill provided $200 million in funding for MAP. The potato industry continues to support this level of funding.

In short, the 2008 Farm Bill provides a solid foundation upon which further progress can be made. We thank the Chairman and Committee for past efforts, and look forward to developing the 2012 Farm Bill together.

[The prepared statement of Mr. Gross follows:]

PREPARED STATEMENT OF DOUG GROSS, POTATO PRODUCER, WILDER, ID

Thank you for the opportunity to provide input on the key issues for the 2012 Farm Bill from the perspective of a specialty crop producer and potato grower. My name is Doug Gross and I grow fresh market and processing potatoes and small grains on a 1,300 acre family farm near Wilder, Idaho. I have been actively involved in the potato industry for more than 35 years.

The 2008 Farm Bill included historic changes in Federal farm policy as it relates to specialty crops. For the first time our nation's farm policy included programs that acknowledged the needs of specialty crop growers. Such a change was long overdue since it now commonly recognized that specialty crops represent nearly 50 percent of the total farm gate value of all agricultural products produced in the United States.

During the consideration of the 2008 Farm Bill potato growers were directly involved in developing the policy options that became part of the legislation. As active members of the Specialty Crop Farm Bill Alliance (SCFBA) potato growers worked actively to support policies that maintained market based decision making for specialty crops and provided Federal support for increasing the competitiveness of specialty crop producers.

Members of the SCFBA support Federal farm policy for specialty crops that is not based on any direct income support for individual farmers but that provides support for the industry's efforts to exclude and manage pests of concern, conduct research relevant to growers, expand export markets and increase the consumption of fruits and vegetables. The Federal commitment to those goals has made a very positive difference during the tenure of the 2008 Farm Bill.

Currently the SCFBA is reviewing the existing programs relevant to specialty crops in the 2008 Farm Bill to document those successes and to identify possible avenues for improvement. The potato industry will be actively involved in this effort. We look forward to the opportunity to provide the results of that work to the House Agriculture Committee to assist in their deliberations.

At this time I would like to provide the Committee with a broad overview of my thoughts on a few of the key items that are being watched most closely by potato growers in the 2008 Farm Bill:

Planting Flexibility Restrictions

It is clearly evident from the price debacle facing potato growers this year that small increases in supply can have devastating impacts on grower returns. It continues to be clear that it is disruptive to markets when acres that receive direct or other Federal payments are allowed to plant non subsidized crops. The allowances made for individual states to plant fruits and vegetables on program crop acres provided ample opportunity for growers to meet the demand for processing fruits and vegetables. I believe that the potato industry would strongly oppose any additional relaxation of the current planting restrictions.

Specialty Crop Block Grants

The enhanced funding for the Specialty Crop Block Grants has been positively utilized by growers at the state level. As a result of the local decision making on these grants it offers state departments of agriculture the opportunity to more directly address the needs of local grower groups. While in some states there are undoubtedly ways to improve the operation of the granting process to ensure that funding goes to new, innovative grower requested and developed programs it appears that the block grant program is meeting the goals established by Congress.

Pest and Disease Management

The introduction of an exotic pest or disease can have devastating effects on a grower's ability to produce and sell his crop. The funding provided to APHIS in the 2008 Farm Bill to take a more comprehensive approach to pest exclusion and management provides the opportunity to develop a more effective approach to address quarantine and other pests. The program encourages a more effective partnership between APHIS and the state departments of agriculture on pest and disease issues. The time has come to look at developing an insurance program for growers, similar to what exists in the livestock industry, to help when federally quarantined pests are discovered on their farms.

Specialty Crop Research Initiative

Research continues to be the key to both crop production and consumer preference related issues. The Specialty Crop Research Initiative (SCRI) provides the opportunity for specialty crop researchers to access significant multiyear funding for multidisciplinary, multi-institutional research projects. The potato industry has worked to encourage the multi-state collaborations envisioned by the program. Competition for the grants is intense. Grower input prior to proposal submission is a critical component of identifying relevant projects.

Over Coming Phytosanitary Barriers to Trade

Potential exports of specialty crops are impacted by both phytosanitary and structural barriers to trade. The current farm bill provides funding to address the phytosanitary barriers through the Technical Assistance for Specialty Crop (TASC) program. The TASC program has a successful track record in providing funding for projects to remove phytosanitary barriers to trade. The increased funding provided by the 2008 Farm Bill for TASC is important. Additional education is necessary to familiarize the industry with the type of projects that can be completed with this funding.

Market Access Funding

The potato industry has successfully used Market Access Program (MAP) Funds to develop new markets for fresh and processed potatoes. The 2008 Farm Bill provides $200 million in funding for MAP. The potato industry continues to support this level of funding for MAP. There are many more positive aspects of the 2008 Farm Bill. In short, it provides a solid foundation upon which further progress can be made. We thank the Chairman and Committee for their past efforts and look forward to working together in developing the 2012 Farm Bill.

The CHAIRMAN. Thank you, Mr. Gross, for that testimony.

Mr. Henggeler, welcome to the Committee.

STATEMENT OF KELLY R. HENGGELER, APPLE, PLUM, AND PEACH PRODUCER AND PACKER, FRUITLAND, ID

Mr. HENGGELER. Thank you. Good afternoon, Chairman Peterson, Ranking Member Lucas, my Congressman Minnick, Idaho Congressman Simpson, and distinguished Members of the Committee. My name is Kelly Henggeler, and I am a fourth-generation grower from Fruitland, Idaho.

Together with my family, I own and manage a fresh fruit company in which we store, package, and market apples, plums, peaches, and prunes. We also operate approximately 700 acres of orchards growing apples, plums, peaches, and cherries.

Thank you, Chairman Peterson, for holding this hearing, and coming to Idaho to hear about what the farm bill means to us. As past Chairman of the U.S. Apple Association, and a current board member of that organization, I keep in close contact with apple industry leaders from coast to coast. I know firsthand that the challenges and opportunities facing the Idaho industry are not unlike those experienced by growers in the other 35 apple producing states.

I want to thank you for your support of specialty crops in the 2008 Farm Bill. Specialty crops in Idaho represent 23 out of the top 26 commodities in terms of farm gate receipts. Nationally specialty crops compose nearly 50 percent of the farm gate value of U.S. agriculture, and should remain a significant part of the next farm bill.

Historically, apples and the produce industry have never relied upon direct payment programs. Like a majority of these growers, I don't believe that would be in the best interest of my business for our industry. Instead we strongly advocate for programs to help grow demand and consumption of our products, and build long-term competitiveness and sustainability for our industry.

Thank you for recognizing this need in the current farm bill. And I strongly urge you to continue its important specialty crop programs.

I would like to highlight some specific provisions within the current farm bill that are important to me as an apple grower and packer.

The Specialty Crop Block Grant Program focuses on regional and local priorities for specialty crop producers. These block grants fund important projects, such as improved food safety, enhanced market opportunities, and research aimed at specific local industry needs.

One example is the Idaho Preferred Program that was established with the initial Specialty Crop Block Grant funds, and provides an opportunity for local producers to collaborate with retail partners in providing Idaho products in Idaho stores.

Export programs are extremely important for the apple industry, with about 25 percent of our crops sold overseas. The Market Access Program, referred to as MAP, provides critical funding, more than matched by industry contributions, to operate programs which promote American apple consumption around the world.

The New Specialty Crop Research Initiative is enabling the apple industry across the country to strategically focus on critical research needs. One example of this is the development of new integrated pests management practices that enhance workplace safety and reduce environmental impact.

Now, more children are enjoying nutritious fruits and vegetables, including apples in a snack program being expanded to all 50 states. Apples have been an extremely popular item in this program, which promotes lifelong healthy eating habits. Funding should be maintained and expanded from this program.

These specialty crop programs are important, because they improve our short and long term competitiveness and strengthen market opportunities. They can only play the role Congress intended if our apples and other specialty crops are reliably picked each fall.

The American Apple Industry faces a chronic labor uncertainty as our borders continue to tighten and internal immigration enforcement increases. The 2010 apple harvest is quickly approaching, and though the crop appears outstanding in many areas of the country, most growers are uncertain if they will have enough workers to pick it.

Securing legal and reliable labor is a critical component to our future. We lack sufficient legal labor to prune, pick, pack, and process our crop. Without it, we could see the decline in the outsourcing of the domestic apple industry. Despite our best recruitment efforts, it is difficult, if not often impossible, to find local workers.

For these reasons, I strongly encourage you to enact the AgJOBS bill to reform the antiquated H–2A guest worker program. Without it, I feel there will be fewer and fewer American produced apples, and increased imports. Failure to act means giving away our industry and our markets to foreign competitors.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Henggeler follows:]

PREPARED STATEMENT OF KELLY R. HENGGELER, APPLE, PLUM, AND PEACH PRODUCER AND PACKER, FRUITLAND, ID

Good afternoon, Chairman Peterson, Ranking Member Lucas, my Congressman Minnick and distinguished Members of the Committee. My name is Kelly Henggeler, and I am a third-generation fruit packer and fourth generation grower in Fruitland, Idaho.

Together with my family, I own and operate a fresh fruit packing operation in which we store, package and market apples, plums, peaches and prunes. Henggeler Packing Company, Inc. was started in 1943 and we employee over 75 people during the packing season. We also operate approximately 700 acres of orchards and employ another 100 people during labor intensive times of the year including harvest. Besides packaging and marketing our own fruit, we pack for over 20 growers located in three adjacent counties.

Thank you, Chairman Peterson for holding this hearing and coming to Idaho to hear about what the farm bill means to us. Rewriting the bill in 2012 provides a real opportunity to assess the current needs of ALL of American agriculture, and look ahead. As past Chairman of the U.S. Apple Association and a current board member of that organization, I keep in close contact with apple industry leaders from coast to coast. I know firsthand that the challenges and opportunities facing the Idaho industry are not unlike those experienced by growers in Michigan, New York, California, Washington, New England and Virginia, to name but a few examples.

First, I want to thank you for your support of specialty crops in the 2008 Farm Bill. As members of the Specialty Crop Farm Bill Alliance, apple growers and packers worked hard in support of programs included in the bill which are enhancing the competitiveness and efficiency of our industry and the opportunity for a fair return to the land. In Idaho, specialty crops represent 23 out of the top 26 commodities in terms of farm gate receipts. Nationally, specialty crops compose nearly 50 percent of the farm gate value of U.S. agriculture and should remain a significant part of the next farm bill.

It's an exciting time to be in the apple business. Demand is growing, especially in the export arena. At home, Americans are seeking fruits, such as apples, which represent good value, good nutrition, and on-the-go convenience in this time of recession. USDA's *Dietary Guidelines* call on Americans to double their servings of fruits and vegetables. Unfortunately, obesity is an even bigger problem today among Americans than it was when the current farm bill was written. I believe apples are part of the solution for a healthier nation.

A number of exciting new health research studies have found possible links between the consumption of apples and apple products with a lower risk of breast cancer, heart disease, asthma, Alzheimer's disease and other serious health issues. New great-tasting varieties and new products, like convenient, bagged fresh-sliced apples, are leading the way to expanding consumer demand and apple consumption.

At the same time, an unsure labor supply, high energy costs, world-wide competition, serious pressure from insect and plant diseases, and ever-increasing regulations present unprecedented challenges for our industry.

Historically, apples and the produce industry have never relied upon direct payment programs to support grower income or market prices. Like a majority of these growers, I don't believe that would be in the best interest of my business or our industry. Instead, we strongly advocate programs to help grow demand and consumption of our products, and build long-term competitiveness and sustainability for our industry. Thank you for recognizing this need in the current farm bill and I strongly urge you to continue its important specialty crop programs.

Currently specialty crop producers, including apple growers, are reviewing the successes of the 2008 Farm Bill and developing recommendations for further improvements. The Specialty Crop Farm Bill Alliance will look forward to sharing them with you, as will I, an Alliance member.

I would like to highlight some specific provisions within the current farm bill that are important to me as an apple grower and packer.

Specialty Crop Block Grants

The **Specialty Crop Block Grant Program** focuses on regional and local priorities for specialty crop producers. These are being used by growers at the state level and are tailored to meet specific local needs. While there may be ways to continue to streamline and improve the grant process, these block grants fund important projects such as improved food safety, enhanced market opportunities and research aimed at specific local industry needs. One example is the Idaho Preferred Program that was established with the initial specialty crop block grant funds and provides an opportunity for local producers to collaborate with retail partners in providing Idaho products in Idaho stores. Also, through Idaho Preferred, producers provide school districts in Idaho with local product that has been incorporated into fund raising opportunities. This program has been a huge success with significant increases in the purchase of Idaho products and increased revenue for schools.

Export Programs

Exports are extremely important for the apple industry, with about 25 percent of our crop sold overseas. Important, exports offer excellent potential for further growth. Apple growers use two programs—the **Market Access Program** and the **Technical Assistance for Specialty Crops Program**—to help grow exports. MAP provides critical funding, more than matched by industry contributions, to operate programs which promote American apple consumption around the world. MAP funding should be maintained and where possible, expanded. TASC funding is also helping our industry reduce foreign phytosanitary barriers to apple exports. For example, TASC funding is being used to overcome technical barriers to trade in order to increase exports to Mexico and Taiwan.

Specialty Crop Research Initiative

The new **Specialty Crop Research Initiative** (SCRI) is enabling the apple industry across the country to strategically focus on critical research needs. Positive results so far will enable apples and other specialty growers to produce and process their crops more efficiently and sustainably. Specific projects include:

- Developing new Integrated Pest Management practices to enhance workplace safety and reduce environmental impact.
- Applying modern genomics and genetic technologies to create apple cultivars with consumer-preferred traits.
- Adapting engineering and automation technologies to improve the safety, efficiency, and sustainability of apple and peach orchards.

The SCRI's focus on multidisciplinary, multi-institutional research collaboration has led to close work by the tree fruit industry with USDA, and notable academic institutions across the country.

The **National Clean Plant Network** (NCPN) is another important program in the current farm bill. Tree fruit and grape producers, and nurseries, rely on the NCPN as the single nationally-certified source of plant material free of devastating virus diseases. The nursery industry is vital to apple growers since it supplies essential rootstocks upon which different varieties are grafted to produce the wide range of colors, tastes and textures enjoyed by apple consumers.

The SCRI and the NCPN are critical tools to help our industry strengthen its foundation and assure we improve our genetic and technological edge, which is essential to maintaining a competitive position in the global marketplace.

Apples in Schools & USDA Purchases

Now more children are enjoying nutritious fresh fruits and vegetables, including apples, in a "snack" program being expanded to all 50 states. Apples have been an extremely popular item in this program which promotes life-long healthy eating habits. Also, at the urging of apple growers, USDA has purchased over $18 million worth of apples, apple sauce and apple juice this year as part of the increased minimum specialty crop purchases by USDA established under the current farm bill. Given our sizeable crop last year, these buys provided healthy apples to consumers and helped our growers. Funding should be maintained for these programs.

Pest and Disease Prevention

A foreign pest or disease can easily devastate our orchards. The farm bill created and funded a new USDA program to combat invasive insects and plant diseases. This program provides for a more thorough and coordinated approach to management of quarantine pests and disease. It is a joint effort between USDA and state departments of agriculture. This increased effort to combat a serious problem should be a priority to continue and fund in the next farm bill.

A Strong Farm Bill—But Who Will Pick The Crop?

These specialty crop programs are important because they improve our short and long term competitiveness and strengthen market opportunities. They can only play the role Congress intended if our apples and other specialty crops are reliably picked each fall.

The American apple industry faces a chronic labor uncertainty as our borders continue to tighten and internal immigration enforcement increases. The 2010 apple harvest is quickly approaching and though the crop appears outstanding in many areas of the country, most growers are uncertain if they will have enough workers to pick it.

Securing legal and reliable labor is critical to our future. We lack sufficient legal labor to prune, pick, pack and process our crop. Without it, we could see the decline and outsourcing of the domestic apple industry. Despite our best recruitment efforts, it is difficult (if not often impossible) to find local workers.

I strongly urge Congress to fix this problem. I can't, but you can. I want the opportunity to pass along my farm and packing house to the next generation. They are the future. But without solving the labor crisis facing labor-intensive agriculture, I am deeply concerned about future of my family operation.

For these reasons, I strongly encourage you to enact the AgJOBS bill to reform the antiquated H–2A guest worker program. Without it, I fear there will be fewer and fewer American-produced apples and increased imports. Failure to act means giving away our industry and our markets to foreign competitors.

Thank you for the opportunity to testify today. I would be pleased to answer any questions you may have.

The CHAIRMAN. Thank you, Mr. Henggeler. We appreciate your testimony.

Mr. Lee, welcome to the Committee.

STATEMENT OF GALEN LEE, SUGARBEET, MINT, ASPARAGUS, HAY, GRAIN, CORN, AND CATTLE PRODUCER, NEW PLYMOUTH, ID

Mr. LEE. Thank you, Mr. Chairman, Members of the Committee, for bringing this important hearing to Idaho. My name is Galen Lee, and I appreciate this opportunity to speak on behalf of more than 1,100 sugarbeet growers in Idaho, Oregon, and Washington regarding the 2012 Farm Bill.

And I especially want to express my gratitude to Congressman Minnick, who stands with a strong voice for Idaho agriculture on your Committee. We are proud that he, and Congressman Simpson, who is co-chair of the House Sugar Caucus, will work to maintain a strong sugar policy in the next farm bill. I also want to welcome Congressman Schrader, in whose district all the U.S. sugarbeet seed is grown. We look forward to working with all of you in the months ahead.

I farm in New Plymouth, Idaho, which is about 35 miles northwest of here. My family and I grow sugarbeets, asparagus, peppermint, alfalfa, and corn. We are also dairy farmers and have a beef herd. My family has been farming for more than 100 years, and growing beets since 1970 for Amalgamated Sugar Company. I am President of the Nyssa-Nampa Beet Growers Association, and a member of the Board of Directors of the Snake River Sugar Company.

Sugarbeets have been grown in Idaho for 107 years. They are an important cash crop in irrigated areas along the Snake River. In 1996, the 1,134 beet growers of Amalgamated purchased the company, and formed the Snake River Sugar Company, a grower-owned cooperative of growers in Idaho, Oregon, and Washington. Three factories, one in Mini-Cassia, one in Twin Falls, and one here in Nampa, typically produce more than 13 percent of U.S. beet sugar production.

Our grower-owned cooperative headquartered in Boise is a key supplier of sugar in the northwestern United States and other critically important markets.

In Idaho, sugarbeets are a $1 billion industry that supports about 7,000 direct and indirect jobs. The loss of this industry would shift 180,000 acres of sugarbeets into other crops and depress prices, especially for potatoes and onions.

Ultimately, our future depends on good farm and trade policy.

The United States is the world's fifth-largest sugar producer. We are also the world's fifth-largest sugar consumer, and the world's second-largest net importer. We are good at what we do.

Our sugar farmers are among the lowest cost producers in the world. We are doubly proud of this distinction, because we have achieved it while being fair to our workers and responsible stewards of the land.

The U.S. has one of the most open sugar markets, and provides guaranteed access to 41 countries, as it is required to do under trade laws.

Trade agreements, such as with the WTO and NAFTA force the U.S. to provide duty-free access for 1.4 million short tons of sugar each year, whether the country needs the sugar or not.

In addition, under the NAFTA, Mexico now enjoys unlimited access to the U.S. sugar market. The Doha Round of the WTO could result in additional market access concessions, and the recently launched Trans-Pacific Partnership, or TPP, trade negotiations could result in even more concessions.

These important concessions could reduce U.S. sugar producers' access to our own market even further, and reduce prices, and make it impossible for many of us to survive.

Congress, in its wisdom, designed a sugar policy in the 2008 Farm Bill that is working to the considerable benefit of consumers at zero cost to taxpayers; thus giving sugar farmers a chance to survive, plus it fully complies with the rules of the WTO.

Under this market balancing approach, the USDA has retained its authority to limit domestic sales of the sugar. Producers who exceed their allotments must store the excess at their own expense, not the government's expense.

If imports exceed the difference between domestic market allotments and consumption, USDA will divert surplus sugar into fuel ethanol production and restore balance to the sugar market for food. This production has not been needed as yet, and government forecasters expect it will not be over the course of the farm bill.

The current farm bill's benefits to American sugar consumers and American taxpayers are clear. American food manufacturers and consumers can count on reliable supplies of sugar is being produced responsibly, is reasonably priced, high in quality, and safe to consume.

U.S. wholesale and retail prices are below the average of the rest of the developed world. In real terms, corrected for inflation, U.S. wholesale and retail prices have declined substantially over the past 3 decades.

Sugar producers receive no government payments. Sugar is the only major commodity program that operates at no cost to taxpayers, and government projections through 2020, say it will remain at no cost over all these years.

American sugar farmers are grateful to the Congress for crafting a sugar policy that is balancing supply and demand, ensures consumers a dependable, high-quality supplies, and is improving market prospects for sugar producers. The policy achieves all these goals at zero cost to American taxpayers.

With some prospect of continued market stability, producers should be able to reinvest in their operations, further reduce their costs of production, and survive. We strongly urge the continuation of the successful, no-cost policy in the next farm bill.

Thank you, Mr. Chairman, for holding this important hearing, and for all that you and the Committee do for American agriculture. We look forward to working with you in the future.

[The prepared statement of Mr. Lee follows:]

PREPARED STATEMENT OF GALEN LEE, SUGARBEET, MINT, ASPARAGUS, HAY, GRAIN, CORN, AND CATTLE PRODUCER, NEW PLYMOUTH, ID

Thank you, Mr. Chairman and Members of the Committee, for bringing this important field hearing to Idaho. My name is Galen Lee, and I appreciate this opportunity to speak on behalf of more than 1,100 sugarbeet growers in Idaho, Oregon and Washington regarding the 2012 Farm Bill.

I especially want to express my gratitude to Congressman Minnick, who stands as a strong voice for Idaho agriculture on your Committee. We are proud that he, and Congressman Simpson—who is co-chair of the House Sugar Caucus—will work to maintain a strong sugar policy in the next farm bill. I also want to welcome Congressman Schrader, in whose district all the U.S. sugarbeet seed is grown. We look forward to working with you in the months ahead.

I farm in New Plymouth, Idaho, which is about thirty-five miles northwest of here. My family and I grow sugarbeets, asparagus, peppermint, alfalfa and corn; we are also dairy farmers and have a beef herd. My family has been farming for more than 100 years and growing beets since 1970 for the Amalgamated Sugar Company. I am President of the Nyssa-Nampa Beet Growers Association and a member of the Board of Directors of the Snake River Sugar Company.

Sugarbeets have been grown in Idaho for 107 years. They are an important cash crop in irrigated areas along the Snake River. In 1996, the 1,134 beet growers of the Snake River Sugar Company—a grower-owned cooperative of growers in Idaho, Oregon and Washington—purchased the Amalgamated Sugar Company, now located in Boise. Three factories—in Mini-Cassia, Nampa and Twin Falls—typically produce more than 13% of U.S. beet sugar production. Our grower-owned cooperative is the key supplier of sugar to the northwestern United States and other critically-important markets.

In Idaho, sugarbeets are a $1 billion industry that supports about 7,000 direct and indirect jobs. The loss of this industry would shift 180,000 acres of sugarbeets into other crops and depress prices, especially for potatoes and onions.

Ultimately, our future depends on good farm and trade policy.

Food Security

Sugar is an essential ingredient in our nation's food supply. As an all-natural sweetener, bulking agent and preservative, it plays an important role in about 70% of processed food products and is called for in a multitude of favorite home recipes. Dependence on unreliable and unstable foreign suppliers is a threat to our food security, which is why a strong, diversified and reliable domestic industry has long been recognized as important to the nation.

U.S. sugar producers are globally competitive, but for decades we have been threatened by unfair competition. Roughly 120 countries produce sugar and all their governments intervene in their sugar markets in some way. Many countries subsidize their producers and dump their surpluses on the world market for whatever price it will bring. This depressed, so-called "world price" has averaged below actual global costs of producing sugar for many years. American producers are competitive, but cannot be expected to compete against these foreign treasuries and unfair predatory trade practices.

Importance, Size, Efficiency

In addition to the critical role it plays in local economies, sugar is a significant job producer and revenue-generator nationally. The U.S. sugar producing industry, with sugarbeets and sugarcane grown or processed in 18 states, generates over 146,000 jobs and more than $10 billion per year in economic activity. These jobs range from the cane fields of Hawaii and the beet fields of Idaho to the cane sugar refineries in New Orleans, New York City, and other cities.

The United States is the world's fifth-largest sugar producer. We are also the fifth-largest sugar consumer and the world's second-largest net importer. And, we are good at what we do. Our sugar farmers are among the lowest cost producers in the world. We are doubly proud of this distinction because we have achieved it while being fair to our workers and responsible stewards of the land. Farmers in the developing world, who dominate the world sugar market, generally operate with little or no enforced requirements for worker safety and benefits, or for air, water, and soil protection. Our standards, and compliance costs, are among the highest in the world.

Restructuring

Despite our efficiency, we are an industry that has been under enormous stress. From 1985 until 2009, we did not receive any increase in our price support level. Over this long period of essentially flat nominal prices, the real price we received for our sugar dropped sharply because of inflation. (*Figures 1–2*)

Only the producers who could match the declining real price with efficiency gains and lower production costs were able to survive. More than half could not. From 1985 to 2009, 54 of America's 102 cane mills, beet factories, and cane sugar refineries shut down, with terrible consequences for the local families and communities. Just since 1996, 35 mills, factories, and refineries have closed. (*Figures 3–4*)

Trade Challenges

The U.S. is one of the most open sugar markets and one of the world's largest sugar importers. The U.S. provides access to its market to 41 countries, as it is required to do under trade laws. Virtually all are developing countries, and most are highly supportive of U.S. sugar policy because it provides an import price at which many can recover their costs of production.

In addition to coping with the problems of rising costs, pests, disease, and natural disasters, American sugar farmers have had to deal with another threat: trade agreements that have ceded more and more of the American sugar market to foreign producers—even if the foreign producers are subsidized and inefficient. And more such concessions are being contemplated.

Trade agreements force the U.S. to provide duty-free access for 1.4 million short tons of sugar each year, whether the country needs the sugar or not. This amounts to about 15% of domestic sugar consumption.

In addition, under the NAFTA, Mexico now enjoys unlimited access to the U.S. sugar market. It is difficult to predict how much sugar Mexico might send north each year. Key variables include Mexican sugar production, government decisions (¼ of the sugar mills are owned and operated by the Mexican government), and the pace at which corn sweetener, mostly from the U.S., replaces sugar in the massive Mexican beverage industry. Mexican sugar exports to the U.S. have varied widely in the past, and could in the future—over 1.4 million short tons last year, but only about 0.5 million forecast for this year. (*Figure 5*)

Furthermore, the U.S. is negotiating a Doha Round of the WTO that would result in additional market access concessions. The TPP (Trans-Pacific Partnership) trade negotiations, recently launched by the Obama Administration, could also eventually result in substantial market commitments for sugar to the many countries lining the Pacific Rim. Such trade concessions threaten to reduce U.S. sugar producers' access to our own market even further, and reduce prices as well, making it impossible for those of us who are struggling to survive. (*Figure 6*)

Previous Farm Bill

In the 2002 Farm Bill, USDA had only two tools to balance U.S. sugar supplies with consumer demand.

1. It could limit foreign supplies to minimum import levels required by the World Trade Organization (WTO) and other trade agreements.
2. It could limit domestic sugar sales through marketing allotments. Each year, USDA would forecast domestic sugar consumption, subtract required imports, and allow U.S. producers to supply the balance.

- If U.S. production was insufficient to fill demand, USDA could increase imports by expanding the tariff-rate quota (TRQ).
- If U.S. production exceeded the allotment quantity, American producers had to store the excess at their own expense, not the government's.

This market-balancing system worked reasonably well until 2008, although misjudgments in setting the TRQ in 2006 seriously depressed the U.S. sugar market. That's when Mexico gained unlimited access to our market under the NAFTA, and USDA effectively lost control of the market.

The 2008 Farm Bill

Congress, in its wisdom, designed a sugar policy that is working to the considerable benefit of consumers and at zero cost to taxpayers, and is giving the remaining American sugar farmers a chance to survive. And, it fully complies with the rules of the WTO.

While retaining the basic-market-balancing tools described above, Congress made a number of important improvements in 2008. The farm bill minimizes the erosion of American sugar farmers' share of their own market by limiting reductions in their marketing allotments to not less than 85% of consumption. It's worth noting that in many years, imports amount to much more than 15% of the U.S. market.

If imports exceed the difference between domestic market allotments and consumption, USDA will divert surplus sugar into fuel ethanol production and restore balance to the sugar market for food. The added ethanol production would be consistent with national goals to reduce American dependence on foreign oil and improve air quality.

In addition to the use of ethanol as a market balancing mechanism, two other farm bill measures are helping to stabilize the market and improve producer prospects:

1. The first increase in the sugar support price since 1985. The raw cane sugar loan rate rose by ¼¢ per pound this year, and will rise the same amount in Fiscal Years 2011 and 2012. Refined beet sugar rates will rise by a commensurate amount. In Fiscal Year 2012, the raw cane loan rate will be 18.75¢ per pound and the refined beet sugar rate will be 24.09¢.
2. USDA may not announce a TRQ above the minimum required by trade agreements until halfway through the crop year (April 1), unless there is a supply emergency. By April, much more is known about actual U.S. sugar production and consumption and the volume of imports from Mexico. This will prevent a recurrence of situations such as that in the summer of 2006, when USDA announced an excessive TRQ for the coming year, the market was badly oversupplied, and producer prices languished for almost 2 years.

Consumer Benefits

American food manufacturers and consumers continue to benefit from reliable supplies of sugar that has been produced responsibly and is reasonably priced, high in quality, and safe to consume. In real terms, corrected for inflation, U.S. wholesale and retail prices have declined substantially over the past 3 decades. Food manufactures and consumers in the rest of the developed world pay about 10% more for sugar than Americans do. Taking per capita income levels into account, sugar is more affordable in America than in virtually every other country in the world—rich or poor. (*Figures 7–12*)

Taxpayer Benefits

Sugar is the only major commodity program that operates at no cost to taxpayers, and government projections through 2020 say it will remain no cost over all these years. Projections prior to the enactment of the 2008 Farm Bill suggested significant costs because of excessive imports from Mexico, low prices, and government loan forfeitures. But thanks to steady consumption growth, stable domestic production, manageable import levels from Mexico, and sound program management by USDA, costly surpluses have not occurred. (*Figures 13–14*)

The 2012 Farm Bill

The U.S. sugar industry has endured a wrenching restructuring over the past 2 decades. American sugar farmers remain are grateful to the Congress for crafting a sugar policy that is balancing supply and demand, ensures consumers of dependable, high-quality supplies, and is improving market prospects for sugar producers. The policy achieves all these goals at zero cost to American taxpayers.

With some prospect of continued market stability, producers should be able to reinvest in their operations, further reduce their costs of production, and survive. We strongly urge the continuation of this successful, no-cost policy in the next farm bill.

Thank you again, Mr. Chairman, for holding this important hearing and for all that you and the Committee do for American agriculture. We look forward to working with you in the future.

FIGURES

Figure 1

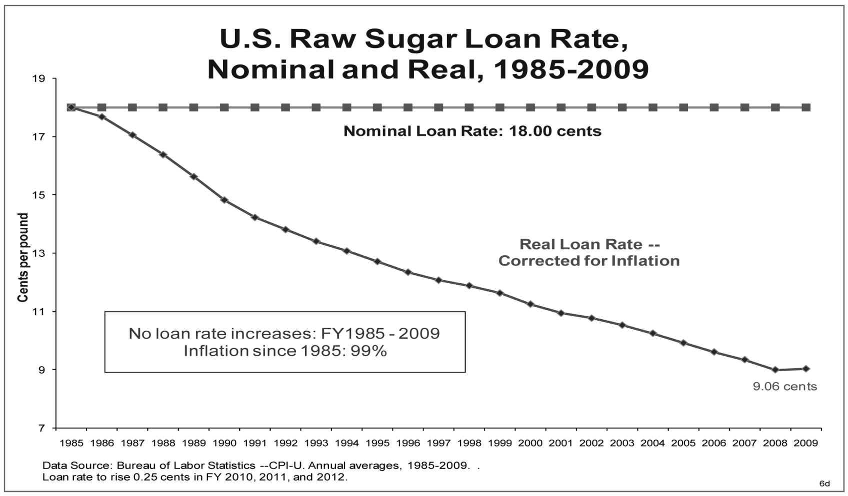


Figure 2

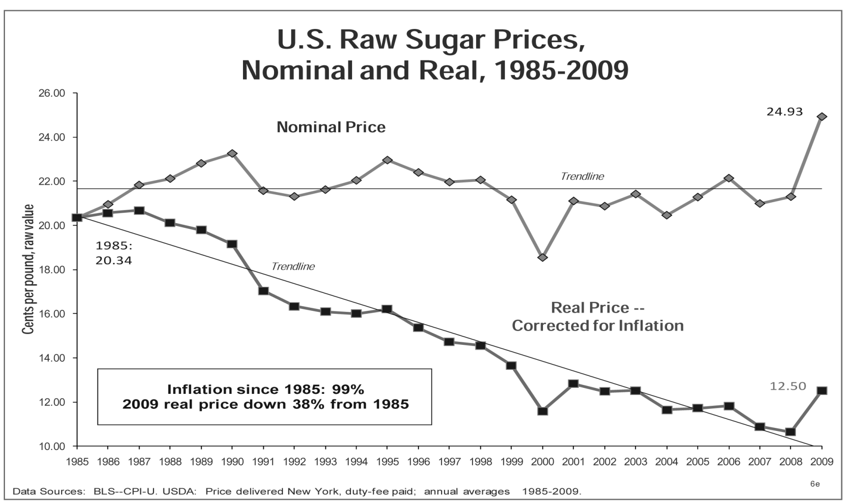


Figure 3

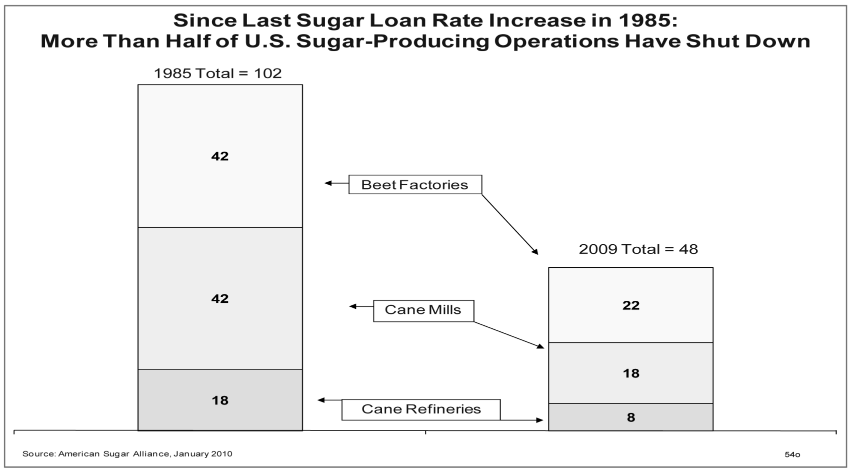


Figure 4

35 Sugar Mill and Refinery Closures, 1996 - 2009

BEET CLOSURES

Spreckels Sugar, Manteca
California, 1996

Holly Sugar, Hamilton City
California, 1996

Western Sugar, Mitchell
Nebraska, 1996

Great Lakes Sugar, Fremont
Ohio, 1996

Holly Sugar, Hereford
Texas, 1998

Holly Sugar, Tracy
California, 2000

Holly Sugar, Woodland
California, 2000

Western Sugar, Bayard
Nebraska, 2002

Pacific Northwest, Moses Lake
Washington, 2003

Western Sugar, Greeley
Colorado, 2003

Amalgamated Sugar, Nyssa
Oregon, 2005

Michigan Sugar, Carrollton
Michigan, 2005

Spreckels Sugar, Mendota
California, 2008

CANE CLOSURES

Ka'u Agribusiness
Hawaii, 1996

Waialua Sugar
Hawaii, 1996

McBryde Sugar
Hawaii, 1996

Breaux Bridge Sugar
Louisiana, 1998

Pioneer Mill Company
Hawaii, 1999

Talisman Sugar Company
Florida, 1999

Amfac Sugar, Kekaha
Hawaii, 2000

Amfac Sugar, Lihue
Hawaii, 2000

Hawaiian Commercial & Sugar, Paia
Hawaii, 2000

Evan Hall Sugar Cooperative
Louisiana, 2001

Caldwell Sugar Cooperative
Louisiana, 2001

Glenwood Sugar Cooperative
Lousiana, 2003

New Iberia Sugar Cooperative
Louisiana, 2005

Jeanerette Sugar Company
Louisiana, 2005

Cinclare Central Facility
Louisiana, 2005

Atlantic Sugar, Belle Glade
Florida, 2005

U.S. Sugar, Bryant
Florida, 2007

South Louisiana Sugar Cooperative
Louisiana, 2007

Gay & Robinson, Kaumakani
Hawaii, 2009

CANE REFINERY CLOSURES

Aiea, C & H
Hawaii, 1996

Everglades, Imperial
Florida, 1999

Sugarland, Imperial
Texas, 2003

Brooklyn, Domino
New York, 2004

Note: In 2010, 22 beet factories, 18 raw cane mills, and 8 cane refineries remain in continuous operation, a 41% drop since 1996.
U.S. Sugar, FL, has announced plans to close after 2015. *ASA 2010*

54k

Figure 5

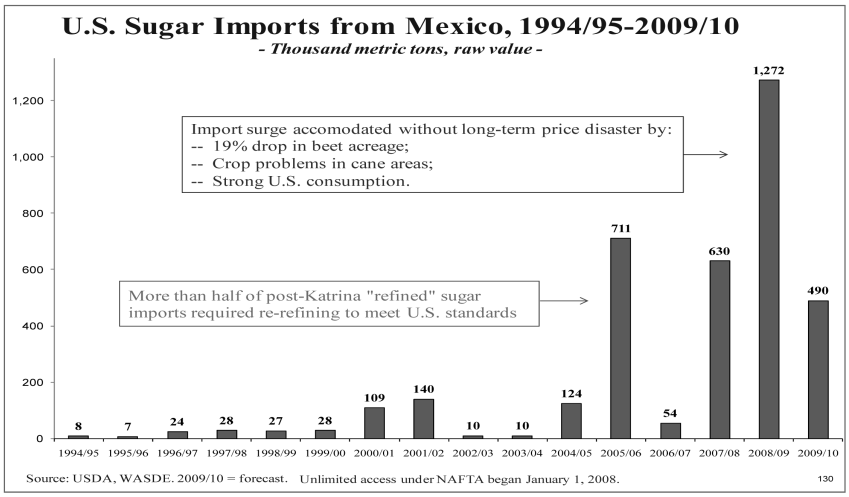


Figure 6

U.S. Sugar Import Concessions:
In Place, Proposed, or Being Negotiated

	Minimum Import Amount			Comment
	WTO	FTAs	Total	
	-Metric tons, raw value-			
In Place				
WTO (40 countries)	1,139,175	--	1,139,175	Uruguay Round commitment
NAFTA - Mexico[1]	10,212	Unlimited	Unlimited	Unlimited access began January 1, 2008
CAFTA/DR[2]	311,700	119,060	430,760	Grows, on average, by 3,153 mt/yr years 2-15; by 2,640 mt/yr thereafter
Peru[3]	43,175	11,000	54,175	Grows by 180 mt/yr forever
Negotiated, not yet approved				
Colombia	25,273	50,000	75,273	Grows by 750 mt/yr forever
Panama	30,538	7,000	37,538	Grows by 60mt/yr for 10 years
Being negotiated				
WTO:	If and when completed by Congress, the Doha Round of WTO trade negotiations would result in a substantially increased tariff-rate quota (TRQ) for sugar and a reduced tariff.			
TPP (Trans-Pacific Partnership):	These negotiations could result in substantial, additional concessions to sugar-producing countries throughout the Asia-Pacific region (including Western Hemisphere countries) through renegotiation of existing FTA's or negotiation of new FTA arrangements.			

[1] Canada excluded from the sugar provisions of the NAFTA.

[2] CAFTA/DR access for CY 2009; includes 2,000 tons of specialty sugars for Costa Rica. CAFTA countries' WTO access included in WTO total.

[3] Peru FTA includes 2,000 tons of specialty sugars not subject to net exporter status.

Note: CAFTA/DR and Peru FTA net-exporter provisions (exports to world market minus imports from world market) could limit the access of the Dominican Republic some years and Peru in most years.

73ff

Figure 7

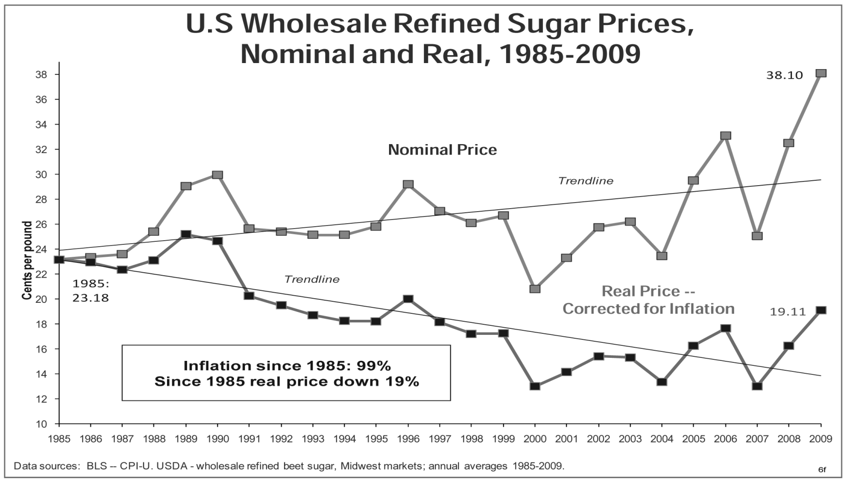


Figure 8

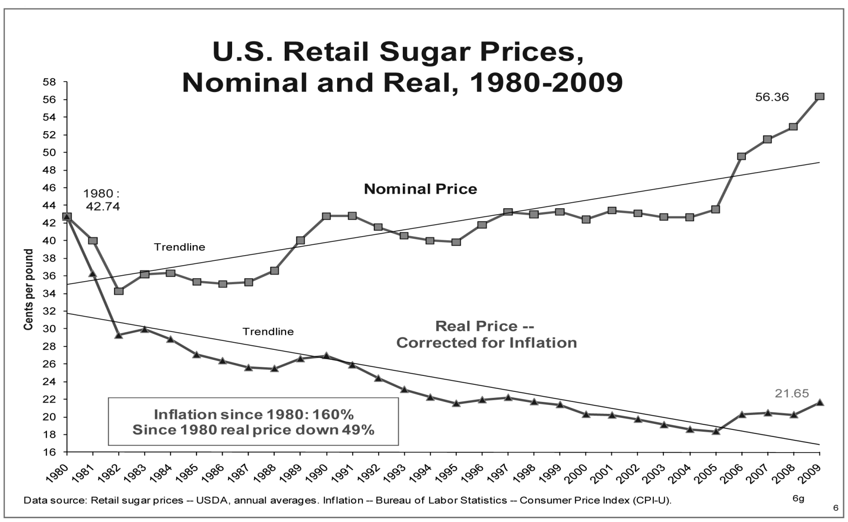


Figure 9

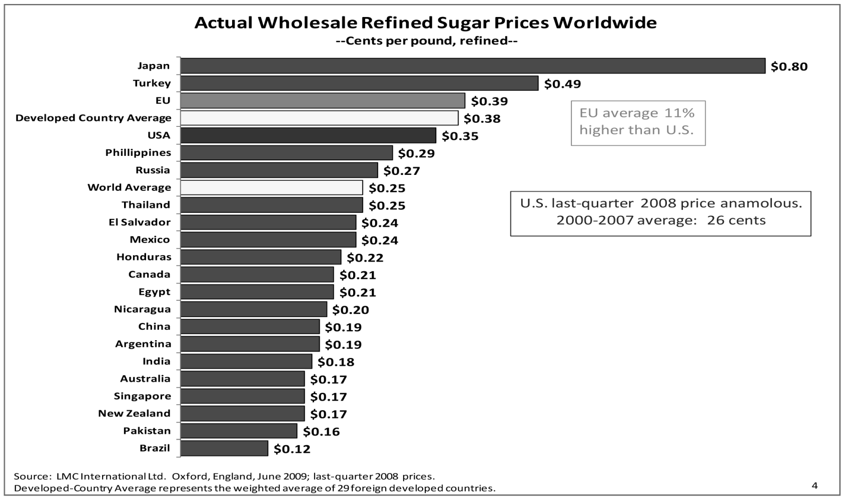


Figure 10

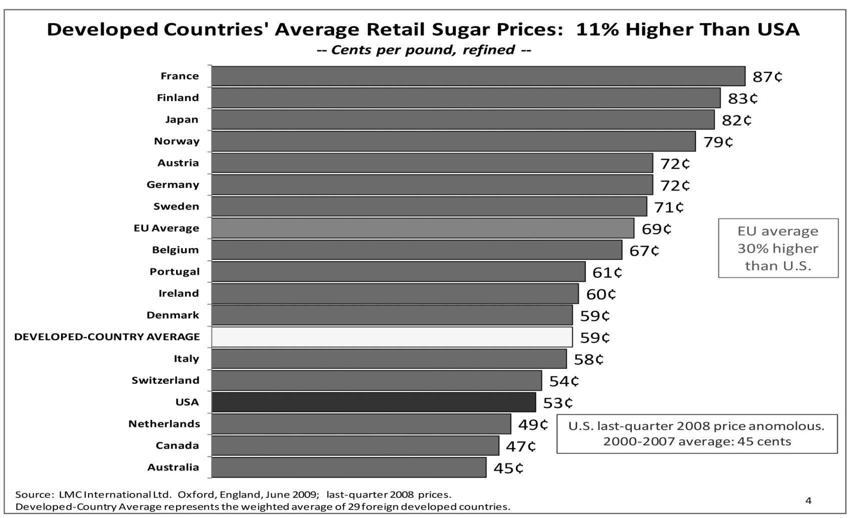


Figure 11

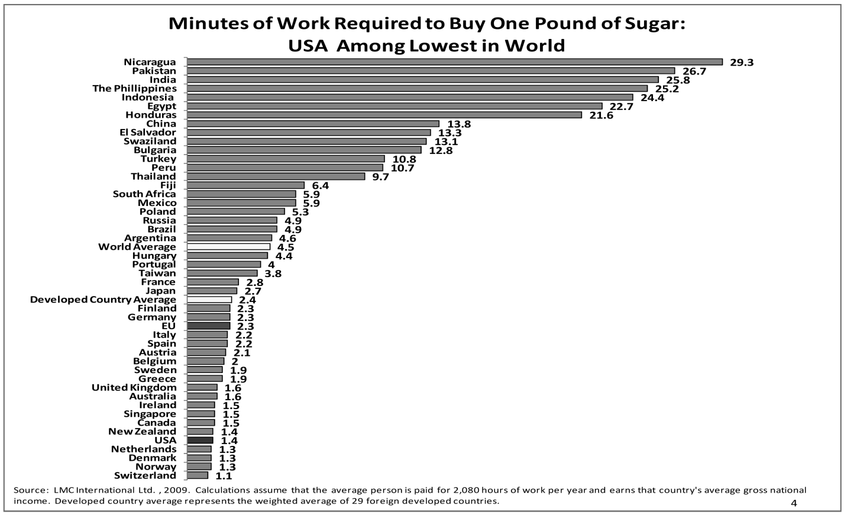


Figure 12

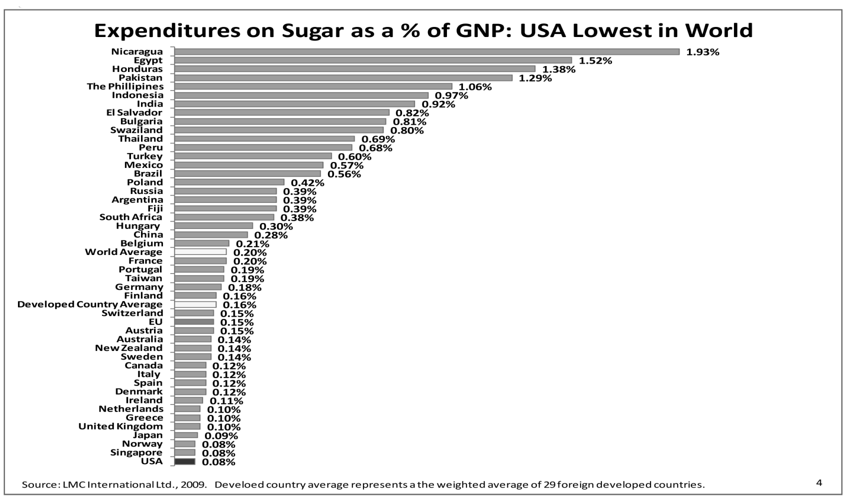


Figure 13

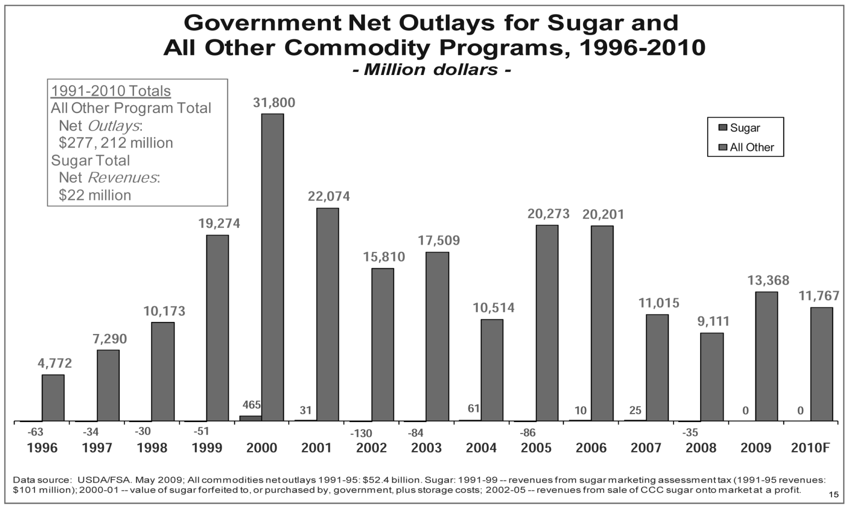
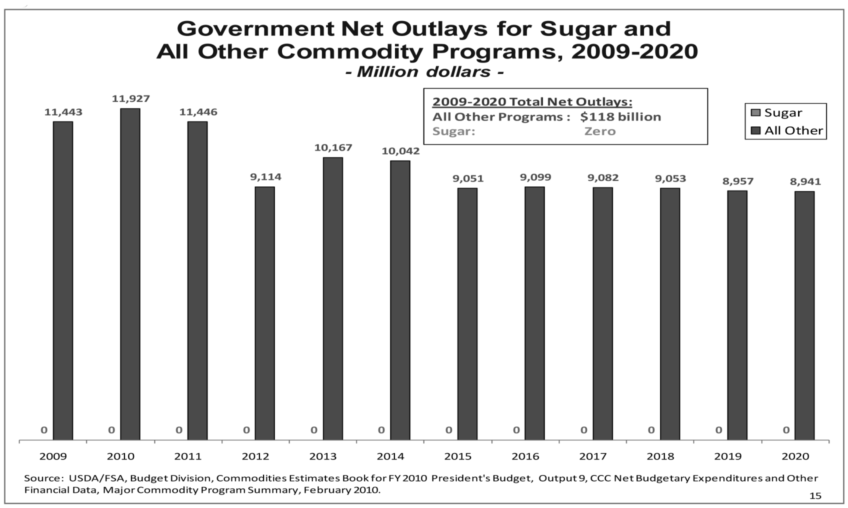


Figure 14



The CHAIRMAN. Thank you, Mr. Lee, for that testimony.
Mr. Kernohan.

STATEMENT OF BRIAN J. KERNOHAN, FORESTRY PRODUCER, COEUR D'ALENE, ID

Mr. KERNOHAN. Thank you, Chairman Peterson, and Members of the Committee, for this opportunity to speak to the group today on the review of U.S. ag policy to prepare for the 2012 Farm Bill.

The crop that I'm going to speak about is slightly different than that of my colleagues to my right, but nonetheless, is extremely important, and through your leadership, has made its way into this farm bill, and we hope to see that continue.

My name is Brian Kernohan. I am the Manager of Wildlife and Forest Stewardship for Forest Capital Partners, with offices in Coeur d'Alene, Saint Maries, and a large area of Idaho.

Forest Capital Partners really appreciates the Committee's track records in supporting the private working forest. And for recognizing the values of markets, not only in the farm bill, but in other legislation.

My goal here today is then to encourage the Members of this Committee to continue to support a private working forest through market-based incentives, and through conservation partnerships, public and private, as you begin rewriting the farm bill.

If you will indulge me a moment, I would like to introduce you to Forest Capital Partners. Forest Capital is a private landowner, a financial manager and a steward of large-scale working forests with 2.1 million acres across the United States. We own and manage the second largest private forestland in Idaho at about 280,000 acres in the northern six counties of the state. The other distinction here is that we're at the far end of the state from the Treasure Valley here, where most of the working forests are in the state. Our lands are managed sustainable, and are community based on long-term sustainability.

Our ownership and management of these Idaho working forests bolsters the local economy. And I would like to share a few statistics to demonstrate the importance of that forest to those north six counties, and the small rural communities in which we operate.

We have 22 direct employees, about 40 local contractors, including 150 contracting employees. It's very important in today's economic environment to demonstrate the landscape, generating around $3.2 million in payroll. Contractor payments are on the order of $26 million annually.

And in addition each year, 60 to 100 million board feet of timber are coming out of northern Idaho, supplying 20 local mills, and paying about a million dollars in state and local taxes. So the numbers of those 280,000 acres really expand in the economies of Idaho. And as I'll demonstrate, that is equally important across the world.

So there are three points: Private working forests are a vital part of America's natural resources infrastructure. It's green infrastructure. I think you all know that. Your leadership has demonstrated it, and the farm bill supports it.

The second point, the most effective means of conserving these private working forests is markets. It is about economics, and including markets in new products, like forest fiber.

Third is public-private investments in helping to meet the public's goals and investments coming off of the working forest.

So first, private working forests are a vital part of America's natural resources infrastructure. We at Forest Capital aspire to create and capture a full range of value from our forests.

Another unique thing about forests, timber may be our primary product. But the benefits and products that come off those forests vary and are extensive. Not only is it 2x4s, and the paper products that the timber produces, but the clean air, clean water, wildlife habitat, recreation, and the economic basis already described.

Forests are also offering the solutions to some of the nation's most pressing issues. As you, I'm sure are all aware, these issues include: domestic renewable energy, a natural means of removing carbon from the atmosphere, and addressing climate change, and of course, stable jobs.

The market that we need to incentivize is biomass energy. We need such markets that benefit society and the environment. Without these markets, these working forests may be forced to be converted to non-forest uses, and we lose the values that we have described already.

As this Committee develops the 2012 Farm Bill, we encourage you to include an energy title that fully supports the use of biomass energy. We encourage you to continue the current energy title. It contains a broad definition of *biomass* to allow these markets to operate and to function.

The 2008 Farm Bill recognized the value of sustainability of energy from biomass by including that definition, and it allows the infrastructure of our business to take off.

Finally, public-private investments: While viable markets are critical, investments in public-private partnerships are also important. In the State of Idaho, we have been working with conservation partners, with the support, thank you, of Representatives Minnick and Simpson, on securing forest legacy funds to protect and conserve a very important migration corridor for wildlife in northern Idaho.

So thank you for that support. And it's through provisions like these in the farm bill that allow these public-private partnerships to continue.

So again, Forest Capital appreciates the Committee's support for private working forests, while recognizing the value of markets. As you look ahead to the 2012 Farm Bill, and other legislation and oversight, we look forward to working with you to conserve working forests as a forest.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Kernohan follows:]

PREPARED STATEMENT OF BRIAN J. KERNOHAN, FORESTRY PRODUCER, COEUR D'ALENE, ID

I. Introduction

Mr. Chairman, thank you for this opportunity to appear before the House Committee on Agriculture today and review U.S. agriculture policy as you prepare for the 2012 Farm Bill.

I am pleased to appear before you today as a private lands manager. I am the Manager of Wildlife and Forest Stewardship for Forest Capital Partners. Forest Capital Partners owns and manages 2.1 million acres across the United States and is the second largest private landowner in Idaho, managing 280,000 acres in the northern six counties of Idaho. Our lands are managed sustainably and are certified as such by the Sustainable Forestry Initiative®. Our primary management objectives on our lands are to (1) sustainably enhance forest productivity and health while creating environmental benefits and (2) provide economic benefits to the company, mills, and community based on long-term sustainability.

While we have 22 direct employees in Idaho earning a total of $3.2 million per year, we contract with 40 contractors who employ over 150 people, generating contractor payments of approximately $26 million per year. We pay $1 million a year in state and local taxes in Idaho. We harvest between 60–100 million board feet of timber each year that supplies 20 mills, and we complete site preparation and reforestation on approximately 7,500 annually.

II. Working Forests

At Forest Capital Partners, we aspire to be a leader in creating and capturing the full range of values from our forests. We recognize that forests provide social and environmental values in addition to economic. In fact, much like farms and ranches, private, working forests are a vital part of America's natural resources infrastructure. In addition to products that improve our quality of life, whether 2x4s for homes, household paper products or furniture, they provide clean air and water, wildlife habitat, open space, recreation opportunities, and an economic base for rural communities. They also offer solutions to some of our nation's most pressing issues: domestic, renewable energy; a natural means of removing carbon from the atmosphere; and stable jobs that support American families.

These benefits come primarily from America's private forests. The United State has 755 million acres of forests—an amount that is roughly the same today as it was 100 years ago—57 percent, or 427 million acres, is owned by over ten million private landowners. America's private landowners are managing their land well and are consistently growing more than we harvest. Over the past 50 years, growing stock in our forests increased 49 percent.[1]

These healthy, productive forests support American families. According to a recent study conducted by the National Alliance of Forest Owners, private forests in the U.S. support 2.5 million direct, indirect, and induced jobs and $87 billion in payroll in the 29 states covered by the study. Here in Idaho, private, working forests support 30,412 jobs, $891 million in payroll, $9 million in state income taxes, $2 billion in sales, and $847 million towards Idaho's GDP.[2]

The contributions from private, working forests are noticed at the national level. A diverse cross-section of interests recognizing the value of working forests have come together to support policies to promote working forests at the national level. The platform of this group, which calls itself the "Working Forests Coalition," state in their platform that "Sustaining and enhancing the value of private working forests both to society and to forest owners is of vital national importance and essential to meet some of our nation's most pressing needs." I submit for the record the platform of the group as presented to USDA Secretary, Tom Vilsack, and urge to Committee to consider the elements of this platform when developing policies affecting working landscapes.

III. Markets Conserve Forests

Central to this coalition's message—and my message today—is that the most effective means to conserve private forests is to ensure viable markets for forest products exist. Working forests depend on strong and dependable existing and new markets for forest-derived products and services. Such markets benefit society, the environment and forest owners alike, because they put forest owners in an economic position that supports continued investment in sound forest management over the long

[1] *State of America's Forests.* Society of American Foresters. 2007.
[2] *The Economic Impact of Privately-Owned Forests.* Forest2Market and the National Alliance of Forest Owners. 2009. Available online at *www.nafoalliance.org/economic-impact-report/*.

term. Without these markets, economic pressures may force private forestlands into other more economically competitive uses.

Markets supporting working forests change and evolve over time. We see that here in the Northwest as pulp and paper facilities have significantly declined in number. As the marketplace changes it is important that we foster new opportunities that will provide the markets of tomorrow. America now stands at the cusp of two such markets that may play an important role in conserving working forests: renewable energy and carbon.

IV. Energy from Renewable Forest Biomass is Beneficial and Sustainable

As the Committee develops the elements of the next farm bill, we urge the inclusion of an energy title that further supports the use of biomass energy from forests and croplands to produce new sources of renewable energy and derivative bio-based products as an important means of both meeting our nation's energy needs and conserving working landscapes.

Renewable energy from wood is domestic, renewable, sustainable, and does not increase carbon in the atmosphere. For decades, the forest product industry has produced electricity and heat from biomass. In fact, the forest products industry produces more energy from biomass than all the energy produced from solar, wind, and geothermal sources combined. Additionally, technology is being commercialized to produce low-carbon liquid transportation fuels and ultra-low-carbon synthetic natural gas that can be substituted for higher carbon sources of electricity and fuels.

The 2008 Farm Bill recognized the value and sustainability of energy from renewable forest biomass by enacting a broad definition for what qualifies are renewable forest biomass for energy. We thank this Committee for its strong leadership in supporting this approach in last year's debates on the Waxman-Markey legislation. The U.S. Department of Agriculture also supports a broad biomass definition and joins this Committee as an advocate for this approach in future renewable energy legislation. I would like to submit for the record an exchange of letters between a large coalition supporting a broad biomass definition and Secretary Vilsack from earlier this year. I would like to also submit for the record an April 20, 2010 letter from 98 organizations to Senators Kerry, Graham, and Lieberman supporting a broad renewable biomass definition.

As Congress debates new renewable energy policy, we urge the Committee to continue its leadership in providing new economic opportunities for working lands within the parameters of existing Federal, state and local laws, programs and partnerships that support the sustainable management of working lands. Private forests operate within a framework of Federal, state and local forest practices that has been tailored over the course of decades to local conditions and needs and has been central to helping the United States be a world leader in sustainable forest practices. To help increase awareness of this framework, I would like to provide the Committee a white paper on environmental regulation of private forests in the U.S.

V. Supporting Working Forests can Help Address Concerns about Climate Change

As the nation continues to wrestle with the issue of climate change, we wish to remind the Committee of the important role of working forests in addressing concerns about carbon in the atmosphere. The trees we grow absorb and store carbon naturally and turn it into a variety of public benefits. Currently our forests absorb 15 percent of our nation's annual emissions.[3] Through proper management, increasing use of long-term wood products, and using wood for energy, U.S. forests can do even more. Work done by the Consortium for Research on Renewable Industrial Materials documented how managed forests can produce sustained, overall net emissions reductions when carbon is stored in wood products like fence posts and kitchen tables and when wood is substituted for building products that require significantly more energy to produce.[4]

As the U.S. looks for ways to establish a balance approach to reducing carbon emissions, domestic, working forests offer a natural, sustainable, and economic solution that not only improves our carbon footprint, but helps the rest of the environment as well while providing jobs and greater security in rural communities.

VI. Private-Public Partnerships can Further Conservation Goals

President Teddy Roosevelt said, "Conservation means development as much as it does protection." He understood that while viable markets are the most critical com-

[3] U.S. Environmental Protection Agency. 2009. *Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990–2007*.

[4] See Bruce Lipke *et al., CORRIM: Life-Cycle Environmental Performance of Renewable Building Materials,* 54 FOREST PROD. J. 8 (2004).

ponent to conserving private forests, public and private investments can help meet public goals to maintain working landscapes. These investments can include both direct investments in forest management and conservation and investments in the infrastructure that supports forest stewardship and market development. Market-oriented private-public investments are frequently the most effective.

As Forest Capital Partners seeks to create and capture the full range of economic, social, and environmental values from forests, we recognize that sustainably managed working forests provide important wildlife habitat and support local communities with jobs and revenues at the same time. The Forest Legacy program also recognizes this, and it is an important source of funding to help conserve the economic, social, and environmental values of forests. In fact, we are currently working with the Nature Conservancy to utilize Forest Legacy funding to conserve an important wildlife migration corridor in North Idaho.

Forest Legacy, the Healthy Forest Reserve Program, and other private-public partnerships to conserve land are an important tool for landowners and the public in their conservation efforts. We urge the Committee to continue to support and strengthen these and other private-public programs to help conserve working forests.

Conclusion

Forest Capital Partners appreciate the Committee's track record of supporting private, working forests, recognizing the conservation value of markets, and entrusting the existing framework of Federal, state, local, and third-party laws, regulations, and agreements to sustain private forestry operations.

As the Committee looks ahead to the 2012 Farm Bill and other forest legislation and oversight, we look forward to working with you on how best to conserve working forests as forests.

ATTACHMENT 1

Keep Working Forests Working

Private Forests, Public Benefits

Private working forests are a vital part of America's natural resources infrastructure, contributing significantly to the quality of life enjoyed by all Americans. In addition to open space and aesthetics, private working forests provide important consumer products, clean water and air, energy, wildlife habitat and recreation opportunities, and strengthen rural economies, just to name a few of their many public benefits. They are also key to addressing critical issues facing our nation today: increasing our use of renewable energy, offering solutions to address climate change, maintaining a healthy natural environment, and providing a stable source of jobs that support American families.

Because private forests are so fundamental to meeting the pressing and future needs of our nation, tapping their potential as part of America's critical infrastructure is a necessary component of the nation's overall economic, social, and ecological health and productivity. All Americans benefit from the fact that eighty percent of renewable biomass energy comes from wood, ten percent of U.S. carbon dioxide emissions is absorbed by forests, eighty-six percent of forestland is available for recreation, fifty-three percent of all freshwater in the U.S. originates on forestland, and 689 tree species and 1,486 terrestrial animals species live in our forests.[ii] It is through such abundance that America's forests sustainably account for more than $200 billion a year in sales of consumer products and services, employ more than one million people, and further the nation's environmental and ecological goals.[i]

The public benefits of working forests are derived from over 755 million acres of forests in the United States—the fourth largest acreage in the world and an amount that has remained relatively stable over the past 100 years.[ii] Private forests account for more than 427 million acres, owned by over ten million private landowners.[ii]

Private forest acreage in the United States has remained relatively stable over the past fifty years, and standing timber inventory on these forestlands has increased.[ii] A primary reason for this is viable markets for the goods and services private forests provide. These markets provide the opportunity for an economic return to private forest owners, which translates into long-term investments that promote forest retention and expansion and thereby a continuation of environmental, economic and social benefits to society.

But the success of the past does not secure the future. As existing markets weaken or disappear, goods, services and uses associated with working forests are becoming less competitive with other economic uses of private forestland over time. While some conversion from forests to other uses is acceptable to accommodate a growing population or to optimize land use, it is critical to develop policies and programs that help working forests remain competitive with other land uses and thereby help sustain the many benefits they provide as part of our nation's natural resources infrastructure. This is especially critical as we advance our efforts to meet our nation's growing need for renewable energy, climate change solutions, a healthier environment, and family-waged jobs in rural communities.

A Call to Action. Sustaining and enhancing the value of private working forests both to society and to forest owners is of vital national importance and essential to meet some of our nation's most pressing needs, including renewable energy, addressing greenhouse gas emissions, a healthy environment, and jobs in rural communities. To achieve this, the forestry community, consisting of forest owners, conservation and wildlife groups, resource professionals, environmental organizations and other interests call for the development of an actionable national policy platform focusing on three areas:

I. Strengthen existing and emerging markets for goods and services working forests can provide. Working forests depend on strong and dependable existing and new markets for forest-derived products and services. Such markets benefit society, the environment and forest owners alike, because they put forest owners in an economic position that incentivizes continued investment in sound forest management over the long term. Areas of focus should include:

- Steps to maintain traditional markets that provide sustainably produced consumer goods and services, such as housing materials, recyclable products and recreation.
- Support for emerging and potential markets such as renewable energy and fuels, green building, and wood-based technologies.
- The promotion and development of markets for environmental services, such as climate change mitigation and carbon offsets, enhancement of water quality and quantity; endangered species conservation and other services, including the effective utilization of new authorities provided under the 2008 Farm Bill.

II. Support and align public and private investments, partnerships and policies to maintain working forest landscapes. Public and private investments are an important means of maintaining key economic, social and environmental benefits of working forests. Investments can include both direct investments in forest management and conservation and investments in the infrastructure that supports forest stewardship and market development. Market-oriented public-private partnerships are frequently among the most effective forms of such investment. Areas of focus should include:

- Developing and improving tax provisions supporting forest conservation that apply to all classes of forest ownership.
- Strengthening investments in public-private conservation partnerships that equitably benefit both forest owners and the environment and that demonstrate results. Such partnerships may include existing programs, such as Forest Legacy and the Healthy Forests Reserve Program, or may require the improvement of existing or the development of new investment or partnership tools.
- Supporting targeted and effective research and development and strengthening the workforce engaged in private forest management.

III. Align government policies to support the long-term viability of working forests. Over time, Federal, state and local governments have established policies affecting private forests in a variety of contexts and for a variety of purposes. Such policies should both align with one another and support the long-term viability of working forests. A conscious effort to promote and coordinate government policies to help sustain working forests is essential to maintaining the benefits they can provide over the long term. Areas of focus should include:

- Identifying and reforming policies that discourage private forest ownership or investment in private forest stewardship.
- Developing mechanisms to align new and existing policies affecting private forests with the objective of sustaining private working forests over the long term.

Developing a Plan of Action. The undersigned seek to work with Congress, the Administration, and all interested parties who support working forests to advance the concepts in this platform and identify priority action items that will most effectively sustain and enhance the value of private working forests across landscapes over time. This approach contemplates utilizing the considerable body of research on private forest management that has already been done, developing from this information a set of specific recommendations for policy makers to consider, and working with policy makers to put in place national policies to reaffirm that our private forests are a vital part of our nation's natural resources infrastructure for the long term.

References

[i] American Forest and Paper Association. "Our Industry: Economic Impact." *http://afandpa.org/ourindustry.aspx?id=35* (accessed July 15, 2009).
[ii] Society of American Foresters. *The State of America's Forests.* 2007.

ATTACHMENT 2

April 20, 2010

Hon. JOHN F. KERRY,
U.S. Senate;
Washington, D.C.;

Hon. LINDSEY GRAHAM,
U.S. Senate,
Washington, D.C.;

Hon. JOSEPH I. LIEBERMAN,
U.S. Senate,
Washington, D.C.

Dear Senators:

As the Senate considers energy and climate change legislation, we urge you to fully support the use of biomass for energy as a means to help our nation meet its renewable energy and climate change goals. We strongly urge you to include a broad renewable biomass definition that is consistent across all relevant Federal programs, similar to that of the 2008 Farm Bill (plus mill residues and byproducts and excluding commonly recycled paper), and to include the appropriate recognition of the carbon benefits of biomass energy in any legislation developed for Senate deliberations.

According to the U.S. Department of Agriculture, a broad definition for renewable biomass, such as contained in the 2008 Farm Bill (which is substantially similar to the Waxman-Markey bill language), is a common sense and practical approach that enables biomass participation in emerging markets and provides economic options to help preserve working farms and forests on the landscape and the many public benefits they provide. We strongly support this view and urge that the expert opinion of USDA be reflected in national policy. We also urge that biomass definitions not impose restrictions that would foreclose market opportunities or introduce new Federal regulation of public and private lands.

We also strongly urge that the full carbon benefits of renewable energy from biomass be appropriately acknowledged in national policy. Unlike fossil fuels, which emit carbon into the atmosphere from geologic sources that are not renewable, carbon associated with the combustion of biomass is part of a natural cycle that maintains a carbon balance by removing carbon emissions from the atmosphere through natural processes, like photosynthesis, and stores the carbon in plants, trees and soil. This balance is reflected in contemporary and widely-accepted science acknowledging that combustion of biomass for energy in countries like the United States does not increase atmospheric carbon as overall carbon growing stocks remain stable or increasing. It is also embedded in the policies and analysis of the Environmental Protection Agency, the Energy Information Agency and other authoritative and credible government and non-government organizations.

We look forward to engaging on the important task of helping our nation increase its capability to produce domestic, renewable sources of low carbon biomass energy. We are confident that, by working together, we can achieve this goal in a manner that supports the contributions of working farms and forests, appropriately recognizes the full carbon benefits they provide, and maintains them as a viable source of our renewable energy portfolio in the long term.

Sincerely,

25x'25;
ADAGE;
Alabama Agribusiness Council;
Mississippi Forestry Association;
Montana Logging Association;
N.C. Association of Professional Loggers, Inc.;

Alabama Forestry Association;
American Forest and Paper Association;
American Forest Foundation;
American Forest Resource Council;
American Loggers Council;
Arkansas Forestry Association;
Associated California Loggers;
Associated Oregon Loggers, Inc.;
Association of Consulting Foresters of America;
Association of Equipment Manufacturers;
Avista Corporation;
Biomass Coordinating Council, American Council on Renewable Energy;
Biomass Power Association;
Biomass Thermal Energy Council;
BlueFire Ethanol Fuels, Inc.;
Boone & Crockett Club;
California Forestry Association;
Catch-A-Dream Foundation;
Ceres, Inc.;
Congressional Sportsmen's Foundation;
Coskata;
Duke Energy;
Entergy Corporation;
Environmental Federation of Oklahoma;
Family Forest Foundation;
FirstEnergy Corporation;
Florida Farm Bureau Federation;
Florida Forestry Association;
Forest Landowners Association;
Forest Landowners Tax Council;
Forest Products Industry National Labor Management Committee;
Forest Resources Association Inc.;
Frontier Renewable Resources;
Georgia Forestry Association;
GMO Renewable Resources;
Hancock Timber Resource Group;
Hardwood Federation;
Idaho Forest Group;
John Deere;
KL Energy Corporation;
Longview Timber;
Louisiana Forestry Association;
Michigan Association of Timbermen;
Michigan Forest Products Council;
Minnesota Forest Industries;
Mississippi Biomass and Renewable Energy Council;
National Alliance of Forest Owners;
National Association of Conservation Districts;
National Association of Counties;
National Association of Forest Service Retirees;
National Association of State Foresters;
National Association of University Forest Resources Programs;
National Association of Wheat Growers;
National Farmers Union;
National Forest Counties and Schools Coalition;
National Woodland Owners Association;
New York Biomass Energy Alliance;
North American Bear Foundation;
North Carolina Forestry Association;
Northern Arizona Loggers Association;
Oregon Forest Industries Council;
Oregon Small Woodlands Association;
Pingree Associates;
Plum Creek;
Port Blakely Tree Farms, LP;
Professional Logging Contractors of Maine;
Quality Deer Management Association;
Range Fuels;
Rayonier, Inc.;
Reiver Forest Products;
Resource Management Service, LLC;
RMK Timberland Group;
Rocky Mountain Elk Foundation;
Shull Timber Corporation;
Society of American Foresters;
South Carolina Forestry Association;
Southeastern Lumber Manufacturers Association;
Tennessee Forestry Association;
Texas Forestry Association;
The Lyme Timber Company;
The Molpus Woodlands Group;
The Westervelt Company;
Virginia Forest Products Association;
Virginia Loggers Association;
Washington Contract Loggers Association, Inc.;
Washington Farm Forestry Association;
Washington Forest Protection Association;
Wells Timberland;
Weyerhaeuser Company;
Wildlife Mississippi;
Woodlands Carbon Company;
Xcel Energy.

ATTACHMENT 3

January 26, 2010

DAVID P. TENNY,
President and Chief Executive Officer,
National Alliance of Forest Owners,
Washington, D.C.

Dear Mr. Tenny:

Thank you for your October 13, 2009, letter on behalf of a range of interest groups in which you express support for a broad definition of renewable biomass as it relates to energy development.

There is wide national agreement on the need for more renewable energy and biofuels, including cellulosic ethanol and other advanced biofuels. As you may know, I have supported the 2008 Farm Bill definition of renewable biomass as it is a common sense and practical approach that enables market participation while simultaneously considering the sustainability of our lands. I believe that this definition can and will provide landowners with economic options that will help keep forestlands forested.

I look forward to working with you in the future on this and other forest issues. If you would kindly share this response with your colleagues, I would be most appreciative.

Sincerely,

Hon. THOMAS J. VILSACK,
Secretary.

October 13, 2009

Hon. THOMAS J. VILSACK,
Secretary,
U.S. Department of Agriculture,
Washington, D.C.

Dear Secretary Vilsack:

We are writing to thank you for your leadership in advancing a sustainable renewable energy policy, responsible land management, and rural America through a broad definition for renewable forest biomass in energy and climate policy. We particularly appreciate your support of a definition similar to that of the 2008 Farm Bill that would provide full market participation for biomass from private and public forestlands while including biomass from Federal lands that conforms to Federal law and forest plans.

America's private and public forests are uniquely suited to help meet our nation's renewable energy and climate needs. Renewable forest biomass from these lands could provide a significant portion of the energy needed to meet an RES and could make substantial contributions to the production of next generation transportation fuels. Sound management of our forests to provide biomass energy will also improve the overall carbon footprint of domestic energy supplies while contributing to the long-term forest health and vitality—improving wildlife habitat, protecting water quality and reducing catastrophic wildfires that emit millions of tons of carbon dioxide and other greenhouse gases each year.

One of the goals of promoting renewable energy is to reduce our dependence on foreign sources of energy and replace them with domestic sources of clean, reliable energy. Critical to this objective is an inclusive definition of qualifying biomass that maintains a level playing field for market access across all feedstock sources and encompasses the full range of wood biomass, including trees and other plants, forest residuals and byproducts of manufacturing.

As Congress moves forward on energy and climate change legislation, and the Administration participates in COP–15, we look forward to working with you to promote a broad definition of renewable forest biomass in Federal policy.

Sincerely,

25x'25;
ADAGE;
Alabama Forestry Association;
American Forest Foundation;
American Forest Resource Council;
American Loggers Council;
Arkansas Forestry Association;
Associated Logging Contractors of Idaho;
Associated Oregon Loggers;
Association of Consulting Foresters of America;
Avista;
Biomass Coordinating Council, American Council On Renewable Energy;
National Association of Counties;
National Association of Forest Service Retirees;
National Association of State Foresters;
National Association of University Forest Resource Programs;
National Forest Counties and Schools Coalition;
National Wild Turkey Federation;
North Carolina Forestry Association;
Northern Arizona Loggers Association;
NorthWestern Energy;
Oregon Forest Industries Council;
Oregon Small Woodlands Association;
Otoka Energy;

Black Hills Forest Resource Association;
Boone & Crockett Club;
California Forestry Association;
Catch-A-Dream Foundation;
Colorado Timber Industry Association;
Deere & Company;
Empire State Forest Products Association;
Entergy Corporation;
Florida Forestry Association;
Forest Landowners Association;
Georgia Forestry Association;
Intermountain Forest Association;
Louisiana Forestry Association;
Michigan Association of Timbermen;
Michigan Forest Products Council;
Mississippi Biomass and Renewable Energy Council;
Montana Logging Association;
National Alliance of Forest Owners;
Quality Deer Management Association;
Reaves Timber;
Rocky Mountain Elk Foundation;
Ruffed Grouse Society;
Shull Timber Corporation;
Society of American Foresters;
South Carolina Forestry Association;
Sustainable Solutions Georgia;
Tennessee Forestry Association;
Texas Forestry Association;
The Biomass Power Association;
Virginia Forest Products Association;
Virginia Loggers Association;
Washington Contract Loggers Association;
Washington Forest Protection Association;
Washington Friends of Farms & Forest;
Woodlands Carbon Company;
Xcel Energy.

The CHAIRMAN. Thank you, Mr. Kernohan. And thank you all Members of the Committee for testimony.

I want to focus in on something, you guys kind of brought up the direct payment issue in different ways. You brought out the issues that have been before us regarding that part of the farm safety net. And part of the reason we get into the payment limitation debate all the time is because of direct payments.

Mr. Brown, you testified that your folks are pretty wedded to direct payments. What I'm picking up, as I travel around the country in my district, is that some of my folks are starting to question whether it may be better to try to direct that money towards crop insurance, or towards some kind of revenue program, or something along those lines.

But because you are sitting next to people that are in organic and specialty crops, one of the things we wrestled with last time, over these direct payments, was the ability of having enough land available to be able to grow some of those specialty crops. And so because of that, we increased the planting flexibility of 11 states to try to address that.

In my state in the southeastern part, I picked up a lot of questions from people. We have Seneca Foods that produces a lot of canned and frozen vegetables. But we also have a lot of organic folks. And we're getting a lot of complaints from them, that they cannot get enough land to be made available to them, because of the direct payments in the farm programs.

So we've got people coming at us from all different directions on this issue. Mr. Brown, are your folks at least willing to enter into discussion to look at the system, and see if there is a better way to do this, or a different way to do this? Or are you just kind of locked into keeping the structure the way it is?

Mr. BROWN. Thank you, Mr. Chairman. No, our folks are very willing to look at different alternatives *in lieu of* the direct payment. We surveyed our board of directors, not formally, but we surveyed them in our last board meeting. And the majority of them expressed that the direct payment was important. But we also talked about an increase in crop insurance benefits, and things like that, would be equally as important.

We realize that the direct payment has a big red target on it. And I think you challenged the National Association of Wheat Growers to think outside the box. And say, what if the farm bill didn't exist? What if this was the first farm bill? What would it look like?

The international organizations are currently in the process of surveying our members, asking them for creative and innovative ideas.

The CHAIRMAN. Do you have any idea how long that process is going to go on.

Mr. BROWN. No. We realize that we have a time constraint. And we're trying to get that information gathered as quickly as we can.

The CHAIRMAN. Mr. Brossy, do you have any problems with getting land for organic production here in Idaho, because of the land being in a program, so it's not available.

Mr. BROSSY. Thank you, Mr. Chairman. No, I personally don't see that. I have a farm that's very contained, and so I'm not looking to expand.

And I'm fortunate to have an adequate land base to do what I can manage. I think partly what Mr. Brown is referring to really has to do with the nature of grain production in Idaho, which is totally different than irrigated ag down here in southern Idaho, where we have much more crop choices available.

And, if you are farming thousands of acres, and literally, most of it's grain, or grain, or peas and lentils as a rotation, your direct payment is significant. For most of us in southern Idaho, who farm smaller acreages, it's really kind of a minor part of our whole program. And I actually would put in a plug for improving crop insurance.

I'm actually looking forward to using AGR-Lite at some point. You have to actually own your farm for so many years to be eligible, and I'm not quite there. But I think for my system, that makes more sense, because it——

The CHAIRMAN. We're looking at that. One of the things I would like to see is—I don't know if we can get there in this next farm bill. But I would like to see us get to a point where we could cover all of the crops under crop insurance. That's the goal that I have of trying to figure out a system where we can cover your whole operation, whatever you are growing. And that's where we need to get.

As to your CSP idea, I have a problem with that. The way I see the safety net program—what I think we're trying to do is to put a backstop there that your banker is comfortable with, for whatever level of production you have. So that you've got enough risk management, enough protection that if the weather goes bad, or the markets collapse, or whatever, the banker knows he's going to get repaid, or you are going to get your money back out of your crop.

So I see that as what we're trying to do. And I'm reluctant to turn that system over to somebody who has some other goal, other than production. And if they were sensible, in terms of some of the conservation stuff, that might be one thing.

But we've seen that when you set up those kinds of things, you sometimes get ideologue. We've seen this in biofuels. Where they basically almost shut down the industry, because of all these crazy ideas they come up with, which are almost like a religion on the international land use and so forth, that make it almost impossible to do.

I'm all for conservation, but I'm not sure we want to mix that up with what the purpose of a farm bill is, and that is to get people who want to grow a farm the ability to manage their risk. That's kind of where I'm coming from. But I've heard it from other people, I should say.

Mr. BROSSY. I realize it's a radical notion when you look at the traditional farm bill programs. I guess I would just offer that if crop insurance was broader based, and more effective in more diversified operations, then it would be the safety net that you are talking about.

And again, I think that any public money spent on agriculture should be tied to good conservation. Because ultimately, we're going to need that to continue to produce food for our country into the future. We're going to be less dependent on fossil fuels by necessity. We need to be innovative, and conservation should be tied to all that. So thank you.

The CHAIRMAN. Well, I agree. But, also, it doesn't make economic sense for conservation. Some things that are happening don't necessarily make much common sense.

Mr. LUCAS. Now, if I could ask the panel first the question that I always ask in these kind of discussions. What are land prices doing in your state, in your areas, in your communities in year 2010 now and 2005; up, down, sideways.

Mr. SIMPSON. [Indicating down.]

Mr. LUCAS. Really? It actually did. Because generally when the question is asked, and has been asked for a number of years, which I think is a reflection of several good farm bills in a row, I get an upwards signal.

So what's driving down your land prices, gentlemen, in the areas where yours are going down? Is it the price of your commodities you are selling? Is it the uncertainty of the EPA, the Federal regulations? Is it difficulty of acquiring credit?

Whichever one of you brave gentleman would like to step up.

Mr. GROSS. Mr. Lucas, we see the commodity prices dropping, and that's the reflection of lower land values, land rents, and lower values.

Mr. LUCAS. Well, along with that, let's touch for a moment on the topic that the Chairman brought up. And the Chairman and I tend to agree on almost everything, but occasionally we have a difference of opinion.

I share his perspective that if we create programs that require certain standards to be met that are created by some bureaucracy on the East Coast of CSP, or similar programs, you run the danger that if the wrong people implement the programs, you get the most bizarre requirements. That does concern me.

One area where the Chairman and I tend to disagree is when we're talking about the direct payment programs. Neither the Chairman or I voted to join the WTO. But we live in a WTO world.

And in most commodities, we have to contend with our friends in China, and in Brazil, and those trade cases they bring against us. And having farm programs that give us the best ability to defend the resources that we're putting into agriculture is critically important. The direct payments are the most compliant part of what we're doing right now.

So I, too, want to ask Mr. Brown about that question. How relevant and how important are the direct payments? And have they been since 1996, in your operation, the nature of the area you are in?

Mr. BROWN. Well, I think as I said, and I'll speak for myself, and also on behalf of the board. But the board, when we surveyed the board, the majority of them did say that the direct payments were important in operation. And in our operation, I think the direct payment is equally important.

But as I told the Chairman, we would be willing to look at alternatives if those baseline dollars could be used in other ways to benefit producers, and still provide that safety net for the production of agriculture.

Mr. LUCAS. Did I see in your background somewhere that you are an accountant.

Mr. BROWN. Yes.

Mr. LUCAS. A CPA.

Mr. BROWN. Yes.

Mr. LUCAS. Could you visit with us for a moment, and of course, any one else on the panel who would like to comment too, what the effect, potentially, of the estate tax changes that are coming to us could have on your business? What the change this fall in the capital gains records, and income tax rates could do to farmers in your part of the country.

Mr. BROWN. Well, estate taxes are a very big concern in our area—well, through all areas of the country should be a concern. We've got a growing population of farmers. The estate tax should be a vehicle to be able to pass on that family farm to future generations.

In a way, that's our retirement plan, our 401(k) plan, if you want to call it that. We make our investment in our land. Our land payments are made every year. That is our retirement. And for all that hard work and years of work that is put in by a family farmer, he should be able to pass that farm on to his children up to a certain level, without having to have the heirs having to sell that farm in order to pay the tax.

And so it's a concern to us. Our resolution says we're in favor of a $5 million exemption at a 35 percent rate. That would be our ideal estate tax.

Mr. LUCAS. Last question, Mr. Chairman, and the panel. EQIP, how important is it to you in your industries in your part of the state? There again, a show of hands up or down. Does EQIP matter?

[Audience showing hands.]

Mr. LUCAS. Enough said. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Lucas.

The gentlelady from South Dakota, Ms. Herseth Sandlin.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman. And in addition to having your complete Idaho Delegation to the House represented today, the entire South Dakota Delegation to the House is represented here today as well. And it's a pleasure to be with all of you. And thank you for your testimony.

I don't have a question, Mr. Henggeler. I just wanted to make you, and the folks that you represent here today, aware of a bill that I and Joanne Emerson introduced called the Healthy Start. You had mentioned in your testimony, the importance of grappling with the obesity epidemic across the country, particularly among young children. How it's expanding to all 50 states. How the SNAP program has created an additional market for your producers.

And the Healthy Start Program has made, for the first time, commodity assistance to be available for school breakfast, in addition to school lunches. And I think that this is another positive development.

I don't support undermining our farm safety net, and other titles in the farm bill to find the resources. But I do think that we can find the resources necessary to expand school nutrition programs. We know how important the school breakfast program is.

I'm a mother of a 16 month old baby. He's started every breakfast since he was 6 months old with apples, or peaches, or pears, or plums, and other fruits.

And I've sat down in some of the school breakfast programs, and I like having my bowl of Cocoa Puffs and Frosted Flakes, too. But I am disappointed that we don't have fresh fruits integrated into the school breakfast programs. I think commodity assistance would be very beneficial to them, and certainly to apple producers and other fruit producers across the country.

Eastern South Dakota is more like our neighbors in Minnesota, Idaho, and the Midwest. Western South Dakota is more like our neighbors in Wyoming, Montana, and Idaho, when we look at cattle producers, and sheep producers, and forestry.

And so Mr. Kernohan, I have some questions for you. You mentioned the energy title with the Chairman's leadership by incorporating the energy title and expanding it in the 2008 Farm Bill.

As you know, we have the forest biomass for energy program. We have the community wood energy program. We have been authorized at $15 million and $5 million respectively and the President's 2011 budget, does request the full amounts, recognizing the importance of renewable biomass off our forests, as one element among many of reducing our dependence on foreign oil and other fossil fuels, and supporting rural jobs.

You know, in the Black Hills of South Dakota, we have a lot of national forestlands. But we have the state and private forestlands, too.

And so if you could comment, has Forest Capital Partners participated at all in the Biomass Crop Assistance Program?

Mr. KERNOHAN. We have not directly. We have spent a lot of time looking at it, and have not participated directly.

Ms. HERSETH SANDLIN. Is there a reason that you haven't? I mean, they have recently proposed some rules. Do you anticipate that you might participate? And I know that we've got concerns about disallowing national payments for wood wastes and mill residues, typically used to produce products, such as particle board.

But do you have any thoughts on how that program might be useful to you or other private working forestlands?

Mr. KERNOHAN. Thank you for the question. Absolutely. The program is very useful. And as an attempt in the farm bill to look at producing the infrastructure for a new market, I might go so far as to say, it's invaluable to private forestland owners.

It's a program that is intended to jump start our market, and that's good. And I think the regulations that are going through, are hopefully going to lead to a better program so that more companies can take advantage of it.

The importance of this is that forest biomass is a maturing market. And where we struggle at Forest Capital is the question that you first asked is, have we participated? No. Would we like to? Absolutely.

And where we struggle to put forest biomass to market right now is from the woods to the facility. And the intent, as we understand it, is intended to take that nearest forest, and bring it to market.

So that aspect of the supply chain is critical to us. We own the supply. We're trying to get it to market. So any program like BCAP that does that, we hope to see continue and to persist.

We didn't have an opportunity not for lack of want. It was just depending on your location, and production of our harvest, we just couldn't make it work in terms of the timing for it. The moratorium was set as the rules were revised. So that was my answer to your first question, Ms. Herseth Sandlin.

Ms. HERSETH SANDLIN. I appreciate that. And just one final comment. As you know, Mr. Minnick, and I, and other Members of our region here in the interior West, have worked at strategies to deal with the pine beetle infestations. They are threatening not only our private forests, but certainly, the state and national forests as well.

And we hope to get some feedback from the Secretary to effectively resource and identify how we can have competence and strategy to deal with this emergency.

Mr. KERNOHAN. Thank you.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

The gentleman from California, Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman, for holding these hearings as we come across the country. And I want to thank Congressman Minnick, he's doing a great job in Washington.

Unlike my colleagues from Idaho, who comprise the whole delegation, and my colleague from South Dakota, I'm 1⁄53 of the California delegation. And I'm not so sure you would like the other portions of the delegation.

But I represent perhaps one of the richest agricultural regions in the entire country. From Fresno to Bakersfield, there are over 300 commodities grown, large dairy, and citrus interests. And I represent the third generation of family farmers. So I'm very aware of the hard work that all of you do by farming west of the Fresno area.

Let me begin by asking panel members, in terms of your own operation: What observations do you make with regards to the volatility, the market volatility that you've witnessed in the last 10 years in your areas, and how have you dealt with that volatility?

Mr. LEE. Well, thank you, Mr. Costa. In the sugar industry, the farm bill we're currently working under has been great for stabilizing our sugar prices. We feel that the provisions work really well. We would hope to have it maintained.

On my operation, this year sugar has out-subsidized the dairy, which has been low for quite some time.

Mr. COSTA. Yes. We have started to melt down the dairy industry in California and clear across the country.

Mr. LEE. Yes, so the sugar has helped with that. It has been very beneficial in that area.

Mr. COSTA. Regarding sugarbeets, you mentioned taking over the co-op and purchasing the existing three plants. We've seen sugarbeet production, as you may know in our area, diminish greatly in the last 2 decades. There have been some efforts to try to salvage it and use the industry as part of an energy source. Are you looking at that here in Idaho?

Mr. LEE. To use the sugar as an energy source?

Mr. COSTA. Right.

Mr. LEE. We've looked into some states. Our Nyssa plant that was closed in 2005, there were some studies done to look at using that for ethanol. The feasibility just wasn't there at this point in time. It was something that we could still look at. But right now, it's not being studied.

Mr. COSTA. But the problems that we've had, not just in the dairy industry, but other sectors, the credit crisis has been felt in American agriculture.

I don't know who of you might like to discuss any first or secondhand knowledge of credit availability, and how you've dealt with that within your various crops.

Does anyone want to tackle that? Traditional lenders, Farm Credit, what has worked, what hasn't?

Mr. BROWN. Congressman, I know that in our area in southeastern Idaho, credit has tightened up significantly. And a lot of it is because of industries, like the dairy industry, having significant problems. That has scared the Farm Credit Services. They are more conservative, I guess, in their approach, and require better financial standards now to lend money.

Mr. COSTA. Do you prefer Farm Credit or traditional lending community banks.

Mr. BROWN. Mostly in my own operation, I've mostly dealt with Farm Credit. They have normally been very easy to deal with. They understand farm issues, ag issues. So they've been the easiest to deal with.

Mr. COSTA. Mr. Henggeler, I was pleased to hear your comments with regards to the need to bring immigration reform. I have been a proponent of that, along with AgJOBS. My preference would be to see comprehensive immigration reform, because it's badly needed throughout the country. I think a lot of the reactions we've seen today are a result of long overdue Federal policy that needs to be changed.

Having said that, would a 3 year, or a 5 year pilot program that implemented AgJOBS, to kind of set the table for comprehensive reform, work here in Idaho?

Mr. HENGGELER. I believe it would. We do need some type of vehicle where we can secure a legal workforce. It's been a concern. I had an opportunity to be present at the introduction of the

AgJOBS, bill several years ago. It was critical then, and it's even more critical now.

And if there is some type of pilot program where we can work through, where all states are equally participating in that program, it would be a positive.

Mr. COSTA. Thank you. My time has expired. I did want to get to the area of what applications were for the rural broadband. I didn't hear any that were discussed that we're trying to expand those efforts. I know it's needed in my area, and other rural areas. And also the rural development program that Secretary Vilsack is attempting to deal with. And rural healthcare, but we'll have to save that for another time.

Thank you very much, Mr. Chairman, for your time.

The CHAIRMAN. The gentleman from Idaho, Mr. Minnick.

Mr. MINNICK. Thank you, Mr. Chairman. I would like to assure my colleague from California, Mr. Costa, that if everyone from California thought the way you did, we would welcome the whole delegation. In fact, we may even want you to run for speaker.

I would like to pursue Congressman Costa's question with you, Mr. Henggeler. What changes would we need, as part of a comprehensive immigration reform, to the temporary worker programs, H1 and H2, to make it work for the apple industry, and other users of seasonal labor, in order that you can get your crops in, and compete successfully both locally and internationally?

Mr. HENGGELER. Thank you, Congressman Minnick. What we talked about, what I referred to as the H–2A system. And a lot of folks out West do not participate in that program, specifically in Idaho.

But our New York apple growers do. Our northeastern apple growers do. And what they have found is that the process is just so cumbersome. By the time that you put paperwork in, and securing, or trying to procure labor to come, and pick the crops because our items are so perishable, what usually happens is, and what has happened in the past is, those apple pickers, or fruit pickers that show up about a week after the crop should have been harvested. Well, in our business, we can't allow that to happen. That's when they start maturing past the deadline. And we're not giving a quality piece of fruit to the consumer at the supermarket level.

So, you know what we need is some type of better method to identify workers that are eligible for the program. A more flexible system that allows us to bring workers in and out, and where we can track them thoroughly.

So the paperwork, even at the level of what H–2A is trying to do with 150,000 workers, is onerous. But, we're talking about maybe over a million-and-a-half workers in agriculture. We're going to have to step up our efforts in order to develop a system to handle that amount of workers.

Mr. MINNICK. Thank you very much.

Mr. Kernohan, following up on my colleague's from South Dakota's question. How do we provide incentives to your industry, other sources of crop residue to incentivize biomass energy, without discriminating against the other end-uses of the same raw material?

I'm thinking in your case about discriminating against the people who want to use essentially the same wood fiber, or analogous wood fiber, for paper, for lumber, for landscape materials? How do we create this new set of incentives without making the mistakes we did to incentivize corn ethanol, with the consequences it had for a whole host of consumers, including our local dairy industry.

Mr. KERNOHAN. Thank you, Congressman Minnick. That is a challenging level for us with the forest biomass. But let me offer this as a thought.

I think first and foremost, we have to create policies that actually allow a strong, vibrant infrastructure to be created. And why I start there—and that includes full supply chain, and openness of definitions of *renewable biomass.*

Because I think when you provide incentives at that level, that the economics of forest management will sort those principal concerns out in terms of valuation of products. So I think forest biomass is honestly, the lowest value product. So I think we have to allow those markets.

Mr. MINNICK. So temporary subsidies to jump start, but not permanent subsidies of money in use.

Mr. KERNOHAN. I think temporary subsidies are the right place to start. And honestly, I haven't thought through the downfalls of the pros and cons of permanent subsidies. But I think in our business, we don't have a lot of subsidies. So I would proffer that subsidies could start our market, and we'll figure it out from there. And usually it will work.

Mr. MINNICK. Thank you. I yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

And the gentleman from Idaho, Mr. Simpson.

Mr. SIMPSON. Thank you, Mr. Chairman. I appreciate it.

First, I have to apologize when I said we have the whole Idaho Delegation here. And I didn't think about it. But whenever you hold a hearing, whenever Stephanie Herseth Sandlin holds a hearing in South Dakota, the whole delegation is there.

Ms. HERSETH SANDLIN. That's right.

Mr. SIMPSON. So I apologize for that. And I also wanted to say, that I appreciate the Cocoa Puffs, and the fruits and vegetables in the breakfast. I think that's important, too. But you can never forget the most important part of that breakfast; the hash browns.

As was mentioned, I sit on the Appropriations Committee. I am also the Appropriations representative on the Budget Committee. And one of you mentioned that we would probably have a baseline that might be substantially lower.

See, it won't stay up, just because I'm from the Appropriations Committee.

We will probably have a baseline, I would suspect, given the budget situation we're facing in Washington, that may be substantially lower for the next farm bill, than we have for this current farm bill.

If that is the case, what do you think of further efforts to reduce the payment limitations as a means of trying to reduce the overall costs of the farm bill?

Mr. Brown?

Mr. BROWN. Well, I think speaking from IGPA's standpoint, I think we're against any further reduction in payment limitations.

Mr. SIMPSON. What would the impact be on Idaho producers? Because it affects different producers in different parts of the country differently.

Mr. BROWN. Yes.

Mr. SIMPSON. And I understand the largest impacts on payment limitations are on large western farms, and those in the South, as opposed to those in the Northeast and other states.

Mr. BROWN. We have a lot of large family farms in Idaho, who currently bump up against those payment limitations. And in reality, when you are talking about large farming operations, payment limitations, any further reduction, it just, you know——

Mr. SIMPSON. The other thing that will put, I guess, a challenge to, is this question, as you saw between the Chairman and Ranking Member, about direct payments, and increasing the possibility of crop insurance, or enhancing the crop insurance program. And, you mentioned the desire to increase that.

If the challenge is enhancing the crop insurance program *versus* direct payments, rather than keeping the direct payments as they are, and still enhancing the crop insurance, which direction do you think you are going to go?

Mr. BROWN. Well, I don't know. We don't have the survey back from our membership. But, as I said, the direct payment is important. But as an alternative, I think the producers would be willing to look at enhancement to the crop insurance program.

Mr. SIMPSON. You might know, Mr. Chairman, you'll probably see a lot more of Mr. Brown in the upcoming year. He's going to be the President of the National Barley Growers Association. And another Idahoan, Wayne Hurst, is going to be President of the National Association of Wheat Growers.

So we will have those representatives back in Washington talking about this very issue when you hear from your producers.

Mr. Gross, you mentioned during your testimony, that they have some indemnity program that provides partial compensation to livestock and poultry producers when flocks or herds are repopulated due to pests or disease.

No such program exists for specialty crops. In your experience, how has this lack of this aspect of the program affected the potato industry, or other specialty crops?

Mr. GROSS. I'm in the potato seed business, also. And I've seen cases where bacterial ring rot may have been found on individual operations, and they've tended not to report it, or not look for it at the risk of a lot of other producers. They tend to just push it under, since they know it's a death sentence for their seed operation.

So I just think if there was some kind of safety net available, they wouldn't lose their entire operation right then, that they might be more forthcoming in looking and reporting finds.

Mr. SIMPSON. Interesting. How has the Specialty Crop Research Initiative Grants helped with the specialty crop industry and the potato industry?

Mr. GROSS. Well, specialty crop research initiatives have allowed us to study some potato viruses in Idaho, and spreading methods that we might better control our potato virus situation.

Mr. SIMPSON. Thank you all for being here today. I appreciate it very much.

The CHAIRMAN. I thank the gentleman, and thank you panel very much for your testimony. It was very good. Good answers to questions. We appreciate your making the effort to be with us here today. So this panel is excused.

And we will call the next panel to the witness table. Mr. Ron Bitner, winegrape producer and vintner from Caldwell, Idaho; Mr. Charlie Lyons, cattle producer from Mountain Home, Idaho; Mr. Adrian Boer, dairy producer from Jerome, Idaho; and Ms. Cindy Siddoway, lamb producer from Terreton, Idaho.

We will take a brief recess.

[Recess.]

The CHAIRMAN. Mr. Bitner, we will start with you. And welcome to Committee.

STATEMENT OF RON M. BITNER, WINEGRAPE PRODUCER AND VINTNER, CALDWELL, ID

Mr. BITNER. Thank you, Mr. Chairman, Congressman Lucas, Ms. Sandlin, Mr. Costa, and I notice two gentlemen are missing right now, Congressman Simpson. And I want to thank Mr. Walt Minnick for inviting me to participate today.

My name is Ron Bitner. I am a consulting entomologist here in Canyon County, Idaho, about 10 miles west of here. I've been growing winegrapes since 1980.

I'm representing the Idaho Grape Growers and Wine Producers Commission today. And I'm currently the Chairman of the National Wine Grape Growers Association, and I'm also representing the National Wine Grape Growers.

Nestled between the Rocky Mountains and the Snake River, the Idaho wine regions are growing steadily. Nurturing the grapes with a moderate climate, limited precipitation, and a consistent growing season, the Idaho wine regions add complexity to our grapes. We need to do everything in our power to see that this industry continues to succeed.

The Idaho wine industry has been steadily growing for the last 30 years with remarkable growth in this past decade. With 11 wineries in 2002, Idaho is now home to over 40, with 1,600 acres of grapes planted. And nine of these wineries have opened in the past year.

And Idaho, along with a lot of the other states, has seen a resurgence in the small wineries, that have done a lot for economic development in the small country towns across this nation.

There is an economic impact study, conducted by Boise State University and the Idaho Wine Commission, that concluded that the Idaho wine industry had a $73 million impact in 2008, and created nearly 625 jobs. This growth led to an increase in visibility, more tourism, an enhanced reputation, and has created tremendous opportunity for expansion.

The Idaho wine industry is just in its infancy, and is expected to see remarkable growth in the next 15 years, and just coming into its own. More and more people are buying Idaho wine, and this is good news for our economy.

In order for us to continue to have success, we need to determine what I think are three major issues, not only in Idaho, but across the nation. Number one is immigration reform; enhanced marketing; and continuing to enhance research dollars.

Concerning farm bill specifics, the Wine Grape Growers of America, we just came back from meetings in March. And our three top priorities with the farm bill concerned continued funding of the National Clean Plant Network to provide us with disease free plants.

The Specialty Crop Block Grant Program has been extremely successful across this country for winegrape growers and small wineries. And the Specialty Crop Research Initiative has also been very successful. We want to see those programs continue.

One other aspect of the farm bill, and here I have to put on my bee hat. I've been a consulting bee entomologist. I've worked with non-Apis bees and native bees for 42 years now. And I was really encouraged to see in the last farm bill, the importance, and the rise and recognition of the importance of pollinators to our crops across this nation, not only in increased funding, but including those into our reserve programs, set aside programs.

You know, it's the first time that has actually happened. And as a bee biologist with 40+ years under my belt, I want to see that continue.

With that, I'll stand for questions later. Thank you.

[The prepared statement of Mr. Bitner follows:]

PREPARED STATEMENT OF RON M. BITNER, WINEGRAPE PRODUCER AND VINTNER, CALDWELL, ID

Nestled between the Rocky Mountains and the Snake River, the Idaho wine regions are growing steadily. Nurturing the grapes with a moderate climate, limited precipitation, and a consistent growing season, the Idaho wine regions add complexity to the grapes. We need to do everything in our power to see that this industry continues to succeed.

The Idaho wine industry has been steadily growing for the last 30 years with remarkable growth in the past decade. With 11 wineries in 2002, Idaho is now home to over 40 with 1,600 acres of grapes planted. Nine of these wineries have opened in the past year. That's a lot of growth in a down economy.

In order to see the impact the Idaho wine industry is having, the IWC worked with BSU to conduct an economic impact study. The results were startling. It was concluded the Idaho Wine industry had a $73 million impact in 2008 and created nearly 625 jobs. This growth led to an increase in visibility, more tourism, an enhanced reputation, and has created tremendous opportunity for expansion.

You might be thinking how are the sales and are any Idaho wines selling. The answer is good and yes. Idaho wines are at an affordable price point between $10–30, encouraging consumers to try new, undiscovered wines that are affordable in this economic downturn instead of reaching for the $50 and $100 bottles. Media has also been paying attention to Idaho, as they are looking at the next big thing and that's Idaho. Countless articles have been written.

So the next question, where are we going? The truth is the industry will continue to grow as national wine consumption increases, as well as Idaho's grape growing potential. Idaho wines are discovered across the country, ranking us 22nd in the nation.

The Idaho wine industry is just in its infancy and is expected to see remarkable growth in the next 15 years. Just coming into its own, and receiving a great deal of recognition, winemakers and growers are learning as they go and making great wine in the process. More and more people are buying Idaho wine and this is good news for our economy.

In order for us to continue to have success, we need to determine what to do about immigration reform, enhancing marketing, and continue with research.

Dealing with immigration is a sore subject for the wine industry. The immigrant workers are a crucial part of the industry, without them the work in the vineyards would not get done because it is very labor intensive. They face cold winters when pruning takes place and hot summers when training the vines. Many of these workers are probably illegal, but all they have to do is show their Social Security card to the vineyard owner and they are good to go. However, under new laws the vineyard owner could face hefty fines and possible jail time if it turns out any of their employees are illegal. If you halt illegal immigration work, you halt the industry in return due to the lack of potential work by these men and women in the vineyards.

Marketing is another area we in Idaho need to focus on. Consumers know about California and Washington wine, but the need to learn more about Idaho wine is crucial, and the only way we can succeed is to spend more money to reach them. We can do this by participating in events, giving samples, creating a better website and buying ads on the radio, but all these take money. We need to concentrate on Marketing for this industry to succeed; otherwise people simply won't know we exist.

This past year we had substantial cuts to the University of Idaho's budget, resulting in almost losing the Parma Research Center where substantial research is conducted on grapes and wine. Without this research center, we would be forced to see data and research out of state, which would not be as applicable due to different climates for growing. While we got lucky this time, as the center will stay open, we do not know for how long, leaving the potential for losing the center up to another budget cut in the future. As the industry grows, tremendous research is needed to determine what we can grow best, looking for new varietals along the way and determining what grows best for Idaho.

Idaho truly has immense potential to be one of the leading wine industries in the country, but we need to get a handle on these issues before we can get there.

The CHAIRMAN. Thank you, Mr. Bitner. We appreciate it.

Mr. Lyons, welcome to Committee.

STATEMENT OF CHARLES LYONS, CATTLE PRODUCER, MOUNTAIN HOME, ID

Mr. LYONS. Hello, Mr. Chairman, and Members, thank you.

My name is Charles Lyons. I'm a rancher out of Mountain Home, and I also am a representative of the Idaho Cattle Association.

I'm a first generation cattle producer, and I would be tickled to give you guys the credit, but I'm married to one. But I'm sure in the future, your programs will help me out tremendously.

But when I was dealt this hand, I was a little confused to where I would end up. Today I thought I would be hanging out in Walt Minnick's office, telling him how wonderful he is, and kicking back, and then going and drinking beer, and telling each other——

Mr. MINNICK. There is still time.

Mr. LYONS.—and then going back, and hanging out and telling each other how wonderful we are. But I learned a few days ago that my job was a little different than what I assumed.

So I hope to show no disrespect in my lack of preparedness to deal with you here today. Karen, on our staff, has been extremely willing to jump in and try to make me look better. She prepared this opening statement for me.

So I thought I could just read it, and my wife told me, no. No. She said listening to you read is like chewing tin foil. I recommend you don't do any such thing. So if it would work, I would just like to briefly go through them, and deal with some of our top issues. And then I would certainly welcome your questions.

The thing that's affecting us most here in the ranching industry in Idaho are environmental regulations. They are extremely burdensome. It comes from a lot of different sources, either judges, or from the Federal Government, or even the state, itself.

And the thing that has been able to help us a quite a little bit and accomplish those goals and deal with those regulations is EQIP. And from a personal standpoint, our ranch has used EQIP, and cost sharing through NRCS. And they have an excellent staff in Mountain Home and in the state.

And we've entered into a 10 year contract. And it went well for about 6 years. And like a lot of things, the burdensome part of it continued to grow, to where it became easier for me to do it myself instead of dealing with the system. And it was actually cheaper to do it by myself, even with the cost share program.

So we went ahead and pulled out of the contract after about 6 years. And I went ahead and finished the work that we planned on doing on the 10 year plan.

And that's certainly kind of the down side. And I know EQIP has helped with a lot of guys dealing with the endangered species, such as the bruneau snails, putting in pivots. You know, things like that. The money wasn't there. So from that perspective, it's been extremely helpful.

Another program that's been helpful for us through NRCS is Wildlife Habitat Incentives Program. The guys are doing a good job on the ground. They are making things proactive. They are actually there helping wildlife. Within the program there are incentives for you to continue those practices. And that's extremely encouraging. And we hope those monies are available to reward people who are doing good on the job, instead of paying somebody that's maybe not doing the work.

Of the issues that pertain to the farm bill, one was energy. It was pretty devastating to the cattle industry when we started looking into ethanol, and dealing with farm subsidies. From my standpoint, it jerked the guts out of the feeder industry here in the State of Idaho.

And I understand the other side. You know, you need to give incentives and subsidies to get a young program going, and get it off the ground. But it always has repercussions for those that were already using that commodity, and relying on our bottom line for the price and structure that was there.

And when that subsidy came, it seemed that the price jumped so far out of line, that it pretty much jerked the feet out from under us for a couple of years there.

One of the things that Mr. Lucas asked about was the taxes, and the estate tax. I can only give my own perspective. Everything that I do is put back into land and cattle. That's what I know. I don't deal in the stock market. I don't really deal with—I try to stick with what I know.

So I try to buy land. And the guy always has to buy more cows and more horses. And when it comes my time to purchase the ranch from my uncle, I don't want his siblings to be left with the only option that is to sell, where I can't even touch it. You know, you were asking about land values. You know, not to be too personal, but our place is probably now worth $4 million. Which is so far kind of out of the realm of trying to ever purchase it for an animal unit.

But when it comes my time to purchase that—I kind of got lost. But I don't have the ability to do it. There is no way I can pay the taxes on that. There is no way the family members can pay the taxes on that without selling it. So I think that's going to be a huge—a huge problem that we're going to need to deal with in the future.

And I'll just kind of leave it at that. What I found interesting most was the back-and-forth questions. So I would certainly appreciate your guys' questions on anything further.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Lyons follows:]

PREPARED STATEMENT OF CHARLES LYONS, CATTLE PRODUCER, MOUNTAIN HOME, ID

Mr. Chairman, Congressman Minnick, thank you for the opportunity to present the Idaho cattle industry's perspective on the upcoming 2012 Farm Bill. My name is Charles Lyons, and I am a cattle producer from Mountain Home, Idaho. I am currently President-Elect of the Idaho Cattle Association.

As cattle producers, our livelihood is tied to many other agricultural commodities. We are dependent upon this nation's agricultural system and infrastructure to feed, transport, market our cattle, and provide beef for America's table; and as such, we are interested in seeing this segment remain healthy and viable.

Unlike other agricultural commodity groups, however, we tend to take a different look at portions of U.S. agriculture policy. Ranchers are an independent lot who want the opportunity to run their operations as they see fit with minimal intrusion from the government. As the nation's largest segment of agriculture, the cattle industry is focused on continuing to work towards agricultural policy which minimizes direct Federal involvement; achieves a reduction in Federal spending; preserves the right of individual choice in the management of land, water, and other resources; provides an opportunity to compete in foreign markets; and does not favor one producer or commodity over another.

The open and free market is powerful, and as beef producers, we understand and embrace that fact. The cyclical ups and downs of the market can be harsh, but the system works, and we remain steadfastly committed to a free, private enterprise, competitive market system. It is not in the nation's farmers or ranchers' best interest for the government to implement policy that sets prices; underwrites inefficient production; or manipulates domestic supply, demand, cost, or price.

Conservation and the Environment

There are portions of Federal agriculture policy that we can work on together to truly ensure the future of the cattle business in the United States. Conservation and environmental issues are two such areas. Some of the cattle industry's biggest challenges and threats come from the loss of natural resources and burdensome environmental regulations. Ranchers are a partner in conservation. Our livelihood is made on the land, so being good stewards of the land not only makes good environmental sense, it is fundamental for our industry to remain strong. Our industry is threatened every day by urban encroachment, natural disasters, and misinterpretation and misapplication of environmental laws. We strive to operate as environmentally friendly as possible, and it is here where we can see a partnership with the government.

The goal of conservation and environmental programs is to achieve the greatest environmental benefit with the resources available. One such program that achieves this is the Environmental Quality Incentive Program or EQIP. All producers should be afforded equal access to cost share dollars under programs such as EQIP. Further, it is important for ranchers in the west that EQIP monies are made available for conservation work on the Federal lands that are an integral part of their operations.

Second, many producers would like to enroll in various USDA conservation programs such as CSP and CRP to reach environmental goals. However, to enroll in these programs requires the producer to stop productive economic activity on the land enrolled. We believe economic activity and conservation can go hand in hand. As such, we support the addition of provisions in the next farm bill that will further allow managed grazing on land enrolled in CRP. This will have tangible benefits on environmental quality, for example, helping to improve lands threatened by invasive plant species.

Further, programs such as the Wildlife Habitat Incentives Program can be helpful tools in assisting ranchers as they manage land to the mutual benefit of wildlife and livestock. The Endangered Species Act has often put a stranglehold on ranchers' ability to put land to productive use, often to the detriment of the species in concern. To the extent that WHIP and other NRCS programs can be improved to assist ranchers in undertaking on-the-ground conservation efforts and developing conservation plans, habitat, wildlife, and production agriculture will all benefit.

Additionally, conservation dollars allocated through farm bill programs must be distributed only to those involved in production agriculture and not be able to be misused by environmental extremist groups with the sole intent of locking up land.

USDA's conservation programs are a great asset to cattle producers. We want to see them continued and refined to make them more producer-friendly and more effective in protecting the environment in a sensible way.

Environmental issues are also a huge challenge for our industry. Proposed legislation regarding climate change and cap-and-trade could prove devastating to American agriculture and put us at a distinct disadvantage in the world's marketplace. Even if the bills move forward with an ag exemption, the increase in costs of fuel, electricity, fertilizer, feed, and equipment will be more than most livestock producers can bear. These, combined with EPA's regulation of greenhouse gases, makes us all concerned for our industry. Although these items are not addressed directly in the farm bill, we ask that the Members of the Committee step in and help ag producers in their fight to have effective and sensible environmental regulations.

Trade

Outside of conservation and environmental issues, there are several other issues that have the potential to impact the long-term health of the beef industry. One such area is trade. U.S. cattlemen have been and continue to be strong believers in international trade. We support aggressive negotiating positions to open markets and to remove unfair trade barriers to our product. We support government programs such as the Market Access Program and the Foreign Market Development Program which help expand opportunities for U.S. beef, and we urge sustained funding for these long-term market development efforts. We also support Congressional and regulatory action to address unfair international trade barriers that hinder the exportation of U.S. beef.

Energy

Research is also needed to identify and develop alternative methods of producing energy. Renewable energy is going to become an increasingly important part of our country's energy supply and there are many ways that cattle producers can contribute and benefit. Research and development is needed to find cost-effective methods of utilizing manure and animal waste as a fuel supply. When looking at ethanol, however, we must be careful not to act in a way that is detrimental to the livestock industry. Livestock consume the majority of U.S. corn. As ethanol continues to grow, we must make sure it does not do so at the detriment of the cattle feeding industry. We must take all opportunities to look at ways to balance feed demand, price, and the benefit of renewable fuels.

Taxes

Reducing the tax burden on ranchers has always been a top priority for our industry. We continue to support permanent repeal of the Death Tax. Regardless of how many or how few are effected, if even one rancher has to sell off part of their operation to pay this tax, it is unacceptable to us. Cattlemen pay their fair share of taxes, and resent the fact that many will be penalized for wanting to pass their operations on to future generations. Our priority is to keep families in agriculture, and this tax works against that goal. We do not see this as a tax cut for the rich. The rich can afford high priced attorneys and accountants to protect their money now. Ranchers operate in an asset rich but cash poor business environment. Ranchers must spend money that would otherwise be reinvested in their businesses to hire the resources necessary to protect their assets and pass their operations on to their children. At the same time, however, they may have several hundred acres of land whose value has been driven up by urban sprawl and the unintended consequences of Federal crop supports. We also support keeping the Capital Gains Tax at a lower rate and the repeal of the Alternative Minimum tax.

Conclusion

America's cattlemen are proud and independent. We just want the opportunity to run our ranches the best we can to provide a high quality product to the American consumer, and even more importantly, provide for our families and preserve our way of life. We are coming to you in an effort to work together to find ways to use the extremely limited funds available in the best way possible to conserve our resources, build our industry, and provide for individual opportunity at success. We ask for nothing more than Federal agriculture policy that helps build and improve the business climate for cattlemen. We look forward to working with you on the 2012 Farm Bill.

The CHAIRMAN. Thank you, Mr. Lyons, for your testimony.
Mr. Boer, welcome to the Committee.

STATEMENT OF ADRIAN BOER, DAIRY PRODUCER, JEROME, ID

Mr. BOER. Thank you, Chairman Peterson, Representative Simpson, and House Agriculture Committee Members. Thank you for allowing me to testify today about dairy policy on behalf of the Idaho Dairymen's Association.

My name is Adrian Boer. I'm in partnership with my wife, two sons, and daughters-in-law, and most recently grandson and granddaughter-in-law. It's truly a family farm operation.

Collectively on our three dairy operations, we milk 5,000 cows. I'm active on the Idaho Dairymen's Association, serve on the Board of Directors of the Northwest Dairy Association, and for NDA, served on the Board of Directors of National Milk Producers Federation. For NMPF, I serve on the Strategic Planning Task Force, and currently serve on the Production Managing Subcommittee.

The Idaho Dairymen's Association formed in 1944 is an organization comprised of all of the dairy producers in Idaho. It is funded by a .01¢/cwt check-off and utilizes its funds to promote the interest of the Idaho dairy industry to individual citizens, state and national legislators, governmental agencies, conservation organizations, community groups and agricultural organizations to maximize the understanding and appreciation of the Idaho dairy industry.

Northwest Dairy Association markets 7.5 billion pounds of milk annually from 550 dairy producers located in Idaho, northern California, Oregon, Utah and Washington under the Darigold label. Darigold, which was established in 1918, is an integrated milk marketing cooperative with 11 milk processing facilities in the Northwest that make and distribute fluid milk, butter, cottage cheese, skim milk powder and a variety of cultured products.

Dairy farmers in Idaho and the United States experienced their worst year financially in anyone's memory in 2009, and the crisis continues today. It is critical to evaluate all of the current dairy programs in order to identify solutions that need to be implemented in the next farm bill.

As an end result, it is estimated that a minimum of 50 percent of the dairy animals in Idaho across all sizes of operations are now in special assets with their banks. The uncertainty for the dairy operators, their families, and the other industries that rely on a healthy, robust dairy industry are taking a toll.

Dairy has developed into one of the largest agriculture segments of Idaho's various commodities, with over 36 percent of all Idaho agricultural income coming in the form of a milk check. Numerous smaller agriculture operations and small allied businesses are at stake as our industry in Idaho tries to recover.

Last year National Milk Producers Federation created a strategic planning task force to seek consensus across the dairy and producing community in creating a solid foundation for the future. The goal has been to analyze and develop a long-term strategic plan that will have a positive impact on the various factors influencing both supply and demand for milk and dairy products.

The current Dairy Product Price Support Program and the MILC program are inadequate protections against the dairy pricing crisis that we now face. Neither program was designed to function in a more globalized market, where not just milk prices, but also feed costs, and energy expenses are more volatile and trending higher. We have also faced this past year destructively low profit margins that occurred when input costs, especially feed prices, shot up.

It is particularly disturbing when our input costs increased dramatically, when other government programs, which occurred with the implementation of ethanol subsidies, were put into place.

The Idaho Dairy Association is an associate member of the National Milk Producers Federation, and will be closely monitoring the development and implications of the NMPF proposal that we have tagged with the name, Foundation for the Future.

I believe we will be able to strongly endorse, support, and lobby for the proposed changes following the guidance established by the legislative policies approved by the IDA membership.

My written testimony contains detailed information about the NMPF proposal. And I recognize that you have also had other testimony at other hearings on our proposal. As a member of the NMPF's strategic planning task force, we have spent numerous hours in the development of other proposals. I will address any questions you may have on the plan at the end of our testimony.

As I mentioned in my written testimony, there are other issues that are very important to me and the dairy industry. Comprehensive immigration reform is long overdue. Our dairies employ 57 individuals, the majority of whom are of Hispanic heritage. Our entire workforce has legal documents.

Some of our Hispanic employees have been with us over 20 years. According to a recent study conducted by Boise State University, the Idaho dairy industry accounts for over 29,000 jobs. In Idaho, 8,200 of those are on the dairy. The majority of those on the dairy are held by foreign-born laborers. IDA, NDA, NMPF strongly support the type of broad immigration reform for the agricultural perspective that AgJOBS proposes.

Dairy farmers share the concerns of all Americans about securing our borders and protecting this country. And they are not willing to sacrifice its security. However, failing to provide for orderly flows of greatly needed workers has the potential to create the enormous economic consequences for our industry, and do very little to enhance our border protection. It is time for Congress to debate about immigration and develop solutions to allow our current employees to remain here.

The Trans-Pacific Partnership Free Trade Agreement also raises concerns. Expanded dairy trade with New Zealand offers an entirely one-way street since the FTA would open up no effective new opportunity for the U.S. dairy industry in New Zealand, and even the prospect of increasing access to other markets within the TPP is limited. Because of this, producers everywhere throughout the U.S., as well as many leading dairy processors, are seeking the full exclusion of U.S.-New Zealand dairy trade from the TPP.

I want to thank you for the opportunity to testify on the issue of dairy policies here today. Through IDA, NDA and NMPF, I am excited about moving forward to working with the Members of this

Committee on issues of critical importance to the state, regional, and national dairy industry.

Mr. Chairman, I look forward to answering any questions from the Committee pertaining to the dairy industry. Thank you.

[The prepared statement of Mr. Boer follows:]

PREPARED STATEMENT OF ADRIAN BOER, DAIRY PRODUCER, JEROME, ID

Chairman Peterson and House Agriculture Committee Members; thank you for allowing me to testify today about dairy policy on behalf of Idaho Dairymen's Association.

My name is Adrian Boer; I'm in partnership with my wife, sons and daughter-in-laws on three dairy operations in Jerome Idaho. Collectively we milk 5,000 cows. I am active in the Idaho dairymen's Association, serve on the Board of Directors of Northwest Dairy Association (NDA) and for NDA serve on the Board of Directors of National Milk Producers Federation (NMPF). For NMPF I serve on the Cooperatives Working Together (CWT) Committee and currently serve on the Production Management Subcommittee.

The Idaho Dairymen's Association (IDA) formed in 1944 and is an organization comprised of all of the dairy producers in Idaho. It is funded by a $0.01/cwt check-off and utilizes it funds to promote the interest of the Idaho dairy industry to individual citizens, state and national legislators, governmental agencies, conservation organizations, community groups and agricultural organizations to maximize the understanding and appreciation of the Idaho dairy industry.

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You have heard in other testimony before this Committee, that since early in 2009 the national dairy community has been facing an unprecedented financial struggle. That is also true in Idaho and the Pacific Northwest; in Idaho alone last year it is estimated that over $550 million of producer equity was eroded away and currently there is no relief in sight to stop the bleeding. We have literally lost generations of equity. Financial recovery may likely prove impossible for many, it is estimated that over 50% of the dairy cattle in Idaho are in 'unacceptable terms' with their lenders. Uncertainty hangs over their banking relationship. Many producers are unsure if their lenders are waiting for the value of dairy cows and the land, their main sources of collateral, to recover only to proceed to liquidate them.

Numerous reasons can be listed for the collapse of the dairy industry from a drop in exports, to a huge increase in our input cost, to antiquated government programs. Clearly it is time to take a close look at addressing our industry's situation and identifying solutions as individuals, as dairy organizations, and as a country.

The purpose of these hearings is to receive input on what the content of the next farm bill should be. Representing the West I want to make sure we also cover what it should not be. It should not put one commodity at risk while enhancing another commodity as was done in the government ethanol subsidy programs that dramatically increased our input cost and were devastating to Idaho's livestock operations. It should not favor one region of the country over another region as was demonstrated in the recent appointments to the USDA dairy advisory committee, where the west with over 50% of the milk production received on four (4) seats on the seventeen (17) member committee. Finally it should not discriminate based on operation size, nor should it camouflage market signals such as the MILC program currently does by encouraging over production at times when the market is indicating a reduction in production is needed.

That is what it should not be, so how would we propose we move forward? Through my involvement with the different producer organizations, what has become clear is that we need a combination of approaches to deal with the current situation. To address the underlying problems that caused this crisis and the many industry factors that have contributed to its depth and protracted nature, we need to focus on solutions that avoid recurrences of this situation in the future.

Towards that end, last year NMPF created a Strategic Planning Task Force to seek consensus across the dairy producer community and create a solid "Foundation for the Future." This past month I have been involved with the IDA District meetings listening to concerns and attempting to explain a potential pathway for the industry to unite behind so we can move forward. It is extremely important to develop workable and realistic solutions that will garner broad support from dairy producers nationwide in order to unify behind an approach as this Committee begins to consider the next farm bill.

The current dairy industry financial crises demonstrates that it is time to drastically change many aspects of current policy, some of which have existed for decades. Our existing dairy policies and programs were designed in an earlier time to operate in a relatively closed domestic market. However, today's market for U.S. dairy farmers' milk is greatly influenced by global demand and supply, as the record prices of 2008—followed by huge declines in exports that led to the disastrous plunge in 2009 that we are still currently operating under.

The NMPF proposed Foundation for the Future program is multi-faceted in principle and needs to be looked at seriously for the future farm bill discussions. It seeks to refocus existing farm-level safety nets; create a new program to protect farmers against low margins; revamp the Federal Order milk pricing system; and establish a way to better balance dairy supply and demand. Many of those testifying on behalf of NMPF have already presented the following information but as a Member of the Committee that was instrumental in the development I believe it is important to reiterate them.

1. *Refocusing Current Safety Nets*

Both the Dairy Product Price Support Program and the MILC program are inadequate protections against not just periodic low milk prices, but also destructively low profit margins that occur when input costs, especially feed prices, shoot up. The Price Support Program, in particular, has outlived its usefulness and hinders the ability of U.S. and world markets to adjust to supply-demand signals.

Discontinuing the Dairy Product Price Support Program (DPPSP) would allow greater flexibility to meet increased global demand and shorten periods of low prices by reducing foreign competition. Additionally, shifting resources from the DPPSP toward a new income protection program would provide farmers a more effective safety net.

As this Committee may recall, NMPF vigorously defended the importance of the price support program, *albeit* modified to make improvements in certain respects, in the 2008 Farm Bill process. But at the end of the day, it is clear at this point that the dairy product price support program is not the best use of Federal resources to establish a safety net to help farmers cope with periods of low prices and is not the most effective way of achieving this goal.

- **The DPPSP reduces total demand for U.S. dairy products and dampens our ability to export, while encouraging more foreign imports into the U.S.**

  The price support program effectively reduces U.S. exports, by diverting some of our milk flow into government warehouses, rather than to commercial buyers in other nations. It creates a dynamic where it's harder for the U.S. to be a consistent supplier of many products, since sometimes we have products to export, and at other times, we just sell to the government.

- **The Program acts as a disincentive to product innovation.**

  It distorts what we produce, *i.e.,* too much nonfat dry milk, and not enough protein-standardized skim milk powder, as well as specialty milk proteins such as milk protein concentrate, that are in demand both domestically and internationally. Because the price support program is a blunt instrument that will buy only nonfat dry milk—and because that's what some plants have been built to produce, as opposed to other forms of milk powder—it puts the U.S. at a competitive disadvantage to other global dairy vendors.

- **DPPSP supports dairy farmers all around the world and disadvantages U.S. dairy farmers.**

  Further aggravating measures, the current program helps balance world supplies, by encouraging the periodic global surplus of milk products to be purchased by U.S. taxpayers. Dairy farmers in other countries, particularly the Oceania region, enjoy as much price protection from the DPPSP as our farmers. Without USDA's CCC buying up an occasional surplus of dairy proteins in the form of nonfat dry milk, a temporarily lower world price would affect our competitors—all of whom would be forced to adjust their production downward—and ultimately hasten a global recovery in prices.

- **The DPPSP isn't effectively managed to fulfill its objectives.**

Although the DPPSP has a standing offer to purchase butter, cheese and nonfat dry milk, during the past 12 years, only the last of that trio has been sold to the USDA in any significant quantity. In essence, the product that the DPPSP really supports is nonfat dry milk. Even at times when the cheese price has sagged well beneath the price support target, cheese makers choose not to sell to the government for a variety of logistical and marketing-related reasons. We have tried to address these problems, but USDA has to date been unwilling to account for the additional costs required to sell to government specifications. Once purchased, powder returning back to the market from government storage also presents challenges, and can dampen the recovery of prices as government stocks are reduced.

- **The price levels it seeks to achieve aren't relevant to farmers in 2010.**

  Even though the $9.90 per hundredweight milk price target was eliminated in the last farm bill, the individual product price support targets: $1.13/lb. for block cheese, $0.85 for powder, and $1.05 for butter—essentially will return Class III and IV prices around $10/cwt. But in an era of higher cost of production, that minimal price isn't acceptable in any way, shape or form. The chart below depicts the U.S. average cost of production and the effective level of support the program provides for the average price dairy farmers receive for milk in the U.S. As is clear from this graph, this effective price support level is far below today's cost of production.

  We believe that with the current funding constraints facing Congress, we are unlikely to see increased support prices. Even if it did, however, we would likely face the same barriers described in the prior point.

In summary, discontinuing the DPPSP would eventually result in higher milk prices for U.S. dairy farmers. By focusing on indemnifying against poor margins, rather than on a milk price target that is clearly inadequate, we can create a more relevant safety net that allows for quicker price adjustments, reduced imports and greater exports. As a result of our DPPSP, the U.S. has become the world's balancing plant. As time marches on, so, too, must our approach to helping farmers. It is because of this that NMPF is now focused upon a transitional process that shifts the resources previously invested in the dairy product price support program, to a new producer income protection program.

2. *Dairy Producer Income Protection Program.*

As mentioned above, existing safety net programs (the price support program, and the MILC program) were created in a different era. Neither was designed to function in a more globalized market, where not just milk prices, but also feed costs and energy expenses, are more volatile and trending higher. In the future, the solvency of dairy farms will depend more on margins (the difference between input costs and milk prices) than just the milk price alone. In order to address this dilemma, NMPF is proposing a revolutionary new program called the Dairy Producer Income Projection Program (DPIPP). It will help insure against the type of margin squeeze farmers experienced in 2009, and also at other points in the past when milk prices dropped, feed costs rose—or both conditions occurred in tandem.

In developing the Dairy Producer Income Protection Program, a few important principles are being followed:

- Losses caused by either low milk prices or high feed costs need to be covered.
- A farmer's cost for basic protection must be kept low or nonexistent.
- The level of protection available should be flexible, and producers should be able to purchase a higher level of protection if they choose.
- The program should be voluntary, national in scope, and open to all dairy farmers, regardless of size.
- The program should not provide incentives to create artificial over-production.
- The program must be easy to access by all producers through a simple application process or through the assistance of their cooperative.

Essentially, the Dairy Producer Income Protection Program (DPIPP) is intended to be a farm-level safety net program focused on margins, rather than just on prices, in order to create a better tool to deal with global price volatility. DPIPP would offer a combination of a base level of insurance, coupled with voluntary supplemental coverage, will allow farmers of all sizes in all regions to protect themselves from periodic margin squeezes caused both by high input costs and low milk prices.

As a substitute for the other two safety nets, DPIPP would involve two levels of insurance against negative margins. The first would be a base level of coverage, subsidized by the government that covers a portion (but not 100%) of a farm's historical annual milk production, and protects against a modestly negative margin between milk prices and feed costs. The second level would be optional, and allow a farmer to purchase a greater level of coverage, with a portion of that insurance subsidized by the government.

Key elements include:

- **Defining margin as the difference between the national all-milk price and key feed inputs.**

  The all-milk price is the best proxy to define what an average nationwide price is for milk each month. Feed costs are represented by corn, soybean meal, and alfalfa hay, and the cost of those is also tracked monthly by USDA. The difference between the per hundredweight price of milk, and the cost of feeding cows, will establish this program's margin.

- **The government will invest to help defray the cost of a basic level of margin insurance for all farmers.**

  A significant portion—but not 100%—of a farm's historic production base will be eligible for coverage. Indemnifying against part, but not all, of that farm's milk volume will ensure that the program does not stimulate overproduction. Once the numerical margin target is established, it will be fixed for the life of the farm bill. USDA will calculate actual margins on a monthly basis and make indemnity payments quarterly, as market conditions dictate.

- **Producers will have the option of purchasing an additional level of coverage.**

  For a fee, farmers who wish to insure a higher level of margin protection will have that option, with the premium partially subsidized by the government. The premium will be calculated by the probability or frequency of payments of the specific level of coverage selected. Producers will have a year after implementation of the farm bill to sign up for additional coverage.

- **The DPIPP will be equitable and national.**

  This program is designed to have no payment limitations, or production caps, thus ensuring that dairy farms of all sizes will be covered proportionately. The DPIPP will allow for new entrants, *i.e.,* new farming options, but only under strict parameters so the system can't be gamed. The program will be administered by the USDA through the Farm Service Agency (FSA) or the Risk Management Agency (RMA).

3. *Federal Milk Market Order Reform.*

Since 2004 when Federal Order 135 was voted out both Idaho and Utah became unregulated milk markets not falling under the protection of either State Milk Marketing Orders, like you find in California or Federal Milk Marketing Orders as is found in Oregon and Washington and most of the country. However we support the goal to develop a pricing system that establish a competitive pay price for milk that doesn't depend on the current milk pricing formulas that can distort signals sent both to producers and processors. Revamping Federal Orders, we can encourage the movement of milk to its highest-value uses. The end result should compensate producers fairly, reduces price volatility, and creates a more dynamic dairy industry.

4. *Production Management.*

For the past 7 years, NMPF's Cooperatives Working Together (CWT) program has voluntarily helped to address the supply side of the supply-demand equation that ultimately determines milk prices. We need to both revitalize Cooperatives Working Together, and evaluate other approaches that will address the extremes in price volatility impacting producer profit margins. The IDA's current policy position strongly supports voluntary production management and allows us to support mandated programs as long as a national referendum is part of the process.

The dairy farmers I have met with this past month at the IDA District meetings all recognize that something has to be done, the current programs are no longer in the best interest of dairy producers or consumers.

Two other concerns I would like to briefly discuss are Immigration Reform and the Trans-Pacific Partnership FTA.

Now, more than ever, dairy producers urgently need Congress to act on agricultural immigration reform. Immigrant labor plays a very important role in contributing to the success of America's dairy industry. A large percentage of the hired workers on dairy farms in the west are foreign born labors. According to a recent study conducted by Boise State University, the Idaho dairy industry accounts for over 29,000 jobs in Idaho 8,200 of those are on the dairy, the majority of those on the dairy are held by foreign born labors. IDA, NDA and NMPF strongly supports the type of broad immigration reform for the agriculture sector that AgJOBS (H.R. 2414) contains and the visa program proposed by H.R. 1660, the Dairy and Sheep H–2A Visa Enhancement Act.

Dairy farmers share the concerns of all Americans about securing our borders & protecting this country and they are not willing to sacrifice its security. However, failing to provide for orderly flows of greatly needed workers has the potential to create enormous economic consequences for our industry and do very little to enhance our border protection. We urge Members of Congress to join as cosponsors of H.R. 2414 and H.R. 1660 to once and for all address the endemic labor shortage in the dairy farming sector and allow for dairy producers to work within the agricultural visa system.

The Trans-Pacific Partnership FTA also raises concerns. Expanded dairy trade with New Zealand offers an entirely one-way street since the FTA would open up no effective new opportunity for the U.S. dairy industry in New Zealand and even the prospect of increasing access to other markets within the TPP is limited. Because of this, producers everywhere throughout the U.S., as well as many leading dairy processors, are seeking the full exclusion of U.S.-New Zealand dairy trade from the TPP.

Thank you for the opportunity to testify on the issue of dairy policies here today. Through IDA, NDA and NMPF I am excited about moving forward to working with the Members of this Committee on issues of critical importance to the state, regional and national dairy industry. Mr. Chairmen would you like me to answer any questions from the Committee.

The CHAIRMAN. Thank you very much, Mr. Boer, for that testimony.

Ms. Siddoway, welcome to the Committee.

STATEMENT OF CINDY SIDDOWAY, LAMB PRODUCER, TERRETON, ID

Ms. SIDDOWAY. Thank you, Mr. Chairman. And I welcome the Committee as well.

My name is Cindy Siddoway, past President of the American Sheep Industry Association. And on behalf of our nation's sheep industry, and the Idaho Wool Association, I want to welcome you to Idaho.

Our family owns and operates a five generation sheep ranch in eastern Idaho with 20,000 head of ewes and lambs. We are extremely proud of our rich heritage in Idaho and in the sheep ranching industry.

We currently operate the ranch much the same as our forefathers. Our experience on the land has led to some changes in our management style. Having lived here for generations, we have learned some valuable lessons about managing our ranch to survive drought, predators, severe winters, and to benefit rangelands, water, and wildlife.

Sheep ranching plays a vital role in Idaho's rural communities, where sheep provide food and fiber, and are a key use for grazing and pasture management.

I appreciate this opportunity to participate in discussions on the next farm bill. And I want to thank the Committee for the livestock programs included in the current farm bill. I am especially pleased with the inclusion of coverages for losses of confirmed wolf kills to livestock, included in the Emergency Assistance for Livestock Program, or EALP.

For sheep producers, the 2008 legislation extended the loan deficiency program for wool, and increased the base loan rate from $1 per pound to $1.15 per pound that was recently implemented. However, the loan rates have consistently been less than market prices over the years, even though wool prices have varied dramatically from the inception of the loan program in 2002 to the present.

A review of the nine wool categories, the loan rate, and the formula used at a comparison to other USDA fiber programs, may be necessary to deliver a more workable safety net for producers.

The National Sheep Industry Improvement Center is also authorized under the current legislation. Their program is designed to fund business ventures through grants, with much needed capital, to strengthen the sheep industry infrastructures. We request the National Sheep Industry Improvement Center be continued in the next farm bill.

With the sixth generation in the Siddoway family now learning the business of running a large range herd operation, a plan to increase sheep inventory, production, market and infrastructure is very important to me and to our industry.

However, several impediments stand in the way of achieving this expansion; first, increased degradation, especially from wool. Second, lack of dollars for scientific research and possible disease transmissions between domestic sheep and Big Horn sheep. Third, grazing allotments being phased out in the national forests, even though allotments that were phased back years ago due to perceived wildlife or recreational conflicts are available, and should be brought back into production and multiple use. And fourth, increased problems with the H–2A worker program in maintaining an experienced, stable labor force.

I applaud the National American Sheep Industry Association for initiating a national plan to stabilize sheep production, and rebuild inventory, and to prioritize the most critical items needed to increase production.

The declining inventory of sheep since 2005 is of great concern to our industry. And we are working hard to change this trend. However, young people today are reluctant to enter an industry when the Federal Government implements policies that create hardships and negates any possibility of profitability.

A final issue for the sheep industry, is mandatory price reporting. Accurate market information is critical to producers, and provides needed transparency in making marketing decisions. The sheep industry requests the Committee to reauthorize the mandatory price reporting before it expires in September.

Thank you, Mr. Chairman, and Members of the Committee.

[The prepared statement of Ms. Siddoway follows:]

PREPARED STATEMENT OF CINDY SIDDOWAY, LAMB PRODUCER, TERRETON, ID

On behalf of the 82,000 family farms and ranches that produce sheep in America, of which 1,200 are right here in Idaho, 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 Cindy Siddoway, past President of the American Sheep Industry Association (ASI), the national trade organization of the sheep industry. My family and I own and manage a five generation sheep ranch in eastern Idaho with 20,000 head of ewes and lambs. We are extremely proud of our rich heritage in Idaho and in the sheep ranching industry.

A half a billion dollars in lamb, wool, sheep milk and breed stock sales at the ranch level supports an additional $1.3 billion in economic activity for a total contribution to the nation's economy of $1.8 billion. The industry is a mainstay of many rural communities including many in Idaho where sheep are a key use for grazing and pasture land.

Our industry greatly appreciates the opportunity to participate in the current farm bill as well as in this and future hearings with the Committee as you prepare for the next farm bill.

Sheep producers were encouraged when the 2008 legislation extended *the loan deficiency program for wool* with an increase in the base loan rate from $1.00 per pound to a $1.15 per pound. That loan rate increase was implemented January of 2010 and so far there is still only one of the nine loan categories being used by producers.

Total wool payments nationally, since inception of the program in 2002, range from $6 million to $8 million annually. This is far under the original CBO projection of $20 million per year. We believe this is primarily due to the fact that participation has been in only one loan category—a category that was intended as an opportunity for the smallest farms to participate in the program even though their volume of wool didn't justify the expense of quality testing.

The rest of the loan categories are geared to specific grades of wool that match the actual trading in the international wool market and are determined by yield and grade testing that producers conduct on their wool. The loan rates have consistently been less than market prices over the years even though wool prices have varied dramatically between 2002 and 2010.

An increase in the base loan rate and a discussion of the loan rate formats similar to those currently used by other USDA fiber programs may be in order to deliver a "workable" safety net for producers.

The current legislation also authorized a *Sheep Industry Improvement Center* under the U.S. Department of Agriculture. This program, to be implemented and administered by the Agricultural Marketing Service, is designed to fund business ventures that strengthen the sheep business infrastructure from wool warehouses to processing equipment to lamb slaughter companies.

The farm bill provided a million dollars in mandated spending and authorized appropriations up to $10 million per year through 2012. We anticipate the oversight board will be appointed by the Secretary and the program will be operational before the Committee finalizes the new farm bill. We believe the Center will provide much needed capital to the industry and would request it be continued in the next farm bill.

A national *plan to increase the sheep inventory of the United States* is being developed in 2010 by lamb and wool companies, sheep producers and feeders to address the shortage of sheep production in America. We anticipate that portions of the plan may fit the Committee on Agriculture's goals in the 2012 Farm Bill.

The entire sheep industry and the lamb and wool business chains from farm to processor have been working to build a plan that prioritizes the most critical items needed to increase sheep production. Producers and companies alike believe they must find ways to replace retiring producers and attract new producers or the infrastructure of the industry will be at risk. Fewer companies mean less competition and less ability to market to American consumers and to export markets. The lack of both lamb and wool volume continues to squeeze the ability of businesses to buy and process our annual crops. Declining inventory of sheep since 2005 has not been due to any collapse in lamb prices at the farm gate nor extreme volatility of lamb prices. In fact, lamb prices weathered the recession better than other categories of livestock, yet we still lost production.

We look forward to sharing the plan to stabilize sheep production and rebuild the inventory, which is positive for rural economies and sheep farms and ranches.

Of interest to the Committee is a report issued this winter titled *Nontraditional Lamb Market in the United States: Characteristics and Marketing Strategies. www.sheepusa.org.* Fully ⅓ of American lamb production is now sold through smaller markets and nontraditional markets from direct consumer sales of lambs to farmers markets and to small processors serving local communities. The dramatic shift in lamb marketing of the last 5 years is changing the sheep industry as it strives to serve traditional retail and food service accounts as well as the increasing nontraditional markets.

One issue that has not changed from the sheep industry perspective since the 2008 Farm Bill is the international situation. 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. However, we have not had new markets opened up to our products, including China.

Similarly, the European Union continues to provide subsidies to sheep producers estimated at $2 billion annually under their whole farm payments. Additionally, 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.

We greatly appreciate the opportunity to discuss the sheep industry with the Committee and commit our support to the effort of drafting the next farm bill

The CHAIRMAN. Thank you very much for that testimony, Ms. Siddoway.

First of all, Mr. Bitner, are you using the cold weather variety of grapes out of Minnesota at all in Idaho?

Mr. BITNER. Fortunately, we don't get that cold here.

The CHAIRMAN. It's kind of cold here today.

Mr. BITNER. You know, we're high altitude grape growing. But most of our grapes are planted on the south-facing slopes along the Snake River, so the cold air drifts away from us.

The CHAIRMAN. Mr. Lyons, on the estate tax, the current system doesn't allow for a stepped up basis. Are you familiar with that at all.

Mr. LYONS. Yes, I am.

The CHAIRMAN. And for my farmers, the stepped up basis is a bigger issue than anything else in terms of the impact that it's going to have. You know, we used to have that before we got into this whole thing about getting rid of it. And we've lost the stepped up basis.

So how does that affect your situation? My guys are telling me that's more important than what the exemption or the rate is.

Mr. LYONS. Okay. Let me clarify that I do actually know what the stepped up basis is. It is you are taxed at a certain level at more income; is that correct.

The CHAIRMAN. Yes.

Mr. LYONS. Okay. Not from the Association's standpoint, but my own, I was never a big fan of taking what another man built no matter if he was worth $30 million or $10, and giving it back, and having the Federal Government dole it out as they see fit. What I've seen on my own—and it's pretty well proved in the third generation, they do that for you.

So not to me. I'm sorry. That was kind of a snippet.

But, yes, I was never in favor of that. I just thought what a man builds, and pays taxes on to the end, should be his to dole out as he sees fit.

The CHAIRMAN. Mr. Boer, I don't know if I have a question for you. I just want to commend the work that you guys have been doing with NMPF. I think you've really gotten ahead of looking at the fact that your system was not working.

And if you had told me 2 years ago that NMPF would be where they are at right now in the industry, I would have told you, you are nuts.

So I want to commend you for the work that you are doing. We, as the Committee, have been very much kept abreast of this, and we've been meeting on a regular basis, and been updated on your work.

So I guess I would say, keep it up. And we hope that you will come to a successful conclusion here in the next few months. It sounds like you are moving in that direction.

Mr. BOER. Yes.

The CHAIRMAN. I guess the only question might be, the latest iteration that's happening here with the so-called production management part of the equation. Are you involved in that part of things at all.

Mr. BOER. Yes, I am. I'm part of that—what they call the "production management committee." And we have come upon a plan that we think we can bring to the full board, and come to a conclusion, and get agreement.

The CHAIRMAN. So that's moving along in a positive manner?

Mr. BOER. Yes.

The CHAIRMAN. I think I know what that is. I think we were briefed on that.

Mr. BOER. Okay.

The CHAIRMAN. I actually introduced a bill very similar to that about 10 years ago. At that time, it didn't get a lot of support. But anyway, you guys are doing a good job.

And I think you are showing the rest of agriculture what needs to be done under this circumstance we're in. With the budget being the way it is, and all these questions we have, I think it's time for us to be looking at how we're doing things.

Mr. BOER. Agreed.

The CHAIRMAN. We need to make sure we have programs that work given where things are in 2010. Thank you.

And, Ms. Siddoway, I was mostly responsible for raising the loan rate in the last farm bill for wool. I guess I'm surprised to hear that only one of the parts of it is working.

Can you explain that to me a little bit better, in a little more detail?

Ms. SIDDOWAY. Yes. The way that the market works, of course, Australia is a big player in it. And we are fairly a small player in the world market.

There is such a discrepancy in the price from the coarse wool to the fine wool, and it fluctuates a great deal throughout the year. So producers, they are finding it's easier just to go with the ungraded.

The CHAIRMAN. And that's the $1.15.

Ms. SIDDOWAY. Well, that's where it stands. Right now, it's paying about 29¢ on the loan deficiency payment. But, yes, initially when we brought this program forward, the request was for $1.20 for the base rate, and it was at $1. And so I appreciate your help in raising it. And hopefully, that increase will help us a little.

The CHAIRMAN. There are nine different categories.

Ms. SIDDOWAY. Nine different categories depending on the finest of the wool. The extremely fine wool folks that are 18 and under, which are only probably ten percent of all the wool in the U.S., greatly benefit from having that category, because that's super fine wool. But, it's not in a lot of production areas.

The CHAIRMAN. Right.

Ms. SIDDOWAY. So the other categories are just not being utilized. So we would like to look at it. We would like to sit down and look at it.

The CHAIRMAN. We'll take a look at that. And that's one of the reasons we're having these field hearings.

Ms. SIDDOWAY. Thank you very much.

The CHAIRMAN. The gentleman from Oklahoma.

Mr. LUCAS. Thank you, Mr. Chairman.

Mr. Lyons, your ranching operation, I don't have a lot of experience in your neck of the woods; cow/calf stocker, which way do you go?

Mr. LYONS. I'm a cow/calf. We sell our calves——

Mr. LUCAS. When do you calve.

Mr. LYONS. We calve in the spring. This area is pretty much dominant spring calves.

Mr. LUCAS. In the typical ranching operation, how many acres to a cow pair do you run.

Mr. LYONS. Well——

Mr. LUCAS. And I know typical is a difficult thing to do.

Mr. LYONS. I'll talk about irrigated pasture and a guy who has his own place. Most of us are based in the BLM, or Forest Service, or state lands. And that, on the average, I believe, is around 20 acres.

Mr. LUCAS. It's not that much different from home. Impressive. EQIP, you mentioned that after participating in long-term contracts, you chose basically to get out of the program. I assume that means that you, as indicated in your testimony, what was required to get it done, and the way it was set up, and what was determined, it just wasn't in your schedule, your agenda.

Mr. LYONS. Yes, to reach the goals it was—I guess I could give a simple example. We had a 10,000 gallon water tank we were setting in the spring up on the hill, piping the water into the tank. The tank was a quarter inch steel. And it was a bear to get it up there. And they wanted us to paint it. Well, it actually cost me more to paint the tank than it did to put in the entire system myself. So I said, no thanks.

And that's kind of a simple thing. But I imagine somewhere, somebody messed with the system, and put up some crappy tank somewhere. So from then on, you need to paint the tanks. Well, it was just cheaper for me to say, no. I hate to paint. So I just—it will be there—it will be there a long time when I'm gone.

Mr. LUCAS. Understood.

On the tax issues, the stepped up basis system, and that's an ongoing debate back East about how that should be handled. Some folks view it as important that the stepped up basis be allowed. So if you ever sold what you inherited, you wouldn't be tagged with a huge, huge tax on the gain.

Others argue, if you are really going to keep the property in the family for generation after generation, you are not going to sell the stuff; therefore, it doesn't matter.

From your perspective, it sounds like you are one of those more multi-generation looking kind of individuals. Is that a fair assessment?

Mr. LYONS. Yes, it would be a fair assessment. Just looking down the road, it's really tough to get into an operation. Here in Idaho, your best opportunity is to buy small ground. And hopefully, purchase AUMs, which are Federal grazing permits, and state grazing permits. That's your best way.

To touch private property is almost nonexistent. It may be due to the fact that lots of things are cyclical. You saw the land try to balloon just in the last couple of years, and now they are dropping. And they will probably drop to where they become more feasible, and more realistic to what actually can be produced on the ground.

Land is not made any more. So there are a lot more people with different types of interests willing to purchase land. That makes it competitive. As far as paying for it with cows, it almost becomes nonexistent.

So in order to keep it in the family, and that would be my passion, is for the family to hold on to it. So that opportunity, be it a cousin, a nephew, whatever, that that opportunity still be there if they want to work the land.

Mr. LUCAS. Mr. Boer, Ms. Siddoway, does EQIP work for either one of you in the present form of the program?

Mr. BOER. No.

Mr. LUCAS. So you managed all your nutrient issues, you handle your watering issues strictly out of your own operating budget.

Mr. BOER. Yes, we do.

Ms. SIDDOWAY. Our operation has not worked with EQIP. But I was Chairman of the state FSA committee. And many farmers and ranchers do benefit from it. So I do see some value in it, although personally we have never used it.

Mr. LUCAS. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Ms. Herseth Sandlin from South Dakota.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman. Thank you to our witnesses.

And, Mr. Lyons, can you talk a little bit about your thoughts on the state of competition in your respective livestock industry. The Department of Justice and USDA are holding competition workshops throughout the country.

You had mentioned, Ms. Siddoway, the importance of us to be authorizing mandatory price reporting, it certainly is important for transparency in the market, to ensure competitive fair markets.

Do either of you have thoughts on these workshops, on the state of competition within the beef cattle, or sheep, and land industries? Anything more that we can do in the farm bill in terms of the livestock title as it relates to the fairness of the contracts and the transparency issues?

Ms. SIDDOWAY. I guess I did talk about mandatory price reporting. For the sheep industry, we're so much smaller, of course, than the cattle industry. There are probably three major packers in the U.S., and the transparency in marketing is very important to us, as well as the price for the foreign product.

The sheep industry, of course, has no tariff barriers here in the U.S., so we are dealing with imports. And that is of great concern to us. And knowing what's being paid for on those imported products is very important.

Especially, when the value of our dollar was up. No matter how good a manager you were, it was very hard to compete with a foreign product, because so much of it was coming here to the U.S. Thank you.

Mr. LYONS. Yes, thank you. If you want to start a fight scene within cattlemen, you talk about competition within the market. That's been an area that has been pretty contentious within the industry. One is leaning more to protectionism; one is leaning more to open markets.

I could talk about one of our biggest problems may be within the packing industry. There are less and less packers. And it almost seems to be a cyclical thing to me. But, in order to be competitive within the market, you have to be so big. You have to run some more cattle.

In order for a smaller plant to exist with the regulations that are handed to it, or with the compliances that they need, it truly is not profitable. So then your segments of your industry keep combining.

And that's where I see a real problem—increased regulation, and increased bureaucracy on the segments in the industry. And it seems to make them consolidate.

An example would be the Holbrook case in California. Be that what it may, take that all apart, that plant doesn't exist any more. Those people don't work there. That market is not available any more. Was it necessary? It was necessary to deal with it, maybe the animal cruelty. But I don't know that it was necessary to wipe out an entire part that was viable to a lot of guys who slaughtered cull cows over that issue.

That's what it seems like, a lot of small issues turn into huge issues; and therefore, consolidate the industry to where it becomes a monopoly.

Ms. HERSETH SANDLIN. I appreciate both of your responses, and how in terms of the consolidation of the packers, either regionally or domestically, and the importance of knowing price transparency on what's coming in from the foreign animals as well.

I guess that segues into another question about animal ID. And whether you are talking about a split opinion for the industry, or the potential for additional regulations that can cause unintended consequences.

As you know, USDA's current animal traceability initiative, after listening sessions occurring, and now a new Administration now puts the responsibilities on the states to develop the animal identification traceability systems.

What are your respective personal opinions, and perhaps association positions, on animal ID? Do you support the state administered approach? Do you think at some point a Federal animal ID traceability issue is needed?

Ms. SIDDOWAY. In the sheep industry, it's fairly easy to traceback to original owners, and to the original ranch. As far as traceback to the individual ewe that had that lamb, it's very difficult. That would not work in the sheep industry at all.

We can tag, and we do, we put a straight B tag in to show the ranch of origin. We also raise elk, and there is ID through the State of Idaho on that. And it become very, very complicated to keep track of all of those ID numbers.

So when I look at what we go through on the elk side of our ranch, I see it would be very difficult to have that in the sheep industry. Although we are complying with our straight B tag.

Ms. HERSETH SANDLIN. Mr. Lyons.

Mr. LYONS. Yes, we were happy to see it come back to the states. We've always been for volunteer ID. And we've felt from the state's perspective, the fascinating thing about the cattle industry is it is so diverse as you travel just from here to Wyoming, to Nebraska, and what one individual does in one state to identify their cattle.

And lots of states will have some unique opportunities that will fit within the whole picture to give you a way to trace cattle back without being a huge detriment to the cow/calf producer. Because all things roll downhill.

I mean, you can go down to the meatpacking plant and tell them all things need to be identified, and this is what it will cost you. But it will come back to the cattle. That's just the way it works.

So from my perspective, I was excited to hear that we would be able to have an opportunity to identify through the State of Idaho.

Ms. HERSETH SANDLIN. Thank you, Mr. Lyons. Thank you, Ms. Siddoway.

The CHAIRMAN. The gentleman from California.

Mr. COSTA. Mr. Bitner, I support your industry on a regular basis. Have you participated in Market Access Program? I know in California we used it, and we're trying to. I mean, it's very difficult in exporting our wine products. But what's your experience?

Mr. BITNER. As a small producer, a thousand case producer, I haven't. And I depend upon 75 percent of my wines being sold at retail from our little tasting room out in the country. Our largest producer is St. Chapelle, at 180,000 cases, participated in that. But most wineries here in Idaho are in the 25,000 cases.

Mr. COSTA. What kind.

Mr. BITNER. Cabernet, Merlot, Chardonnay.

Mr. COSTA. I will have to try it. Do you have problems with the glassy-winged sharp shooter, or some of the other invasive pests that we've got in other parts.

Mr. BITNER. You know, we haven't. And like I said, I'm Chairman of the National Grape Growers. So I spend a lot of time with California growers encouraging them to come to Idaho, because we don't have all the issues you have there. As far as the glassy-winged sharp shooter, one of the vectors are oranges. So we don't grow a lot of the warm climate things that become a vector for it.

Our soils are different. So we don't have a lot of those issues. Our rainfall is 7 inches. So we don't have a lot of mildew problems. Water is cheap. Land is cheap.

Mr. COSTA. Good. Good.

Mr. Lyons, I appreciate your Will Rogers sense of humor added to this discussion. You've certainly told us how you feel about animal ID. What's the size of your cow/calf operation?

Mr. LYONS. We're sketchy on repeating that in public. Is that rude.

Mr. COSTA. No. Where I was going with this, my cousin has a cow/calf operation. And you answered Congressman Lucas' question on your per acre per cow. But you have experience with BLM, obviously, with the land that you and your uncle have isn't sufficient to support your cow/calf operation.

Your relationship with the BLM is pretty good?

Mr. LYONS. I enjoy the people I work with day-to-day on the ground.

Mr. COSTA. What's your lease arrangement with BLM.

Mr. LYONS. Well, it works on a 10 year renewal rate. And what happens is, is we set provisions within the lease permit. It's actually a permit. So what we hope to accomplish, what——

Mr. COSTA. Do you have a fee to pay on that.

Mr. LYONS. I pay, I believe, this year, $1.37. It fluctuates.

Mr. COSTA. Mr. Boer, my time is short, but, both the Chairman and I have a lot of interest in dairy. I'm a third-generation dairy family, but you milk a lot more cows than we did.

The average size of a dairy in Idaho is?

Mr. BOER. Excuse me. I want to guess about 500 to 700, somewhere in that area.

Mr. COSTA. Among the elements of the program you talked about with NMPF is the elimination of the Dairy Product Price Support Program, and the Milk Income Loss Contract program, with new income protection.

You know that we are aware of, in the last 2 years, we've lost $11 to $12 million in equity in the dairy industry. And across the country, some say it's higher.

Is an insurance component going to replace part of that? How do you think that's going to be able to cover those kind of losses?

I mean, obviously, we want to narrow the boom and bust cycles that are more prevalent today. But I don't know how you create an insurance program that is part of your proposal that will cover those kind of losses.

Mr. BOER. It is. I haven't been a part of that committee, but what I do know about it is—the proposal is for the initial piece. The insurance would cover the catastrophic drop in milk prices.

In fact, what was proposed from some of the graphs that I have seen, the only time it would have come into play was in 2009.

Mr. COSTA. No, I saw that. We had that at our last presentation.

Mr. BOER. Okay.

Mr. COSTA. I'm working on an alternative proposal. But being able to control production with a mechanism that will allow them to have some control over their price. Because when I grew up, the joke was: when dairy prices are down, dairymen produce more milk. And when the dairy prices are up, they produce more milk. And it doesn't work any more.

So I applaud all of the—I mean, of course, as the Chairman and I noted, $9 per hundredweight. You have $15, $16 per hundredweight input cost will make believers out of a lot of folks in terms of change in the paradigm.

I just think that, in terms of bringing the industry together, notwithstanding the crisis, that we've got to give you as producers, which is my family, and some of my family some better control. I mean, so that the industry can grow. But those who don't want to grow, aren't punished by overproduction. What are your thoughts?

Mr. BOER. Well, exactly. I would agree totally. When milk prices are up, we produce more milk. When prices are down, we produce more milk. That's continuing to happen. We have a voluntary program right now through National Milk Producers Federation.

Mr. COSTA. The herd production.

Mr. BOER. Yes, the herd production.

Mr. COSTA. Yes, it won't work very well.

Mr. BOER. It's the only mechanism we have in place right now. And it's voluntary. We have about ⅔ participation. That doesn't seem to be palatable any more.

The plan that we were trying to come together with is a margin plan. So that when margins start shrinking, that there would be an automatic trigger come into play that we would all participate in.

We would all have to reduce production by a percentage that's predetermined, one or two percent, so that no one is really affected disproportionately. And when that margin expands back to the predetermined margins for 2 consecutive months, then the program will be eliminated. So it has automatic triggers and automatic retractions of the program. So that's the important part of what we say.

Mr. COSTA. My time has expired. But I'll be happy to share with you the proposal that we have been working on. I just think that there have to be some supply side signals that relate to the production.

Because from my experience, that old Einstein quote, "One definition of insanity is to continue to do things the way you always have done, and expect to get different results."

Mr. BOER. Yes, sir, agreed.

The CHAIRMAN. I thank the gentleman.

The gentleman from Idaho, Mr. Minnick.

Mr. MINNICK. Mr. Boer, continuing the discussion of my colleague from California about an alternative to the six existing Federal milk support programs, dairy programs, which cumulatively, if I listen to your testimony, have caused Idaho producers, dairymen, very efficient dairymen, to lose about 15 percent of their entire net worth in this last down cycle.

I encourage you, and applaud you for wanting to try something else. And I'm curious with respect to this new proposed income protection insurance program.

Would this be a program that a participating dairyman would pay a part of the premium, or would that be ultimately supplied by the taxpayer.

Mr. BOER. The initial part as proposed would be supported by the government. And any additional premium for a higher level of return, the producer has that option whether to take it or not take it.

Mr. MINNICK. So a maintenance level would be paid for by the participating dairyman.

Mr. BOER. Yes.

Mr. MINNICK. And to extend you wanted a richer program——

Mr. BOER. Exactly.

Mr. MINNICK.—you had to have more income in order to pay your bank to maintain your operation, you would pay for that increment in premium.

Mr. BOER. Yes.

Mr. MINNICK. And would there be an upper limit as to how much income you could insure as opposed to what you get in a very good year.

Mr. BOER. I've not been that close to that program yet. They have talked about an upper limit. I think it makes some sense to have some limit. The thought is the higher it costs, the higher you go, the more it is going to cost.

Mr. MINNICK. And there would be production controls to the extent that you paid for the richer program, so that you don't essentially buy insurance on a program that's going to worsen the——

Mr. BOER. If, in fact, we come to some conclusion and agreement on another plan that's been proposed, right.

Mr. MINNICK. According to your modeling, would the cost to the taxpayer be more or less for this kind of program, as opposed to the composite of the six programs that we currently have.

Mr. BOER. I haven't seen that number either, but I would say, much less.

Mr. MINNICK. Well, certainly, I want to applaud you for taking this initiative. Because it's clear to me at least, that we've got to do something different to protect our most efficient producers, which you represent. So thank you for doing that.

Ms. Siddoway, can I ask you a question with respect to the funding that's going to the National Sheep Industry Improvement Center. And one of the priority projects that some of your colleagues have talked to me about is research on *Pasteurella*.

And the problem that we may be facing if the Forest Service and the biologists decide we have to separate domestic sheep from habitat that is incidentally occupied by Big Horn wild sheep.

If we get a decision by the Forest Service that enforces separation, what priority would you give to funding for this kind of program that might develop a vaccine, or in other words, mitigation that would allow your industry to continue in these areas that are now threatened?

Ms. SIDDOWAY. Thank you. I appreciate the opportunity to respond to that question. Research dollars are definitely needed. Decisions are being based on nonscientific evidence on the separation.

We need the firm scientific evidence to show that there perhaps is transmission. We really don't know that yet. The policy is being made on the fact that maybe that does happen, which is totally unfair to the sheep industry. Plus it gets in the way of finding what really is causing the problem.

Big Horns are dying off whether sheep are there or not. I think all this other stuff is getting in the way to getting a real answer to how to save the Big Horn Sheep. And the sheep industry, the domestic sheep industry would really like to pursue finding research dollars, both with the University of Idaho, and with Pullman, and the sheep center there at Dubois.

Mr. MINNICK. So I can tell my Chairman, and Ranking Members, this is an extremely high priority for our industry?

Ms. SIDDOWAY. Yes, it's very high. Especially, in light of what perhaps will be coming off the Payette National Forest. So, yes, it's very high priority.

Mr. MINNICK. I'm told it might cost Idaho sheep industry perhaps half of their existing grazing acreage if an adverse decision were to come. And that it's not just an Idaho problem. It occurs any place in the West, where you have Big Horn sheep naturally inhabiting shared habitat.

Ms. SIDDOWAY. Yes, that's correct. It's a huge issue.

Mr. MINNICK. So it's a problem with a lot of states. It's not just the ones we have here. Thank you very much.

Ms. SIDDOWAY. Thank you.

Mr. MINNICK. I appreciate it.

The CHAIRMAN. Message received.

The gentleman from Idaho, Mr. Simpson.

Mr. SIMPSON. Thank you, Mr. Chairman. And following up on what my good friend, Mr. Minnick, was talking about. Those decisions are going to come down. We also have decisions relative to the experimental station in Dubois, and the Grizzly bear habitat and those allotments over there.

For those Committee Members who might not know, Idaho is 64 percent Federal land, and add state land, we're getting to 70 percent that is government owned. So most ranchers, the cattle ranchers, and sheep ranchers, and others, use public lands. And I suspect all these issues we're talking about in the ag program are minor compared to dealing with the Federal Government in dealing with allotments, and how you graze, and that type of thing.

What is the potential impact to the cattle industry, to the sheep industry, to the sage grouse issues.

Ms. SIDDOWAY. On the sage grouse issue? Oh, it would be tremendous. Less so on our private ground. And if there is a conflict with sheep, it's hard to understand why the leks are on our private ground where we've raised sheep for 120 years.

Mr. SIMPSON. Maybe they don't know the sheep are there.

Ms. SIDDOWAY. Maybe they don't. And nevertheless, there may be some qualities that restrict the sheep being there. It really makes no sense. The sheep man and the cattleman are out there on the land day in and day out. They are good land managers. They understand the land. They live on this land. It's been beneficial to us, and we want to be beneficial back to the land itself.

But, yes, the ramifications of the listing of sage grouse would be very detrimental.

Mr. SIMPSON. Are there other allotments that have been taken out of production that could be used if the Payette National Forest decision on the Big Horn sheep comes down adversely.

Ms. SIDDOWAY. Yes, there are lands taken out 20, 30 years ago as I said on perceived competition with wildlife or recreation. Whether it is real or not, a lot of allotments with the Grizzly bear habitat were retired. Those should be made available if the sheep man is forced to leave allotments.

It makes it more difficult to convert to a new one, where you don't understand it as well. It takes a few years to understand each allotment, and know the best way to graze that allotment. But they definitely should be made available.

Mr. SIMPSON. How are the degradation payments going to the loss of the reintroduced wolves into Idaho? I've heard some people say, the process is so complicated, it's just not worth it.

Ms. SIDDOWAY. Well, it does get a little complicated. We use Wildlife Services, of course. Are you talking about the Defender's of Wildlife compensation.

It's helpful. It won't be there, I don't think, much longer. That's why I applaud the inclusion of the wolf degradation in the Farm Service Agency EALP program.

You have to have Wildlife Services verifying. They have to be there. On our operation last summer, we had losses out at Sand Creek. At the same time, we were having losses in the forest, which is 100 miles apart.

It really puts a strain on Wildlife Services to have enough personnel to manage all of the conflicts. And it's going to get worse, and worse, and worse. We lost probably 130 head last summer alone.

Mr. SIMPSON. From wolves.

Ms. SIDDOWAY. From only wolf kills. And they killed our guard dogs right off the bat. We lost five guard dogs. You know, we just can't keep up with it. And we're spread, the sheep industry, as with cattle, is spread over hundreds and hundreds of miles with different herds. So it's hard to be in all places at all times.

Mr. SIMPSON. Mr. Boer, how were the banks handling your loans and lines of credit given this downturn in the dairy industry.

Mr. BOER. I'm familiar with two lending agencies. I'm most familiar with two. And one was Wells Fargo Bank. And the other one is the Farm Credit Association. I do my banking with the Farm Credit System.

Wells has taken a position, and I think horribly so—as our downturn progressed deeper into the situation, they took a position that they reevaluated the cows. They demanded more equity positions in your inventories. That, in itself, when they lowered their inventories' values, they lowered their cow values. They actually threw them in a deficit situation into a non-compliant state.

Now, Farm Credit has taken the position that, we want to do the same thing, but we're going to do this over about a year-and-a-half. So we know what's coming down. So we have a year to a year-and-a-half to try to get our financial positions back into a number that we can live with.

But that's the two situations I'm familiar with. And it's pretty hard on the producers that are banking with the banking industry, other than the Farm Credit. It's a cooperative. So I think they are cooperatively working together.

Mr. SIMPSON. Well, I would hope as you look at ways to control the production, because ultimately you have to, it's a supply-and-demand issue with milk. And when you do that, don't screw up the cattle industry.

Mr. BOER. We'll try not to. That's never our intent. We're part of that, too.

Mr. COSTA. If the gentleman might yield. On the market to market and the lending institutions, as you noted, are treating them differently. I think they are coming to the conclusion, as they are trying to carry this, they don't have enough sellers to milk these cows.

Consequently, and we're handling a little bit differently a lot of value to value in just liquidity is gone on your dairy herd.

The CHAIRMAN. I thank the gentleman. And thank the panel for answering some questions. And we appreciate it, and appreciate your time, and being with us today.

Before we adjourn, I would advise the Ranking Member to make any closing remarks if he has any.

Mr. LUCAS. Just to simply note, that clearly there are challenges all over the country. As our friends expressed in Idaho today, we have our work cut out for us. As long as we have a chance to survive, and maybe thrive in the next farm bill.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman, and I think that's pretty clear. I have no doubt that farmers can rise to the challenge, and come up with new ideas.

I've always told everybody, that no matter what kind of program we put together in Washington, the farmers will be way ahead of us, because they sit out on the tractor, and they have all day to sit there and think about this. And whatever we come up with, they will figure it out. They will be way ahead of us.

Mr. LUCAS. Just don't help too much.

The CHAIRMAN. We thank all of you for being here again. Anybody that didn't have a chance to testify, we invite you to come on to our website *www.agricultural.house.gov.* That's anybody here today or watching on the web-cast.

We know there are lots of good ideas out there. We're looking for those ideas. We're planning to spend the next number of months looking at whether there are better ways to do things, and better ways to make things work.

And this hearing has been very helpful in that regard, and we'll give Mr. Minnick the last word.

Mr. MINNICK. Thank you, Mr. Chairman. I think I can say on behalf of my friend, and colleague, Congressman Simpson, that we do work together on ag problems, just as the Committee does. We do it in a nonpartisan way based on what's best for our state and industry.

We are both honored to have this group of distinguished representatives of agriculture with us today. And we are extremely pleased, Mr. Chairman, and Ranking Member Lucas, that you would spend this time with us.

There are big problems. But there are thoughtful people. I think if we work together, we can come up with solutions that will benefit Idaho, and benefit the country, and each of you as important producers.

So thank you all for being here.

The CHAIRMAN. Thank you gentlemen for your hospitality and for the constituency here today.

Under the rules of the Committee, the record of today's hearing will remain open for 30 days to receive additional material, and supplementary written responses from the witnesses to any question posed by a Member.

And this hearing of the Committee on Agriculture is adjourned.

[Whereupon, at 3:40 p.m. (MDT), the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT BY JIM EVANS, PAST CHAIRMAN, USA DRY PEA & LENTIL COUNCIL

The USA Dry Pea & Lentil Council (USADPLC) would like to thank Chairman Peterson, Representative Minnick and the House Agriculture Committee for holding a farm bill hearing in the State of Idaho. I am Jim Evans, Past Chairman of the USA Dry Pea & Lentil Council, a national organization representing producers, processors and exporters of U.S. grown dry peas, lentils and chickpeas. I am a third generation farmer from Genesee, Idaho. Idaho is a long time producer of dry peas and lentils. Idaho has also been the largest chickpea (Garbanzo Bean) producer in the United States (40,000 acres) over the past 5 years.

Statistics

Acreage of U.S. pulse crops (dry peas, lentils and chickpeas) has increased from under 500,000 acres in the year 2000 to over 1.5 million acres in 2010. Last year the U.S. produced a record 1.0 million metric tons of dry peas, lentils and chickpeas. Strong demand for these legumes around the world has kept prices for these crops above the 10 year average for the past 4 years despite record production. Prices on all pulse crops have dropped 25% in 2010 as a reminder of the volatile nature of agriculture and the need for an adequate farm safety net.

Farm Programs

Pulse crops are grown across the northern tier states in rotation with wheat, barley, minor oilseeds, corn and soybeans. Our industry fought hard to have pulse crops added as a program crop in 2002 in order to compete for acreage with other program crops. Our goal for the 2012 Farm Bill is the same as it was in 2002. Pulse producers seek to be included and treated equally with other farm program commodities in the area of farm and conservation program support. Pulse crops do have a loan and countercyclical program but no direct payment. Dry peas, lentils and chickpeas are eligible for the ACRE program and this program should be continued under the 2012 Farm Bill with some adjustments. For example, producers should be allowed to use RMA crop insurance records to establish their "plug yield" on their farm in those counties with a wide variation in environmental conditions. For example, in Nez Perce County of Idaho, average rainfall ranges from 10 to 30 inches.

Research

The 2012 Farm Bill needs to revitalize agricultural research to be a leader in providing solutions to the critical health, global food security and sustainability challenges facing this country and the global community. The United Nations projects that the world's population will grow from six billion to nine billion people by the year 2050. The competition for arable land and fresh water will become our limiting factor and most likely the cause of the wars of the future. We need to double the food supply in less than 40 years. To do this we need to increase funding to agricultural research programming that will provide short and long term solutions to these challenges. The USADPLC in cooperation with the U.S. Dry Bean Council has launched the Pulse Health Initiative (PHI) to meet these challenges head on. The mission of the PHI is to provide solutions to the critical health and sustainability challenges facing the citizens of the United States and the global community through research on pulse crops. In March of this year we gathered together 50 of the best scientific minds in this country to map out a strategic plan to achieve the following three goals:

1. **To Reduce Obesity** and associated diseases (CVD, Diabetes, Cancer) by 50%.
2. **To Reduce Global Hunger** and **Enhance Food Security** by increasing pulse crop productivity.
3. **To Reduce Agriculture's Carbon & Water Foot Print** by optimizing pulse crop nitrogen fixation and sustainability attributes.

Because of their unique nutrition and environmental attributes, pulse crops can achieve these goals, but it will take a significant investment in research. We ask the House Agriculture Committee to include the PHI in the 2012 Farm Bill. If we are to feed this world in a sustainable way, we have to increase our research investment in pulse crops and all agricultural research.

Federal Crop Insurance Reform

The 2012 Farm Bill must improve Federal Crop Insurance for those crops without a futures market. The USADPLC has been working for over 10 years to secure a crop revenue policy for dry peas, lentils and chickpeas. Ten years. The USADPLC has taken two pilot program ideas to the RMA board for consideration. Both times our ideas have made it through expert review with positive marks only to be rejected by the RMA staff and/or board. Our two pilot programs were rejected primarily because our crops do not have a futures market. There are a lot of crops without futures markets that do have solid price discovery mechanisms. The 2012 Farm Bill must include reform of the Federal Crop Insurance Program that will be more responsive to the risk management needs of those crops not traded on the Chicago Board of Trade.

Thank you for listening to these comments. The USA Dry Pea & Lentil Council looks forward to working with your Committee on the 2012 Farm Bill.

Comments Submitted on behalf of:

USA Dry Pea & Lentil Council.

SUBMITTED LETTER BY SID FREEMAN, FARMER, CALDWELL, ID

Members,
House Committee on Agriculture,
Washington, D.C.

From: Sid Freeman, member of: Canyon County Farm Bureau Federation; Nyssa Nampa Beet Growers Assoc.; Idaho Eastern Oregon Onion Growers Assoc.; Potato Growers of Idaho; Idaho Contract Bean Growers Assoc.; former FSA County Committeeman for 11 years.

Members of the Agriculture Committee:

My name is Sid Freeman. I am third generation Canyon County farmer, a sixth generation American farmer. Each generation has basically stood on it own, nothing having been passed on to the next, except for the blood that has created the desire to sow and reap the land. My wife's family has a long history in agriculture as well, she herself is a fourth generation Canyon County farm wife. We have two very wonderful, hard working, respectful sons, one in college and one in high school. With the mix of the blood that runs through their veins, and with the type of upbringing that they have shared, undoubtedly one or both of them will have the same desires as both of their grandfathers, their great grandfathers, and I possess. Unfortunately, with the current economic situation in agriculture they may have to turn towards some career other than farming in order to make their living.

I am here before you today, representing the small multi-generational family farm. Something that is rapidly disappearing right before your eyes, and soon will be gone forever. What I say here today is my own opinion and does not necessarily represent the opinion of any of the many agricultural organizations that I am a member of. My intentions here today are not to get to far into the intricacies of the farm bill, but rather to emphasize it's importance. The importance of a well written, and well balanced farm bill. As time's change, so should the substance of our the farm bill. There are a couple of issue's that I would like to touch on later, if I have time.

But for now, how important is the farm bill? That question can only be answered by, how important is the industry that it is written for? During the 49 years of my life, I have developed a very deep and profound understanding of the importance of the role that the agricultural industry plays in the development of our country, past, present, and hopefully the future. I would like to share it with you here today. What I am about to read to you is a joint memorial passed by the 2006 Idaho State Legislature. I personally drafted the resolution that became House Joint Memorial #12, which I have attached a copy of. Please feel free to read it at your pleasure.

Members of the Agriculture Committee, a strong and viable agricultural industry is without a doubt one of the most important cornerstones in the foundation of our counties national security. A strong and viable agriculture is the only answer to the preservation of the family farm unit, and the land that they so carefully steward.

In my eleven years as a county committeeman for FSA, I saw many programs that seemed to work and many that did not seem to work as well. I feel that the disaster payments made directly to farmers when weather related circumstances interfered with their crop production was far better than a multi peril crop insurance policy that most farmers could not afford any way. And then if they did carry multi peril crop insurance they seemed to get factored out of any kind of a "just" payment, even though they thought that they would be covered. This has happened to me personally on more than one occasion. In my opinion it is a huge ripoff not only to farmers but all American tax payers. The insurance companies are increasing their profits at the farmers expense, and tax payers are being told that this money is going to the farmers.

I believe that the time has come to add specialty crops to the farm bill. Lets face it before you can have crops for food, fiber, and fuel, you have to have crops for the seed that is used to produce those crops. As the population of the world is expected to increase to nine billion by 2050, the need and importance for increased seed production is going to be extreme. Idaho is a huge seed producing area for the world, especially the treasure valley. Many seed companies from all over the world come here to have the seed grown that they send around the world to produce food. Seed crops are considered a specialty crop and are not currently a properly protected by the farm bill.

My last contention I wish to bring to your attention is the fact that we now currently have a situation where there is a reverse discrimination written in the farm bill which allows special conditions and programs for minority, or socially disadvantaged, people. I believe this is absolutely hypocritical, and has no place in the farm bill. This countries veteran farmers and their families are without a doubt the ones that have the highest degree of probability to succeed in this industry. We should not in any way be cutting them short of the opportunities afforded by this farm bill or any other farm bill in the future. We must get rid of any language of any kind that is discriminatory in any way to anyone. Yes we do have a special need for new beginning farmers, but it shouldn't matter what color their skin is, or what gender they are.

Agriculture Committee, I thank you very much for your time, and for allowing me to speak with you here today. I would gladly try to answer any question that you may have.

Respectfully,

SID FREEMAN.

ATTACHMENT

Legislature of the State of Idaho

Fifty-Eighth Legislature Second Regular Session—2006

In the House of Representatives

House Joint Memorial No. 12

By Agricultural Affairs Committee

A Joint Memorial

To the Senate and House of Representatives of the United States in Congress Assembled, and to the Congressional Delegation Representing the State of Idaho in the Congress of the United States.

We, your Memorialists, the House of Representatives and the Senate of the State of Idaho assembled in the Second Regular Session of the Fifty-Eighth Idaho Legislature, do hereby respectfully represent that:

Whereas, since the beginning of time, the ability of man to provide food, fiber, and fuel for himself and others has determined his independence, freedom, and security; and

Whereas, when man began to colonize, the strength of each and every colony was directly related to his ability to provide a safe and reliable source of food, fiber, and fuel for his people; and

Whereas, when nations began to form, only nations with such ability rose to the top and since then many have fallen because they lost such ability; and

Whereas, agriculture is and will continue to be a fundamental and vital industry in Idaho, our nation, and the entire world; and

Whereas, a strong and viable agricultural industry is a very important part of our national security and overall well-being; and

Whereas, the primary source of funding for building schools, roadways, fire stations, and providing police protection in our rural communities comes from the taxes generated by agriculture and other natural resource industries; and

Whereas, American farmers, ranchers, and food processors are held by Federal, state, and local laws to meet the highest standards in the world when it comes to environmental protection, worker safety, wage rates, and food safety concerns; and

Whereas, the family farm unit is the foundation of agriculture and one of the basic strengths of this nation.

Now, Therefore, Be It Resolved by the Members of the Second Regular Session of the Fifty-Eighth Idaho Legislature, the House of Representatives and the Senate concurring therein, that we urge that American farmers, ranchers, and food processors be enabled to compete freely and trade fairly in foreign markets on a strictly level playing field.

Be It Further Resolved, that because of the importance of the standards to which American producers and food processors are held, primarily standards concerning food safety, we urge that foreign countries wishing to participate in markets that lie within the boundaries of the United States be held to the same standards.

Be It Further Resolved, when determining the economic values of international trade agreements, we urge that these standards be quantified and considered in such determinations.

Be It Further Resolved, that we encourage the education of the general public as to the importance of the role agriculture plays in the development of a society, recognizing that such public education is critical in the preservation and strengthening of the family farm unit and the overall preservation and strengthening of the agricultural industry itself.

Be It Further Resolved that the Chief Clerk of the House of Representatives be, and she is hereby authorized and directed to forward a copy of this Memorial to the President of the Senate and the Speaker of the House of Representatives of Congress, and the Congressional Delegation representing the State of Idaho in the Congress of the United States.

HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

MONDAY, MAY 3, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Fresno, CA.

The Committee met, pursuant to call, at 9:00 a.m., in Fresno City Hall Council Chambers, 2600 Fresno Street, Fresno, California, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Cardoza, Costa, Minnick, Lucas, and Conway.

Staff present: Keith Jones, John Konya, Robert L. Larew, Lisa Shelton, April Slayton, Nicole Scott, Pelham Straughn, and Sangina Wright.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

The CHAIRMAN. The hearing of the House Committee on Agriculture to review U.S. agriculture policy in advance of the 2012 Farm Bill will come to order. To begin with, a couple things we need to say, the gentleman from California, Mr. Nunes, is not a Member of the Committee but has joined us today. I have consulted with the Ranking Member and we are pleased to welcome him to join us in the questioning of the witnesses today.

Mr. NUNES. Thank you.

The CHAIRMAN. Welcome to the Committee. Also, this is the first time that there has ever been web-casting of these field hearings. We have the opportunity for anybody that wants, to be able to, in addition to the witnesses that are here today, to be able to provide ideas and testimony to the Committee through our website, which is *www.agriculture.house.gov.*

And there are some of these cards around, I believe, that have our website on it, and we welcome the people that are with us today on the web-cast.

So good morning, and I thank all you for joining us today for the House Agriculture Committee hearing. We are glad to be here, in Fresno, and to hear from area farmers and ranchers about the issues facing agriculture in rural communities.

As we demonstrated in the 2008 Farm Bill, this is about more than just farms. We continued the safety net that protects farmers and ranchers, and provides the certainty that they can rely on to stay in business. But we also made historic investments in nutrition, conservation, renewable energy, research and development, fruits and vegetables, and organic agriculture.

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty of these programs, these farmers would not be able to get the financing, in a lot of cases, that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of their busy schedules to talk to us today.

These farm bill hearings are the first step in a process of writing the next farm bill. A bill this large, and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process, like the last time, that is open, transparent and bipartisan.

For all of those joining us today in the audience, I hope that, as I said earlier, you will participate with us by making your comments known. A lot of times, we get some really good ideas from folks that do not necessarily get to the witness table, and we would appreciate that input. So feel free to send us your ideas about what you think we should consider for the next farm bill.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good afternoon, and thank you for joining us for today's House Agriculture Committee hearing. We are glad to be here in Des Moines to hear from area farmers and ranchers about the issues facing agriculture and rural communities.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business. But we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture.

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of this busy time of year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. A bill this large and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process that is open, transparent, and bipartisan.

For all those joining us today in the audience, I hope that you will also participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on our Committee website, and we have cards available today with that web address so that everyone has a chance to tell the Committee about what is working and what new ideas we should consider for the next farm bill.

We have a lot of ground to cover, so let's get started.

The CHAIRMAN. So we have a lot of ground to cover. I welcome everybody to the Committee. I recognize my good friend, the Ranking Member from Oklahoma, Mr. Lucas, for an opening statement.

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

Mr. LUCAS. Thank you, Mr. Chairman, and I once again want to thank you for calling these hearings and being so proactive in preparation for the debate that we'll have on the future of farm policy and the 2012 Farm Bill. We do have an extremely difficult road ahead of us, but one thing I look forward to is listening to our producers from across the country.

While I am fortunate and get to hear my own producers every time I go home, whether it's in the coffee shop, the feed store, or doing my own town meetings across my district, I think it's vitally important to hear from producers with a broad range of products that they produce in a broad range of places.

My goal for the next farm bill is simple. I want to give producers the tools to help you do what you do best, and that is produce the safest, most abundant, most affordable food supply in the history of the world.

I think it's extremely important to hear from you about what is working and what is not working, and what changes we can make to the farm bill to allow it to work more efficiently for you.

The 2008 Farm Bill was another important investment in the future of rural America. Not only did we provide a viable safety net for producers, but we also made substantial investments in conservation and nutrition programs during a time of need for many Americans.

A lot of people do not realize that 75 percent of farm bill spending goes to the nutrition programs. Three-quarters of all the money spent in the 2008 Farm Bill goes to nutrition programs.

In addition to those investments, this Committee is led by Chairman Peterson, who has accomplished substantial reforms, especially in the realm of payment limits. This is a fact that should not be forgotten by those who always seem ready to attack our programs.

Last week, during a hearing in Washington, I was concerned to hear the Administration's priorities seemed to differ so greatly from many of my producers' priorities.

In that hearing, barely was mentioned the topic of safety net, conservation programs, or many of the programs I hear from my producers. I think it's imperative that Congress work together with the Administration to come up with workable solutions to the many problems our rural communities face. But first, the Administration needs to prove its commitment to production agriculture.

I also want to hear from you about the impediments that you face when bringing a crop to market, and see if we can help alleviate some of those impediments.

I have serious concerns about the effects of an overreaching Federal EPA will have upon you. It seems every day, the Environmental Protection Agency is coming out with a new regulation that makes it harder for producers to make a living.

Can we do something about those impediments, or at least give you the tools that can help mitigate some of the adverse effects of those regulations. With all of that said, I look forward to hearing from our witnesses today, and thank you again, Mr. Chairman, for starting this process.

The CHAIRMAN. I thank the gentleman, and now want to recognize one of my Subcommittee Chairmen, somebody that you know well, from this area of California, Mr. Cardoza, who is the Chairman of the Subcommittee on Horticulture and Organic Agriculture. We very much appreciate his leadership, as well as the gentleman who is hosting this hearing in his district, Mr. Costa, another one of my good friends and allies, and somebody that I rely on a lot. I would recognize him for an opening statement.

OPENING STATEMENT OF HON. JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. COSTA. Thank you very much, Chairman Peterson and Ranking Member Lucas. We appreciate Congressman Conaway coming all the way from Texas, and Congressman Minnick from Idaho, and Congressman Nunes and Congressman Cardoza, who all share a love and a passion for our valley.

This is the third of four hearings on this swing. Congressmen Lucas and Peterson, and I, have been in Des Moines on Friday, and Saturday we were in Congressman Minnick's district in Boise, Idaho, and today we are in Fresno. Tomorrow, they will be heading to Cheyenne, Wyoming, really getting a snapshot of the diversity of U.S. agriculture and the challenges we face with difficult financing, on trying to write a new farm bill for 2012.

So what we are doing is setting the table here. We are setting the table, and the testimony that we will have on the two panels here that represent the breadth and width of diversity of California agriculture is very much, indeed, desired by this Committee.

Both Congressman Cardoza, Mr. Nunes, and I, are always trying to explain to our colleagues, in other parts of the country, how diverse California agriculture really is with almost 400 crops.

And of course we well know the challenges we have had with the water problems that we have had here, the last 3 years.

I also want to recognize that we have some guests here. The California Secretary of Agriculture, A.G. Kawamura, who is here with us, Supervisor Phil Larson I saw in the audience, and Council Member Sterling. And is there someone else that I have left out here in our local elected officials? We are very pleased that you are here as well.

Let me indicate that when we talk to our colleagues around the country about California, many of them do not think of farming. They think of aerospace, they think of the movie industry, they think of high tech.

But the fact is is that California is the most diverse agricultural state in the nation, and the Central Valley is one of the, if not the most, productive agricultural region in the United States.

We have over 81,000 farms in California, farms and ranches and dairies, that last year, at the farm gate, totaled $36.2 billion. This state, our state, grows 99 percent of the almonds, pistachios, peaches, plums, olives, kiwi, dates, figs, artichokes, pomegranates, and walnuts. That is a mouthful, but 99 percent of the production is here, in California.

We produce 22 percent of the nation's dairy products, and approximately 50 percent of the country's fruits and vegetables.

California represents 11 percent of the entire U.S. agricultural production with over 400 commodities, and that is why it is so important, Mr. Chairman, and Ranking Member Lucas, that you are here, and we appreciate that very much today.

California agriculture has always been innovative.

Today, we will have an opportunity to hear from some of these innovators, on both panels.

The 2008 Farm Bill made great strides in recognizing the needs and the value of California agriculture. Congressman Cardoza and I appreciate that as it relates to specialty crops. We want to build on that progress.

Today we will be listening to how the priorities ought to be established for the 2012 Farm Bill. Do we believe that it is important to have domestically-grown products, or do we want them to be imported from other countries? I think not.

Do we want to invest in developing new renewable energy sources from farm products, like methane digesters or sugarbeet conversion, or should we allow Brazil and the European Union to lead the way in these areas? I think not.

Do we want to have ready accessibility to healthy fruits and vegetables and dairy products available for our children in their school lunch program? We are dealing with the big problem of obesity. It is really a conundrum. We grow abundant fruits and vegetables, yet we have problems with young people suffering from obesity.

We know here, in Fresno, in the Valley, that food does not come from Safeway but it comes from our farms. It comes from dedicated farm families, like those that will be testifying this morning.

I am looking forward to hearing the testimony to ensure that the next farm bill will help California agriculture, not just our specialty crops, but in dealing with invasive species, with research, with marketing, promotion, with air quality issues, dealing with all the challenges that our farmers, ranchers and dairymen face.

So I want to thank you again, Mr. Chairman, for your leadership. I want to thank Congressman Lucas for the bipartisan effort that takes place here, we appreciate it very much. I would like to defer to my colleague, Congressman Cardoza, for any comments he might want to make.

OPENING STATEMENT OF HON. DENNIS A. CARDOZA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. CARDOZA. Thank you for hosting us, Jim. I want to especially recognize the Chairman, who has been helpful since I have been in Congress. He has helped the Central Valley every time we have asked. Ranking Member Lucas, I thank you for coming to Fresno. We appreciate it.

This is a beloved valley, for those of us who live here and call it home. In the last farm bill, we did some very important things, trying to help the valley become even more productive.

We were able to secure $1.7 billion in dedicated Federal funding for specialty crops. We increased the funding for the popular EQIP Program because we have some of the dirtiest air in the country and we created a new Clean Air Program.

We increased funding for pest and disease control, and eradication programs. That is critically important to our sustainability. The new outbreak, to be announced today, underscores the importance of pest eradication and disease control.

And finally, we did quite a bit in the last farm bill to fund healthy eating programs. We did this all within the PAYGO constraints that we have put in place in Congress to pay for it as we went. We were one of the first bills that went through on regular order. And, we may have been the only bill that went through PAYGO, went through on regular order, went through on a bipartisan basis, and successfully signed into law.

We have to replicate those kind of same strategies in 2012. I am going to close with this, Mr. Chairman.

It is important to note that the first panelist to speak today is a dairyman. As Jim said, 21 percent of the dairy production for our country, is in California. California dairymen are being devastated by the current price and regulatory climate. They cannot survive without relief. I will be listening very carefully to this testimony.

Thank you, Mr. Chairman, for being here.

The CHAIRMAN. I thank the gentleman. I thank Mr. Costa and Mr. Nunes for welcoming us to this beautiful agriculture area.

We have the panel seated. Mr. Jamie Bledsoe, a dairy producer from Riverdale. Mr. Tony Campos, an almond producer from Caruthers. John Diener, who is almond, grape, wheat, alfalfa—too many crops to name—from Five Points. Kevin Kester, a cattle and grape producer from Parkfield. Jon Reelhorn, a nursery plant producer from Fresno, and Frank Rehermann, a rice producer from Live Oak.

Gentlemen, welcome to the Committee. Your full statements will made part of the record. Feel free to summarize, in order to stay within the Committee's 5 minute rule. We have a lot of things to go through this morning, and we have to get on our way to Wyoming before it gets too late.

Mr. Bledsoe, welcome to the Committee. We look forward to your testimony.

STATEMENT OF WALTER JAMES BLEDSOE, DAIRY PRODUCER, RIVERDALE, CA

Mr. BLEDSOE. Good morning, Mr. Chairman, Ranking Member Lucas, and my Congressman, Devin Nunes, and Members of the Committee. Thank you for holding this hearing this morning.

My name is Jamie Bledsoe. I am currently serving as the board President of Western United Dairymen and I am on the board of directors of my cooperative, California Dairies, Incorporated.

My wife, Elizabeth, and I, and our four children, I would consider as a typical California dairy family, and we currently milk about 1,200 Holstein cows and feed 2,500 replacement heifers and bulls for breeding purposes. And our operation supports my family as well as a family of 20 others that live off of our business.

It is important to note, and I think Congressman Costa brought up, that the California dairy industry is responsible for more than 443,000 jobs in the State of California, and a typical farm like mine generates $33 million in economic activity and 232 jobs.

The dairy industry contributed $63 billion in economic impact in our state in 2008. It's the number one industry in the State of California. The economic situation for California dairy farmers this past year was ruinous.

While things have improved slightly, dairy families are still experiencing negative margins. May is at least the 18th consecutive month of low milk prices and high input costs. Margins are not just low. They do not exist. Milk prices lingered at just over half the cost of production for a large portion of 2009, and dairy families all over the state are losing what took decades and generations to build.

In fact, my operation lost over $100 a cow in 2009, and my equity took a major hit.

The industry has experienced periods of low prices before. However, production costs have been on a steady upward trend, up nearly 20 percent in California, just over the past 3 years.

If you will notice a chart in my written statement, it shows negative margins in 5 of the past 9 years. And last year's negative margin was over $6 a hundredweight. Dramatic increases in feed prices propelled dairy production costs to record levels in late 2008 and into 2009. California producers typically do not grow all their feed and have to pay additional transportation costs to bring feed in for their cattle.

At the same time, all the costs of doing business in California have increased. Costs mount each year as producers work to meet new waste discharge requirements. Our Water Board estimates new regulations cost an additional $45,000 to $65,000 per farm, per year. Water for crop irrigation is a major concern in California, particularly right here in our Central Valley.

I farm in the Westlands Water District, and as you know, limited water supplies affect feed prices and the availability of feed. The milk price crash came early to California, because our system reacts to market signals more quickly. Price reporting in Federal Orders usually results in a 1 or 2 month delay. Our board supports pricing that sends more immediate market signals, so we support the California Order.

Prices for some commodities like butter, nonfat dry milk are moving upward, but profitability still looks pretty far off. The pressure on milk prices from current massive cheese inventories, over a billion pounds of cheese we have in inventory today, affects farmers everywhere.

Projections for the rest of the year are optimistic, but they depend on demand recovery that outpaces milk production. The downward adjustment in milk production has not kicked in, nationwide, to any great extent. California farmers reduced production, dramatically, in 2009.

In fact, California milk production has been down, year over year, 20 of the last 21 months. Clearly, something triggered a major difference in the supply response in California *versus* other parts of the country.

Looking ahead, the dairy farmer safety net needs to change, and first, it must be herd size and region neutral, and must not send signals that more production is welcome when farm milk prices are low.

Second, with these new input costs, an economic safety net based on milk price will no longer be sufficient. Both organizations are looking at programs for the future, that rely on income assurance rather than milk price triggers alone.

On the concept of production management, Western United Dairymen has organized and hosted meetings to gather input from the industry. Both boards have offered suggestions for improvements and shared our comments about the proposals as those proposals have been developed.

Those who have developed those proposals have dairy farmers' interests at heart, and, in my opinion, they are the reason the production management is part of the current mainstream Federal policy discussions.

We are very familiar with industry controlled production management here, in California. Our co-ops have programs in place and dairy farmer support for CWT here is as strong as anywhere in the country.

Next, fluid standards, fluid milk standards are specifically mentioned in the 2008 Farm Bill. Dairy farmers I talk to all around the country are interested. I encourage the Committee to add this to the list of things that could help both farmers and our consumers.

And finally, there are some other important issues I would like to mention. Immigration reform is a priority for farmers everywhere. Both CDI and Western United are long-time supporters of ag jobs. I thank the Members of the House Agriculture Committee for their support for technology reform. The need for reform has farm families like mine stuck in the financial planning "no man's land." Both organizations are represented here today, and support the largest exemption possible, along with the lowest tax rate on the amounts over the exemption, and the use of a stepped-up basis.

EQIP has been especially useful to California dairymen, and funding increases in the current farm bill must be maintained. State and Federal regulators must work together, better, on environmental compliance.

Producers here lead the way in renewable energy technology to help reduce our dependence on foreign oil. But there are local dairymen who have shut down their digesters for nearly a year because our local air quality regulations cannot be met.

The production of renewable gas from livestock waste deserves Federal incentives, at least equal to those provided for ethanol.

A good start would be the Biogas Production Incentives Act to provide a production tax credit for renewable biogas used to offset the use of fossil fuels. And on trade, we support the ratification of the free trade agreements with Colombia, Panama and South Korea, and relaxing restrictions on trade with Cuba.

Assistance is needed from the House Agriculture Committee to ensure that the dairy trade with New Zealand is excluded from the negotiations of the Trans-Pacific Partnership Agreement.

The Congress is now in the process of passing a new child nutrition bill, and dairy's position, as part of the reimbursable meals in Federal feeding programs is a win-win for the public and for our farmers.

California dairy producers appreciate the Committee's support for those programs, and with the importance of EQIP to environmental compliance by dairy farmers everywhere, the Senate proposal to cut funding for EQIP to provide the offset for a nutrition bill is a serious concern to us. I support the leadership of the House Agriculture Committee to help us find an alternative.

Thank you again, Mr. Chairman, for holding this hearing today, and providing me with the opportunity, and dairymen, to share the perspective of our California industry, and our future direction of the farm bill. I look forward to answering any questions that you or the Committee may have.

[The prepared statement of Mr. Bledsoe follows:]

PREPARED STATEMENT OF WALTER JAMES BLEDSOE, DAIRY PRODUCER, RIVERDALE, CA

Good morning Chairman Peterson, Ranking Member Lucas, my Congressman, Jim Costa, and Members of the Committee. I want to thank you for holding this hearing to examine Federal agriculture policy in advance of the next farm bill. My name is Jamie Bledsoe. My family and I dairy near Riverdale, California. I currently serve as Board President of Western United Dairymen and am on the Board of Directors of my cooperative, California Dairies, Inc. I am testifying on behalf of both of those organizations today.

My wife Elizabeth (a third-generation dairy farmer) and I (a first-generation dairy farmer) raised four children while making a career in this industry. Our son, Joshua returned to the farm in June of 2009 after leaving California Polytechnic University at San Luis Obispo. Our three daughters are at various stages of completing degrees at the California State Universities at Fresno and Long Beach.

I have had many experiences in the industry; including managing dairy operations, the development of elite dairy cattle genetics, and marketing live cattle, semen, and embryos all over the world. But my first love is to develop a profitable dairy herd and that endeavor began in 2003.

We started our first herd 7 years ago with 120 cows. Our first expansion was to 400 and in 2008 we tripled the size of our herd. Today we milk 1,200 Holstein cows on two facilities and feed over 2,500 replacement heifers and 500 bulls for breeding purposes. In addition, we continue to market dairy cattle and genetics locally and abroad. Our operations support my family as well as provide food and shelter for twenty employees and their families.

We are also involved in diversified farming. We recently purchased 640 acres of land in the Westlands water district where we can grow nearly 80% of the roughages for our cattle. We also grow 110 acres of wine grapes (Semillon and Muscat of Alexandria) and plan to expand into other varieties, and into growing pistachios or almonds.

Economic Impact of the California Dairy Industry

A recent analysis of the dairy industry by J/D/G/ Consulting, Inc., on behalf of the California Milk Advisory Board, offers a perspective on how vital the dairy industry is to California and its economy. The California dairy industry is responsible for more than 443,000 jobs in the state. A typical dairy farm in California generated $33.1 million in economic activity and 232 jobs in the state. In total, the dairy industry contributed $63 billion in economic impact to the state in 2008, which is more than the wine industry ($59 billion in 2007) and the motion picture/television industry ($35 billion in 2008). For those concerned about California being a "drag" on the nation's economy, improving the economic health of the California dairy industry might not be a bad place to start.

Current Economic Situation

The economic situation facing the California dairy industry this past year was ruinous. While things have improved slightly, dairy families are still experiencing negative margins. In fact, May will mark at least the 18th consecutive month of low milk prices and high input costs.

I. An economic snapshot of the California dairy industry.

A. Ruinous negative operating margins.

- Farm milk prices and feed commodity prices tend to be cyclical in nature. However, producers have never witnessed such dramatically low milk prices combined with skyrocketing production costs as they did for all of 2009. Margins haven't just been low, they simply haven't existed. That is, we have been losing money on every pound of milk produced for over a year.
- The price paid producers for milk lingered at just over half what it cost to produce the milk for a large portion of 2009. A good rule of thumb is that dairy farmers lost $100 per cow per month last year. Dairy families all over the state are losing what took them years and even generations to build.

- The industry has experienced periods of low prices before. However, production costs have been on a steady upward climb—up nearly 20% in California in just the last 3 years (2009 *versus* 2006).
- The following chart, compiled with data from the California Department of Food and Agriculture, compares net operating margins from 2001 through 2009 and year-to-date for 2010. While the last really bad year on the dairy farm, 2006, showed margins resulting in an average loss of $3.30 per hundredweight, the negative margins in 2009 were nearly two times larger. While milk prices have increased slightly and milk production costs have eased moderately, negative margins are still being experienced.

(per hundredweight)	CA Overbase Price	CA Statewide Cost of Production	Margin
2001	$13.11	$12.24	**$0.87**
2002	$10.24	$12.61	**−$2.37**
2003	$10.70	$12.44	**−$1.74**
2004	$13.89	$12.75	$1.14
2005	$13.17	$13.43	**−$0.26**
2006	$10.87	$14.17	**−$3.30**
2007	$17.27	$15.77	**$1.50**
2008	$16.03	$18.54	**−$2.51**
2009	$10.81	$16.86	**−$6.05**
2010 YTD	$12.88	$15.63	**−$2.75**

Source: CDFA.

- These numbers are hardly unique to California. Previous low price cycles have taken their predictable toll on operations that failed to control costs relative to their competing farmers serving the same markets. This cycle, however, is different. These ruinously negative margins are hurting everybody, including the most efficient.
- Productivity gains on U.S. dairy farms over the past several decades are nothing short of astonishing. However, all U.S. producers will be higher-cost producers in the years to come as a result of the additional debt load taken on to survive these negative net operating margins.

B. Monthly milk price *versus* input costs 2008–2010 YTD and near-term projections.

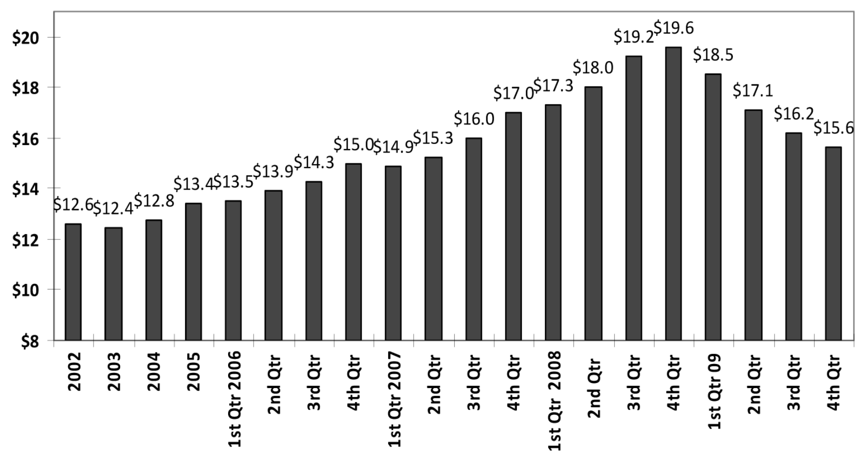
(per hundredweight)	CA Overbase Price [1]	CA Statewide Cost of Production [2]	Margin (OB less COP)	CA Mailbox (plus marketing costs)	Margin (Mailbox less COP)
Jan-08	$17.44	$17.31	$0.13	$18.50	$1.19
Feb-08	$16.72	$17.31	−$0.59	$17.58	$0.27
Mar-08	$16.01	$17.31	−$1.30	$16.57	−$0.74
Apr-08	$15.86	$18.04	−$2.18	$16.43	−$1.61
May-08	$16.77	$18.04	−$1.27	$17.34	−$0.70
Jun-08	$17.42	$18.04	−$0.62	$17.90	−$0.14
Jul-08	$17.35	$19.21	−$1.86	$17.75	−$1.46
Aug-08	$16.31	$19.21	−$2.90	$16.81	−$2.40
Sep-08	$16.22	$19.21	−$2.99	$16.85	−$2.36
Oct-08	$15.44	$19.58	−$4.14	$16.30	−$3.28
Nov-08	$14.27	$19.58	−$5.31	$15.22	−$4.36
Dec-08	$12.41	$19.58	−$7.17	$13.35	−$6.23
Jan-09	$10.40	$18.51	−$8.11	$11.09	−$7.42
Feb-09	$9.58	$18.51	−$8.93	$10.32	−$8.19
Mar-09	$9.84	$18.51	−$8.67	$10.44	−$8.07
Apr-09	$9.87	$17.12	−$7.25	$10.40	−$6.72
May-09	$9.76	$17.12	−$7.36	$10.22	−$6.90
Jun-09	$9.62	$17.12	−$7.50	$10.15	−$6.97
Jul-09	$9.60	$16.17	*−$6.57*	$10.12	−$6.05
Aug-09	$10.48	$16.17	*−$5.69*	$11.03	−$5.14
Sep-09	$11.04	$16.17	*−$5.13*	$11.72	−$4.45
Oct-09	$11.91	$15.63	*−$3.72*	$12.82	−$2.81
Nov-09	$13.13	$15.63	*−$2.50*	$14.30	−$1.33
Dec-09	$14.47	$15.63	*−$1.16*	$15.85	$0.22
Jan-10	$13.48	*$15.63*	*−$2.15*	*$14.64*	−$0.99
Feb-10	$13.11	*$15.63*	*−$2.52*		
Mar-10	$12.41	*$15.63*	*−$3.22*		
Apr-10	*$12.64*	*$15.63*	*−$2.99*		
May-10	*$12.79*	*$15.63*	*−$2.84*		

[1] Actual through Mar 2010 and estimates for Apr. and May 2010 (based on prices through April 26, 2010).

[2] Actual through 4th quarter 2009.
Source: CDFA.

- The dramatic increase in feed prices propelled dairy production costs to record levels in late 2008 and into 2009. Though feed costs have come down a bit, we expect this general upward trend to continue as the cost of doing business in California continues to rise. Unfortunately, this will continue to erode California's competitive advantage compared to other regions where dairy farmers grow the majority of their own feed and benefit from a friendly business climate.
- California producers typically do not grow all their feed and have to pay additional transportation costs to haul in feed for their cows. While dairy farmers unwaveringly support the drive for energy independence, those who purchase the bulk of their feed have seen their bottom line impacted by Federal ethanol policy.
- At the same time, all other costs of doing business in California have increased. Additional environmental costs are mounting each year as producers work to meet new waste discharge requirements. These new water quality regulations are projected by the Water Board to cost an additional $45,000 to $65,000 per year per farm.
- Water for crop irrigation is a major concern in California, particularly right here in the Central Valley where I farm. Limited water supplies affect feed prices and availability. If water is not returned to this area, farm jobs related to feed production, jobs in feed processing and distribution, and jobs related to other important economic activity will be forced to relocate elsewhere.
- Feed costs have eased somewhat from the record levels posted in late 2008. However, the decrease in feed costs has not been large enough to restore positive margins. California dairy families felt a glimmer of hope in December 2009 as average milk prices rose above production costs for the first time in nearly 2 years. However, the milk price increase turned out to be a short-term phenomenon instead of a sustained recovery.

California Statewide Cost of Production



Source: CDFA—*includes ROI for investment and management.*

C. The crash came earlier to California.

- The California milk pricing system responds more quickly to current market conditions because it corresponds to the Chicago Mercantile Exchange. In contrast, price reporting procedures for the Federal Milk Marketing Orders usually result in a 1 or 2 month delay. Our Boards support the continuation of the California Order.

D. Outlook for the remainder of 2010.

- Some commodity prices are moving upward (butter and nonfat dry milk) but profitability remains a distant prospect for most dairy farmers. California, with a great deal of cheese production (39% of California's pool utilization in March), will continue to suffer from depressed cheese prices until a drawdown in inventories is witnessed. The pressure current massive cheese inventories place on farm milk prices affect farmers everywhere in the country equally. Optimistic projections for the remainder of 2010 weigh heavily on demand recovery that outpaces milk production.

- The downward adjustment in milk production, made necessary by the disappearance of export markets caused by the global financial crisis, has not kicked in nationwide to any great extent. California producers, who felt the impact of lower prices 2 months before the rest of the country along with the sting of extremely high feed costs, reduced production dramatically in 2009. In fact, California milk production has been down year-over-year for 20 out of the last 21 months. Year-over-year milk production trends completely reversed course in California during 2009—annual production was down 4.1% from 2008 levels. This compares to a typical year-over-year ***increase*** of 4%. It is also worth noting, that the U.S. as a whole was down only 0.3% in 2009. Clearly something triggered a major difference in the supply response in California *versus* other areas of the country.
- Though prices are expected to increase as we move through the second half of 2010, a return to break-even simply will not undo the damage done to dairy farmers over the past 18 months. Economic experts often say farmers lost $100 per cow per month in 2009. Whether you're a 100 cow producer who lost $10,000 per month or a 1,000 cow farmer who lost $100,000 a month, everybody's equity took a major hit. Producers will continue to go out of business as it becomes clear that equity is gone and lenders are reevaluating operating loans with a new set of rules they must live by. Farmers must have access to adequate operating capital to continue to weather this storm.
- Those left standing will have a huge debt load to work through. It may take years of higher prices (and healthy margins) for the industry to recover.

Looking Ahead—The Next Farm Bill

A. Dairy Farmer Safety Net.

- An effective and fair economic safety net is a must for farmers.
- Dairy farmers face new challenges from higher input costs. Several factors contribute to high grain, forage and energy costs. An economic safety net based on milk price alone will no longer be sufficient.
- Going forward, the new economic safety net must be herd size and region-neutral and must not send signals that more production is welcome when farm milk prices are low.

B. Production Management.

- The Board of Directors has voted approval of the concept of supply management. Western United has organized and hosted meetings to gather input from the industry. Both Boards have offered suggestions for improvements and shared concerns about proposals as they have been developed.
- The Boards have shared specific concerns about the potential implications mandatory supply management could have for our international trade agreements and the import and export balance in the U.S. dairy market.
- The Board members of both CDI and Western United Dairymen continue to evaluate supply management proposals on an individual basis as they are made available.

C. Income Assurance.

- Both organizations are in the process of evaluating proposals for risk management programs that recognize that more than milk price triggers alone are needed and that achieve the goals of being region and herd-size neutral.

D. Fluid Milk Standards.

- There are more than 4 decades of successful history here in California, the nation's largest milk shed and the nation's largest milk market, with nonfat fortification standards for fluid milk. The reason is simple. The product tastes better and, per serving, provides more calcium and protein to consumers.
- I am encouraged that dairy farmers I talk to all around the country are interested in looking at this issue for the next farm bill. I encourage the Members of the House Agriculture Committee to add this issue to the list of things under consideration that could help both farmers and consumers.

Other Issues of Importance to California Dairymen

A. Immigration Reform.

- Both CDI and Western United Dairymen are long-time supporters of the AgJOBS legislation (H.R. 2414) and thank the Members of the California delegation who are supportive of the effort led by Senator Dianne Feinstein and Congressman Howard Berman.

B. Estate Tax Reform.

- I thank the Members of the House Agriculture Committee for their support for reform of the estate tax to help provide stability for farm families and to assist with the intergenerational transfer of their businesses. Both organizations I represent here today support the largest exemption possible, along with the lowest tax rate on amounts over the exemption and the return of the "stepped-up basis."
- The House has passed legislation to exempt $3.5 million for an individual and $7 million for a couple. The top tax rate would be set at 35% with the stepped-up basis. The Senate is working on a bill that would exempt estates up to $5 million per individual with a 35% tax rates on amounts over that and a return of the stepped-up basis.
- Without action by the Congress, on January 1, 2011 the exemption returns to $1 million. Farm families like mine are stuck in a financial planning "no-man's land" right now and I ask that the Members of the House Agriculture Committee continue to work to find a resolution to estate tax reform before the end of the year.

C. Environmental Regulation.

- Maintaining and strengthening incentives in the Conservation Title of the next farm bill is critical to all of agriculture. The Environmental Quality Incentives Program has been especially useful to California dairymen. Funding increases in the current farm bill must be maintained and monies appropriated annually so that farmers can continue to be the primary stewards of one our nation's most precious resources—our farmland. Our Boards especially thank Representatives Baca, Cardoza, Costa, Nunes and Senators Boxer and Feinstein for their exceptional support in shepherding increased EQIP funding through the last farm bill.
- Other states need only look to California for what may be in store for them from state regulators as farmers come under increasing pressure to comply with environmental legislation and regulation. Producers here have led the way in adopting renewable energy technology to help this country decrease its dependence on foreign sources of energy. But in some cases state and/or local regulators have imposed new restrictions that resulted in the forced idling of that technology. There are local dairymen right here, some of them are my neighbors, who have shut down their digesters for more than a year now because of air quality regulations that cannot be met. State and Federal regulators must work together better in order to hasten the march to energy independence.

D. Climate Change Legislation and Regulation.

- Farmers are significant energy users. Opportunities to increase farm income through carbon capture offer potential economic benefits to producers. Legislation and/or regulation that would push energy costs even higher, given the state of the dairy farm economy described earlier in this testimony, is a cause of great concern for producers.

E. Renewable Energy Legislation.

- The production of renewable energy from agricultural byproducts and waste deserves at least equal Federal incentives as those provided for ethanol. A good start would be The Biogas Production Incentives Act (H.R. 1158) that would provide a tax credit for the production of renewable biogas that is used to offset the use of a fossil fuel. This legislation would increase the production of renewable biogas on farms and provide an economically beneficial option to farmers when electricity generation engines do not meet local air quality regulations.
- Tax incentives for electricity generation have been useful in the construction of methane digesters on several dairies in California. The production of renewable biogas is an option that deserves equal incentives. The Biogas Production Incentives Act (H.R. 1158) mentioned earlier would provide a tax credit for the production of biogas that is used to offset consumption of a fossil fuel.

F. Trade.

- Western United supports ratification of Free Trade Agreements with Colombia, Panama and South Korea and relaxing restrictions on U.S. agriculture trade with Cuba.
- Assistance is needed from the House Agriculture Committee to continue working with the United States Trade Representatives' Office to ensure that dairy trade with New Zealand is excluded from negotiations for a Trans-Pacific Partnership Agreement.

G. Nutrition Policy.

- Dairy's position as part of reimbursable meals in Federal feeding programs is a win-win for the public and for farmers. California dairy producers appreciate the Committee's support for those programs.
- With the importance of EQIP to environmental compliance by dairy farmers everywhere, the Senate proposal to cut funding for EQIP to provide the offset for a nutrition bill is of serious concern. I support the work of the leadership of the House Agriculture Committee to help find an alternative.

Conclusion

Thank you again, Mr. Chairman, for holding this hearing today and providing me with the opportunity to share the perspective of California dairy producers on the future direction of Federal farm bill policy. I look forward to answering the questions the Members of the Committee may have.

The CHAIRMAN. Thank you very much, Mr. Bledsoe. We appreciate that testimony. Mr. Campos, welcome to the Committee.

STATEMENT OF TONY CAMPOS, ALMOND PRODUCER, SHELLER AND SHIPPER, CARUTHERS, CA

Mr. CAMPOS. Good morning, gentlemen. My name is Tony Campos. I am an owner and partner in a diversified family farming and almond hulling and processing operation based in Caruthers, California.

I would like to thank you for holding a field hearing, here, in Fresno, to discuss the upcoming farm bill and receiving our input and viewpoints on the various aspects of the proposed bill.

I would like to give you a brief history of my beginning here in the valley. I came to this country at the age of 17 on a sheepherder's visa, and landed in Wyoming. After a year in Wyoming, I made my way to California where I continued my work as a sheepherder for the next 3 years.

I began farming in late 50's with my brother in the San Joaquin Valley. Though there are many issues to discuss, I would like to focus, the next few minutes, on the Environmental Quality Incentive Program, also known as EQIP.

In the Natural Resources Conservation Service, in the 2008 Farm Bill, EQIP was given $150 million authorization for air quality projects throughout the 50 states over 5 years. The projects help growers and ranchers provide significant environmental benefits to our communities, and provide growers and ranchers with cost-share assistance for participating in the program.

California is currently receiving $37 million over 5 years to fund conservation efforts.

As you may know, California is developing very stringent air quality rules. If adopted, those rules will force growers and ranchers to accelerate the replacement of their farm and processing equipment. We all want to be part of the solution when it comes to bettering the air quality we all breathe, but we need help in achieving the standards set before us.

Through EQIP funding in 2009, 340 tractors and pieces of processing equipment were purchased, resulting in a reduction in emissions of 560 tons NO_X, 72 tons reactive organic gases, and 18 tons PM_{10}. This funding has allowed California growers to take real positive steps toward emission reductions and getting some of the most polluting equipment out of the fields. This program has been one of the most successful at reducing PM_{10} and $PM_{2.5}$.

One example of the program's success is the purchase of farm tractors, engine replacement, and our goal is that 2010, and forward, will lead to us looking at replacing the older harvesters and, for example, almond harvesters or walnut harvesters, which will reduce PM_{10}. A study was made at UC Davis, that a newer harvester will reduce the dust emissions by 50 percent.

Almond harvesters are expensive to purchase. Many growers would not be able to do so without EQIP funding. Not only is the EQIP program reducing emissions from engines. It is reducing the amount of dust as well. This is a situation where an older engine is being replaced by a cleaner-burning Tier 3 engine. But the real advantage is that the newer harvesting machine has been built in such a way, that the amount of dust created is reduced by 50 percent.

I respectfully ask that the funding for this program be increased to $400 million in the 2012 Farm Bill. There is a great demand for the replacement of the older, higher-polluting Tier 0 engines in both farm and processing equipment.

There are many of those Tier 0 engines on farms and ranches that have been in operation because growers cannot afford to upgrade to a newer, cleaner engine.

For farming operations with economies of scale, replacing Tier 0 tractors can be quit costly. But the burden on smaller family farms is far greater, and in some cases makes it almost impossible to achieve, if not for assistance programs.

With all the economic and environmental stresses we have faced within agriculture in the last year, an expansion of this program would help growers become more efficient in their operations and use less fuel, benefiting us all.

The key to the successful implementation of this program has been the Natural Resources Conservation Services, NRCS. For the past 20 years, they have earned the trust of the farming and ranching community by providing the ability to work and understand the Clean Air Act of 1990, and how complicated this issue really is.

Second, they have gained the respect and trust of working with local and state agencies. The program should continue to be implemented by this agency, because NRCS has developed expertise in many issues affecting farmers and ranchers, including air quality and water use.

Because of this expertise, NRCS has facilitated key relationships with the major stakeholders, including grower and agricultural organizations, and has the buy-in of these groups. Many growers are skeptical to work with government agencies, but NRCS has been able to overcome that skepticism because their program has been successful in achieving emission reductions, while helping farmers to get equipment they need.

I would like to thank you all, once again, for the opportunity to testify this morning, and for listening to my concerns. Thank you very much.

[The prepared statement of Mr. Campos follows:]

PREPARED STATEMENT OF TONY CAMPOS, ALMOND PRODUCER, SHELLER AND SHIPPER, CARUTHERS, CA

Good afternoon.

My name is Tony Campos and I am an owner and partner in a diversified family farming and almond hulling and processing operation based in Caruthers, California. I would like to thank you for holding a field hearing here in Fresno to discuss the upcoming farm bill and receiving our input and viewpoints on the various aspects of the proposed Bill. Though there are many issues to discuss I would like to focus the next few minutes on the Environmental Quality Incentive Program also known as EQIP.

In the 2008 Farm Bill EQIP was given a $150 million authorization for air quality projects throughout the 50 states over 5 years. These projects help growers and ranchers provide significant environmental benefits to our communities, and provide growers and ranchers cost-share assistance for participating in the program. California is currently receiving $37 million dollars over 5 years to fund conservation efforts.

As you may know, California is developing very stringent air quality rules. If adopted, these rules will force growers and ranchers to accelerate the replacement of their farm and processing equipment. We all want to be part of the solution when it comes to bettering the air quality we all breathe but we need help in achieving the standards set before us. Through EQIP funding in 2009, 340 tractors and pieces of processing equipment were purchased resulting in a reduction in emissions of 560 tons NO_X, 72 tons Reactive Organic Gases, and 18 tons PM_{10}. This funding has allowed California growers to take real, positive steps toward emission reductions and getting some of the most polluting equipment out of the fields. This program has been one of the most successful at reducing PM_{10} and $PM_{2.5}$.

One example of the program's success is the purchase of new almond harvesting equipment. Almond harvesters are expensive to purchase brand new. Many growers would not be able to do so without EQIP funding. Not only is the EQIP program reducing emissions from the engine, it is reducing the amount of dust as well. This is a situation where an older engine is being replaced by a cleaner-burning Tier 3 engine; but the real advantage is that the newer harvesting machine has been built in such a way that the amount of dust created is reduced by more than 50%.

I respectfully ask that the funding for this program be increased to $400 million in the 2012 Farm Bill. There is great demand for the replacement of the older, higher polluting Tier 0 engines in both farm and processing equipment. There are many of these Tier 0 engines on farms and ranches that have been in operation because growers cannot afford to upgrade to a newer, cleaner engine. For farming operations with economies of scale, replacing Tier 0 tractors can be quite costly but the burden on smaller family farms is far greater and in some cases makes it almost impossible to achieve if not for assistance programs. With all the economic and environmental stresses we have faced within agriculture in the last year, an expansion of this program would help growers become more efficient in their operations and use less fuel.

The key to this successful implementation of this program has been the Natural Resources Conservation Service (NRCS). The program should continue to be implemented by this agency, because NRCS has developed expertise in many issues affecting farmers and ranchers, including air quality and water use. Because of this expertise, NRCS has facilitated key relationships with the major stakeholders including growers and agricultural organizations, and has the buy-in of these groups. Many growers are skeptical to work with government agencies, but NRCS has been able to overcome that skepticism because their program has been successful at achieving emissions reductions, while helping farmers get the equipment they need.

Again, I would like to thank you for the opportunity to testify this afternoon and for listening to my concerns.

The CHAIRMAN. Thank you, Mr. Campos. We appreciate your testimony, and your being with us.

Mr. Diener, welcome to the Committee.

STATEMENT OF JOHN E. DIENER, ALMOND, GRAPE, WHEAT, ALFALFA, SUGARBEET, TOMATO, AND SPINACH PRODUCER, FIVE POINTS, CA

Mr. DIENER. Good morning, Mr. Chairman, Members of Congress. Thank you for the opportunity to speak to you today.

As you know, nobody in the world farms better than American farmers. We still continue to feed the world and have some of the most innovative, sustainable practices at our disposal. But we can do more.

The 2012 Farm Bill needs to include increased incentives for farmers to commit to even more sustainable practices, and create more ways to create new income bases for our communities, some of these which are dire, in dire straits.

The 2012 Farm Bill can go beyond being our father's farm bill. It can look toward the future, be a greener farm bill and add new life to our industry.

For example, the City of Mendota, and surrounding areas, have been hit hard by a number of factors, which has caused it to have an unemployment rate of over 40 percent and a serious reduction in its tax base.

The Spreckles Sugar Refinery, which closed in September 2008, after almost 50 years of operation, was a major employer in the community. This closing not only had a significant impact in Mendota, it trickled down to surrounding communities in the Central Valley. The refinery allowed area farmers to grow an important value-added commodity—sugarbeets.

I have handed out a little schematic of kind of what I'm going to talk about here, if you wanted to follow that.

A group of these same farmers had previously grew this crop for sugar, have now banded together to create a co-op to grow this same crop for a new market—green energy.

The "Beet Energy" Mendota Advanced Bioenergy Beet Cooperative has undertaken the type of project that should be an important part of the 2012 Farm Bill; a project that creates a technologically advanced, sustainable biorefinery; a project that will create jobs and be an important green business for this community.

We have taken a holistic approach to creating and addressing multiple resource and environmental issues with a long-term view towards sustainability and employment. This project integrates a number of processes to create green energy through advanced low-carbon ethanol, biomethane, and biomass power; use locally grown crops and byproducts; create a tax base and employment in a community sorely in need of both.

The advanced sugarbeet to ethanol facility takes in energy beets grown within a 40 mile radius of the plant to produce advanced low-carbon ethanol for cars and farm vehicles, use byproducts to create soil amendments and biomethane, capture CO_2, and take almond prunings that can no longer be openly burned, from within 50 miles, to make Green-e electricity for the grid.

A water treatment unit will take the City of Mendota's wastewater and recycled sugarbeet wastewater and use it for biorefinery process water. It will also take in agricultural drainage water for treatment. The Mendota biorefinery will be a net exporter of irrigation-quality water south of the Delta.

We are currently partnering with the California State University-Fresno, UC Davis, California Department of Water Resources, the USDA–NRCS, to create a pilot project for this process.

Undertaking this is expensive, but with the support of these types of projects in the 2012 Farm Bill, we can have new avenues for funding and setting up facilities to support a project that has a significant impact on our communities and our nation's energy future.

The definitions of farm bill programs need to be expanded, so they can include a broader depth of energy resources. As our industry grows, we cannot be stifled by narrow definitions.

We are not just corn-based energy resources any longer. We now must include the ability to apply our sugarbeet technology.

There are many other examples of what can be done to take farming practices to the next generation, while still being cost-effective for our bottom line. On Red Rock Ranch, where I farm, we are undertaking a number of innovative solutions to make our farming practices greener.

Water Cleaning Project: We are currently spearheading a pilot project that will clean up to 200 gallons of saline water per minute, which will take care of the section of land that it is associated with and be reclaimed back into full production of Class 1 soil.

We will be using a desalinization process used on ships to provide drinking water out in the ocean. We will be able to clean out contaminants such as boron, selenium and salt, that we will remove, will be converted to marketable chemicals commonly used in plastics, glass and building materials. The cost to clean the water may be as high as $2,500 per acre-foot, but through selling of the byproducts, our clean water will only end up around $300 per acre-foot.

Conservation Tillage: We work with the UC Conservation Tillage Workgroup in implementing a minimum tillage program on our ranch. It reduces the inputs across our fields. Conservation tillage is aimed at reducing tillage operations associated with multiple cropping, seedbed preparation, thereby reducing tractor and implement passes, reducing fuel and maintenance while increasing profit.

This, combined with the overhead irrigation, not only reduces cost, but also reduces energy requirements, as well as saves the land nutrients, and the environment.

Irrigation efficiency: We have recently taken a new look at old technology that traditionally has not been well-accepted in California—center pivots. We have worked with manufacturers on finding solutions to meet our needs here, and they are working. We have saved on labor costs, been able to use water that we might not be able to use with other irrigation methods and have had excellent production.

We need your help, including funds in the 2012 Farm Bill, that will promote the creation of and support of the next generation of projects like these, nationally, that create a future for communities like Mendota, and help create a sustainable green energy source for the United States.

The future of agriculture can be even greener, and should not be narrowly defined by our next farm bill.

We must embrace the American farmer's ability to be innovative and forward thinking, and by including broader definitions for programs that include our expanding technologies.

The foundation of our industry will always remain the same. We are truly some of the first conservationists. However, we continue to be innovative and expand the definition of green technology as we grow and adapt our industry to our ever-changing environments and markets.

And thank you for your time, and contact me if you have any questions.

[The prepared statement of Mr. Diener follows:]

PREPARED STATEMENT OF JOHN E. DIENER, ALMOND, GRAPE, WHEAT, ALFALFA, SUGARBEET, TOMATO, AND SPINACH PRODUCER, FIVE POINTS, CA

Mister Chairman and Members of Congress, thank you for the opportunity to speak with you today.

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- Create green energy through advanced low-carbon ethanol, biomethane and biomass power.
- Use locally grown crops and byproducts.
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We are currently partnering with California State University, Fresno, UC Davis, California Department of Water Resources, and the USDA–NRCS (United States Department of Agriculture—Natural Resource Conservation District) to create a pilot-project for this process. The undertaking is expensive, but with support for these types of projects in the 2012 Farm Bill, we can have new avenues for funding and setting up facilities to support a project that has a significant impact on our communities and our nation's energy future. The definitions of farm bill programs need to be expanded so they include a broader depth of energy resources—as our industry grows we cannot be stifled by narrow definitions. We are not just corn based energy resources any longer. We now must include the ability to apply our sugarbeet technology.

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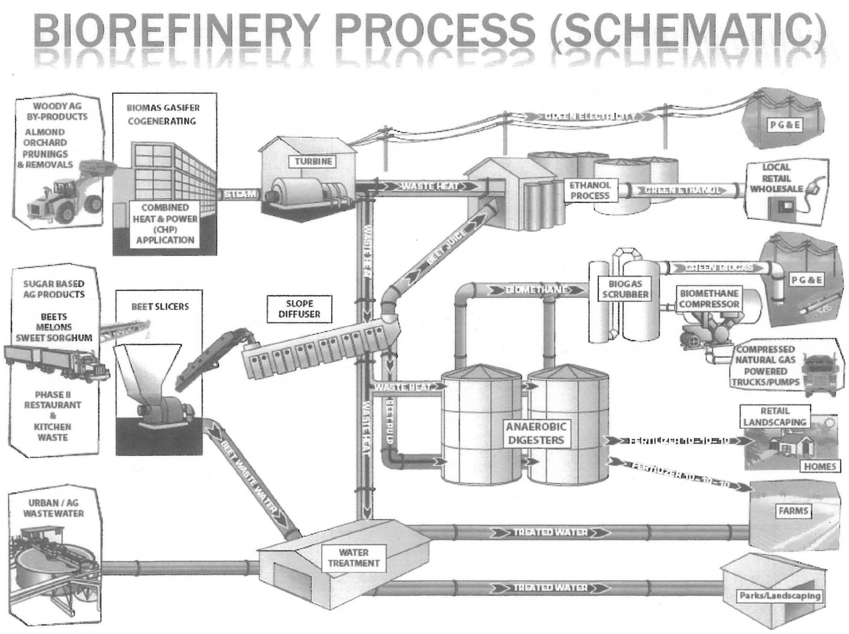
We need your help including funds in the 2012 Farm Bill that will promote creation of and support for next generation projects like these nationally that create a future for communities like Mendota and help create a sustainable, green energy source for the United States. The future of agriculture can be even greener and should not be narrowly defined by our next farm bill. We must embrace the American Farmer's ability to be innovative and forward thinking by including broader definitions for programs that include our expanding technologies. The foundation of our industry will always remain the same, we are truly some of the first conservationists, however, we continue to be innovative and expand the definition of "green technology" as we grow and adapt our industry to our ever-changing environments and markets.

Thank you for your time and please contact me if you have any questions.

Cordially,

JOHN E. DIENER,
President,
Mendota Advanced Bioenergy Beet Cooperative;
Owner, Red Rock Ranch,
Five Points, CA.

CHART


BIOREFINERY PROCESS (SCHEMATIC)
WOODY AG BY-PRODUCTS
ALMOND ORCHARD PRUNINGS & REMOVALS
BIOMAS GASIFER COGENERATING
COMBINED HEAT & POWER (CHP) APPLICATION
STEAM
TURBINE
GREEN ELECTRICITY
P G & E
WASTE HEAT
ETHANOL PROCESS
GREEN ETHANOL
LOCAL RETAIL WHOLESALE
BEET JUICE
WASTE HEAT
SUGAR BASED AG PRODUCTS
BEETS
MELONS
SWEET SORGHUM
PHASE II RESTAURANT & KITCHEN WASTE
BEET SLICERS
SLOPE DIFFUSER
BIOMETHANE
BIOGAS SCRUBBER
GREEN BIOGAS
P G & E
BIOMETHANE COMPRESSOR
COMPRESSED NATURAL GAS POWERED TRUCKS/PUMPS
WASTE HEAT
BEET PULP
ANAEROBIC DIGESTERS
RETAIL LANDSCAPING
HOMES
FERTILIZER 10 - 10 - 10
FARMS
BEET WASTE WATER
URBAN / AG WASTEWATER
WATER TREATMENT
TREATED WATER
TREATED WATER
Parks/Landscaping

The CHAIRMAN. Thank you very much, Mr. Diener.
Mr. Kester, welcome to the Committee.

STATEMENT OF KEVIN D. KESTER, CATTLE AND GRAPE PRODUCER, PARKFIELD, CA

Mr. KESTER. Thank you, Chairman Peterson, and Members of the Committee, thank you for the opportunity to address you today, to share California ranchers' perspective on U.S. agricultural policy as preparations begin for the 2012 Farm Bill. My name is Kevin Kester. I am a rancher from Parkfield, California, and I am First Vice President for the California Cattlemen's Association.

California is home to 34 million acres of rangeland. This rangeland provides wildlife habitat; is home to a diversity of common and threatened species; produces wholesome, nutritious food; and economically supports family businesses, family traditions, and many communities. These vast open landscapes are under threat to invasive species, conversion to development, and other land uses.

The 2012 Farm Bill must adequately address the economical and environmental impacts and challenges facing these rangelands. Conservation continues to provide the greatest opportunity for partnership with Congress, that will mean the most for ranchers and make wise use of Federal dollars to address the issues that impact ranchers, as well as the public needs for conservation and environmental stewardship. As such, conservation should not be sacrificed for other priorities in this bill.

And to this end, California ranchers support further reform to the conservation title of the farm bill to make programs more attractive and functional for producers on the ground.

In addition, authorization levels for programs that are working need to be increased to meet the needs of ranchers in the state. In California alone, demand for conservation funding far exceeds the money available.

For example, more than 6,000 California farmers and ranchers applied for EQIP funds, but only 1,700 projects were accepted to receive cost-share funding to address pressing natural resources issues and improve a producer's economic viability.

Ranchers also recognize the value in targeting funding, and in flexibility to address specific species and conservation needs. A key example is the recent initiative undertaken by the U.S. Fish and Wildlife Service, and the Natural Resources Conservation Service, to cooperatively work with ranchers to improve habitat, and ultimately help mitigate the need for listing of the sage grouse, currently a species of concern under the Endangered Species Act. This model of joint efforts can help solve problems that affect the viability of, and lessen the regulatory burden for, farmers and ranchers.

The 2012 Farm Bill should more explicitly recognize environmental benefits of using managed grazing as a tool to meet Federal priorities. Significant peer-reviewed research has been conducted, illustrating that a number of threatened and endangered species not only coexist with grazing, but benefit from managed grazing, making the rancher's grazing efforts a value that provides tangible public benefit.

An overall funding protocol for the next farm bill should be based on key criteria that focus efforts to areas of need and threat; that recognize state size, agricultural production, number of federally-listed species; and other resource challenges.

This need to consider unique situations, such as those that exist on California's rangeland, is particularly true when it comes to conservation easement programs that must account for the potential of conservation and conversion to other land uses.

Funding allocation to states should consider land values and the number of acres for these high-quality proposals.

I would also like to note areas of concern about issues that ranchers feel should not be addressed in the farm bill process. We support agricultural policy based on private enterprise and competitive market systems. We are concerned about the inclusion in the farm bill of any language impacting market structure or removing options for ranchers to sell livestock.

Additionally, because animal agriculture is based on humane care for cattle, horses, and other livestock, it is also imperative that the livestock title of the farm bill not become a platform for extremist organizations to push their anti-meat and anti-agriculture agendas.

In conclusion, California ranchers believe that in working with this Committee, and other interested stakeholders, additional significant steps forward are possible. Working for program improvements that increase funding to meet priorities, and to review how funding is allocated to states, are issues of critical importance.

So, on behalf of California ranchers, thank you for the opportunity to provide this testimony, and I would specifically like to thank Congressman Costa and Congressman Cardoza for recommending and allowing us to give this testimony. We look forward to working with each of you on the development of the 2012 Farm Bill. Thank you.

[The prepared statement of Mr. Kester follows:]

PREPARED STATEMENT OF KEVIN D. KESTER, CATTLE AND GRAPE PRODUCER, PARKFIELD, CA

Chairman Peterson and Members of the Committee, thank you for the opportunity to address you today to share the California ranchers' perspective on U.S. agricultural policy as preparations begin for the 2012 Farm Bill. My name is Kevin Kester, and I am a rancher from Parkfield, California and First Vice President of the California Cattlemen's Association.

I'd like to welcome all of the Members to California, which—in addition to the wide array of crop production you'll hear about from other panelists—is home to 34 million acres of rangeland. This rangeland, in turn, provides wildlife habitat, is home to a diversity of common and threatened species, produces wholesome, nutritious food and economically supports family businesses, family traditions and many communities. These vast open landscapes are under threat to conversion to development and other land uses, invasive species and the whims of the weather.

The 2012 Farm Bill must adequately address the economical and environmental challenges facing these rangelands. Conservation continues to provide the greatest opportunity for partnership with Congress that will mean the most for ranchers and make wise use of Federal dollars to address the issues that impact them as well as public needs for conservation and environmental stewardship. As such, it should not be sacrificed for other priorities in the bill.

To this end, California ranchers support further reform to the Conservation Title of the farm bill to make programs more attractive and functional for producers on the ground. In addition, authorization levels for programs that are currently working need to be increased to meet the needs of ranchers in the state. In California alone, demand for conservation funding far exceeds the money available. For example, more than 6,000 California farmers and ranchers applied for EQIP funds, but only 1,700 projects were accepted to receive cost-share funding to address pressing natural resources issues and improve a producer's economic viability.

Ranchers like me also recognize the value in flexibility and targeting funding to address specific conservation, species and on-ranch concerns. A key example is the recent initiative undertaken by the U.S. Fish and Wildlife Service and the Natural Resources Conservation Service to cooperatively work with ranchers to improve habitat, and ultimately help mitigate the need for listing of the Sage Grouse, currently a species of concern, under the Endangered Species Act. This model of joint efforts by which individual and regional farm bill investment can help solve problems that address complex issues that may affect the viability of and regulatory burden for a broad scope of farmers and ranchers should continue to be considered.

Along the same lines, the next farm bill should facilitate additional coordination between USDA and other Federal agencies, including the Department of the Interior. It is important that USDA have explicit authority to share technical knowledge with other entities regulating working farms and ranches, such as the Environmental Protection Agency, to help ranchers navigate regulatory hurdles. Additionally, the 2012 Farm Bill needs to ensure landowners who improve the natural resources on their land are not later punished with additional regulatory oversight because of their proactive management practices today.

Positive changes to a number of conservation programs were made in the 2008 Farm Bill—including the Grasslands Reserve Program and Agricultural Water Enhancement Program—and, in developing and executing programs for the next bill, those program changes and funding authorizations need to be retained. Further progress can be made in the 2012 bill by working toward meeting state and regional priorities by providing additional flexibility to work with landowners and other partners, including states and NGOs who can be trusted partners in advancing Federal priorities.

The 2012 Farm Bill also should more explicitly recognize the economic value provided by ranchers, along with the environmental benefits of using managed grazing as a tool to meet Federal priorities. Significant peer-reviewed research has been conducted illustrating that a number of threatened and endangered species not only coexist with grazing, but benefit from managed grazing, making the rancher's grazing efforts a value that provides tangible, financial public benefit.

An overall funding protocol for the next farm bill should be based on key criteria that focus efforts to areas of need and threat, that recognize state size, agricultural production, number of federally listed species and other resource challenges. This need to consider unique situations—such as that existing on California's rangeland—is particularly true when it comes to conservation easement programs that must account for potential for conversion to other land uses, land value and number of acres included in high quality acquisition proposals during program funding allocation to states.

California has returned to a normal rainfall pattern this year, after 3 or more years of drought in most parts of the state. During the past 2 years, many ranchers have been able to take advantage of the permanently authorized disaster programs. While development of these new programs was slower than any of us would have preferred, it appears that this new direction has improved delivery to better meet the future needs of ranchers who are highly subject to changes in weather as long as the centralized monitoring of drought continues to recognize changing conditions in each part of the country.

I'd also like to note a couple of concerns about issues that ranchers feel should not be addressed in the farm bill process. First, we support agricultural policy based on a free, private enterprise, competitive market system, including a producer's ability to market cattle however, whenever, and to whomever and so are concerned about inclusion in the farm bill of any language impacting market structure or removing options for ranchers to sell livestock. Additionally, because animal agriculture is based on humane care for cattle, horses, and other livestock, it is also imperative that the Livestock Title of the farm bill not become a platform for extremist organizations to push their anti-meat/anti-agriculture agendas.

In conclusion, California ranchers were pleased with a number of program changes under the 2008 Farm Bill and believe that in working with this Committee and a wide range of interested stakeholders that additional significant steps forward are possible. Working for program improvements that meet individual and broader resource and regulatory concerns for ranchers, the need to increase funding to meet these priorities and to again review how funding is allocated to states are issues of critical importance.

On behalf of California ranchers, thank you again for the opportunity to provide this testimony. We look forward to working with each of you on the development of the 2012 Farm Bill.

The CHAIRMAN. Thank you very much for your testimony.

Mr. Reelhorn, welcome to the Committee.

STATEMENT OF JON REELHORN, NURSERY PLANT PRODUCER, WHOLESALER, AND RETAILER, FRESNO, CA

Mr. REELHORN. Thank you, Chairman Peterson, and Members of the Committee, for a chance to speak today on what the 2008 Farm Bill has meant, and can mean to the future of the nursery and greenhouse industry.

I am Jon Reelhorn, owner of Belmont Nursery, a grower and retail nursery business operating right here, in Fresno. We are a family-owned business that supplies trees, shrubs and flowers to garden centers, landscape professionals, and homeowners throughout northern and central California. My remarks are offered on behalf of both the American and California Nursery Associations.

Let me start by thanking the Committee, and Congressmen Cardoza and Costa, especially, for crafting a farm bill that, for the first time, recognizes our industry in a serious way. We think that's justified. After all, specialty crops represent about ½ the value of crop production in the U.S., and our industry represents about ⅓ of the value of specialty crops, according to the 2007 Census of agriculture, nursery, greenhouse and floriculture, annual crop production totaled over $16.6 billion at farm gate. Nursery and greenhouse crop production now ranks among the top five agricultural commodities in 28 states, and among the top 10 in all 50.

Wholesale production in California represents over 20 percent of the nation's production of nursery crops and we employ over 217,000 people.

The U.S. nursery industry has developed and thrived without the influences of subsidies, price supports, or similar programs. Most of us wish to keep it that way. Our priorities in the 2008 Farm Bill are focused on critical infrastructure, programs to deal with pest and disease threats, and funding needed research.

Because of accelerated global trade and travel, virtually every new nursery pest that arrives and establishes in the U.S. becomes a production or market access problem for our industry.

Pests such as emerald ash borer, Asian Longhorned beetle, light-brown apple moth, Asian citrus psyllid, and Sudden Oak Death, are just a few of the challenges we're struggling with across the country. For this reason, we strongly supported several pest-focused provisions for the 2008 Farm Bill.

Section 10201 provided critical funding and protocol to identify and mitigate offshore pest threats, and improve pest detection and rapid response in the U.S. Specific projects now underway for the certification of nursery crops moving in interstate and international commerce, and the development of best management practices to facilitate clean and safe trade are critical to our industry.

And Section 10202 established the National Clean Plant Network. It was created to protect high-value specialty crops, such as nuts, apples, peaches and other fruits, from the spread of economically harmful plant pests and diseases.

The program will improve our growers' access to the newest and most profitable plant varieties from around the world, without the devastating plant diseases that exist elsewhere. Tremendous progress has already been made on this program.

In Section 10203, Congress intended the Secretary of Agriculture to be the final word on emergency pest funding decisions. In California, we have witnessed, time and again, where the experts at fighting pests are overruled by the Office of Management and Budget. The result has been delayed funding and more pests. We appreciate the Committee's efforts to correct this problem.

We appreciate the recognition, through the Specialty Crops Research Initiative in the 2008 Farm Bill, of the need for research funding to support the specialty crops industry.

We are concerned, however, with a required one-to-one funding match for these grants. The requirement puts specialty crop growers at a disadvantage as these grants are multiyear, and most industry-funding sources, like our own research endowments, cannot commit funding for multiple years.

While many provisions in the 2008 Farm Bill are already making a positive difference, one threatens us with a serious unintended consequence. While the program's goals are worthy, the Biomass Crop Assistance Program threatens to divert softwood and hardwood bark from established value-added markets. Over 70 percent of U.S. nursery crops, and virtually 100 percent of the greenhouse crops, are grown in containers. Bark is the single most important media to fill those containers.

We are looking for alternatives but they may not exist, or our research has not delivered those solutions. The threat of disruptions from subsides is immediate.

BCAP subsidies could divert bark availability and increase pricing, jeopardizing nursery crop sales.

As important as the farm bill has become to America's specialty crop industries, it is hard to have a serious discussion about the future success of specialty crop producers without acknowledging "the elephant in the room"—farm labor. We know farm labor is not a traditional farm bill issue. We raise it because if Congress does not act to fix it, we will see an exodus of specialty crop production in the U.S.

In conclusion, thank you for this hearing. Thank you for hearing the views and needs of the U.S. nursery and greenhouse industry. We thank you for your past efforts and ask that you work with us to sustain and enhance the specialty crop provisions in the 2012 Farm Bill.

[The prepared statement of Mr. Reelhorn follows:]

PREPARED STATEMENT OF JON REELHORN, NURSERY PLANT PRODUCER, WHOLESALER, AND RETAILER, FRESNO, CA

Thank you, Chairman Peterson, Ranking Member Lucas, and Congressmen Costa and Cardoza, for this opportunity to present testimony on behalf of the U.S. nursery and greenhouse industry on what the 2008 Farm Bill has meant to our industry, and the next farm bill cycle. I am Jon Reelhorn, owner of Belmont Nursery, a growing and retail nursery business operating right here in Fresno. We are a family owned business that supplies trees, shrubs and flowers to garden centers, landscape professionals and homeowners through out northern and central California.

My remarks today are offered on behalf of the American Nursery & Landscape Association (ANLA) and the California Association of Nurseries and Garden Centers (CANGC), which I am representing here today. The issues I plan to cover are also priorities of the Society of American Florists (SAF). ANLA, SAF, and CANGC worked together on the 2008 Farm Bill's specialty crop provisions. We join in thanking the Committee for crafting a farm bill that for the first time recognizes our industry in a serious way. We look forward to close collaboration with each of you as the 2012 Farm Bill discussion proceeds.

The nursery and greenhouse industry is a bright spot in U.S. specialty crop agriculture. The combined U.S. nursery, floriculture, and landscape industry, collectively known as the "green industry," has an estimated economic impact of $147.8 billion. The industry employs 1.95 million individuals, generates $64.3 billion in labor income, and provides $6.9 billion in indirect business taxes. Products and services offered by the green industry directly contribute to production of apples, citrus, grapes, strawberries, and other food crops; to sustaining our environment; and to improving the quality of life in rural, suburban and urban communities. Landscape plants provide ecosystem service benefits that range from reducing energy needs, to fostering carbon sequestration, and improving water quality and storm water management.

U.S. nursery and floriculture crop production represents a major component of the nation's specialty crop agriculture. According to the USDA's 2007 Census of Agriculture, nursery, greenhouse and floriculture annual crop sales totaled over $16.6 billion at farm gate. Nursery and greenhouse crop production now ranks among the top five agricultural commodities in 28 states, and among the top 10 in all 50 states. The sector represents roughly ⅓ of the value of all specialty crop production in the U.S.

Not surprisingly, California is the number one state for both nursery and floral crop production. A recent economic report placed production figures at roughly $4 billion and retail sales at over $13 Billion. Wholesale production in California represents over 20 percent of the nation's production of nursery crop. Nurseries and garden centers employ over 217,500 Californians.

The Farm Bill and the Nursery Industry

The U.S. nursery industry has developed and thrived without the influence of market-distorting subsidies, price supports, or similar programs. Most wish to keep it that way. Consistent with this history and philosophy, our priorities in the 2008 Farm Bill focused on critical infrastructure and programs to deal with plant pest and disease threats, and to fund needed research. Global trade and travel have accelerated the pace of new pest introductions. Given the diversity of crops that the industry produces, virtually every new plant pest that arrives and establishes in the U.S. becomes a production or market access problem for the nursery industry. Emerald ash borer, Asian Longhorned beetle, and the pathogen responsible for "sudden oak death" are just a few examples with which the industry is struggling. The 2008 Farm Bill did several positive things relating to the serious threat of plant pests and diseases:

- Section 10201 provided critical funding and direction for innovative initiatives to identify and mitigate offshore threats, and improve pest detection and rapid response in the U.S. So far, USDA's Animal & Plant Health Inspection Service has set priorities based upon six goal areas drawn directly from the language of the farm bill. While this is long-term work, and success at prevention is not always easy to measure, we believe APHIS has done a good job of involving stakeholders in an open and transparent process for identifying and funding the best ideas to accomplish the goals.

  Specific projects under the "Safeguarding Nursery Production" goal are setting the stage for a modernized system for the certification of nursery crops moving in interstate and international commerce. Also, the newly established "National Ornamentals Research Site at Dominican University of California" is facilitating critically needed research on quarantine pest prevention and containment under real-world conditions.

  Other specific 10201 projects are of critical importance in helping USDA to identify potential threats to U.S. agriculture *before* they come into our ports, rather than after they have become crises because they were introduced through travel or trade. Strategic research on pest threats which might reach our shores in the next few years is essential to our ability to avoid introduction, or to eradicate pests or diseases quickly if they do arrive here.

- Section 10202 of the farm bill established the National Clean Plant Network (NCPN). The NCPN was created to protect U.S. specialty crops, such as grapes, nuts, apples, peaches and other fruits, from the spread of economically harmful plant pests and diseases. The NCPN will contribute to the global competitiveness of U.S. specialty crop producers by creating high standards for our clean plant programs for these vital crops. The program will improve U.S. growers' access to the newest and most profitable plant varieties from around the world, without the devastating plant diseases that exist elsewhere in the world.

Effective clean plant programs are essential to preventing catastrophic pest and disease problems and to maintaining U.S. agricultural competitiveness. In California, wine and table grape growers in particular depend on the introduction of foreign selections, and demand for new varieties has exceeded the capacity of existing clean plant programs. When demand for new foreign selections is high but legal channels are insufficient, some growers resort to illegal importation of plant materials. Grapevine mealy bug, a new pest problem that is approaching epidemic status in California, is suspected to have been introduced in illegally imported grapevine planting stock that was smuggled into the U.S. from Australia, most likely due to the impatience of the importer. Plum pox in New York and Pennsylvania is another example of where illegal importation threatened an industry.

The establishment and maintenance of the National Clean Plant Network was one of our highest farm bill priorities. We are truly impressed with the progress that has been made already on this program.

- In Section 10203, Congress intended the Secretary of Agriculture to be the final word on emergency pest funding decisions. In California, we have witness time and again where the experts at fighting pests are overruled by the Office of Management and Budget. The result has been delayed funding and more pests. We appreciate this Committee's efforts to correct this bureaucratic problem. Early indications suggest that OMB remains the final word and we would ask that you closely monitor this situation.

Specialty Crops Research Initiative

We appreciate the recognition, through the Specialty Crops Research Initiative in the 2008 Farm Bill, of the need for research funding to support the Specialty Crops industry. We remain concerned, however, with the required 1:1 funding match for these grants. This requirement puts specialty crop growers at a disadvantage as these grants are multi-year, and most traditional industry funding sources (including our own research endowments, the Horticultural Research Institute, and the American Floral Endowment) cannot commit funding for multiple years. We are also concerned that the match requirement, as implemented, is placing USDA–ARS and other Federal partners on a less-than-competitive playing field because other Federal funds and resources cannot be used to meet the matching requirement.

A longer term concern with the creation of the National Institute of Food and Agriculture—NIFA—is that the move toward long term, systems competitive funded research reduces funding that could be applied to meet immediate or quickly emerging research needs, such as those resulting from the introduction of invasive pest species. We feel that it is critical for USDA to maintain and increase funding efforts for its intramural research agency, USDA–ARS, in a balanced way with respect to competitive funds available through NIFA. Increased funding is also needed for the formula-funded Smith-Lever and Hatch Act as these programs provide for the base research and educational delivery infrastructure for Cooperative Extension and State Experiment Station programs. If we allow our national research infrastructure to deteriorate for lack of funding for traditional pest and disease research, we will not easily be able to rebuild it.

Biomass Crop Assistance Program

While many provisions of the 2008 Farm Bill are already making a positive difference, we must alert you to a serious potential unintended consequence of one particular program, the Biomass Crop Assistance Program, or BCAP. While the program's goals are worthy, the potential diversion of certain forestry byproducts—most notably softwood and hardwood bark—from established value-added markets could devastate nursery producers across the U.S. for these simple reasons: most nursery crops are now grown in containers, and the single most important component of the growing substrate that fills these containers is bark.

Over 70 percent of the nursery crop and 100 percent of the greenhouse crop production in the U.S. is now grown in containers. The major ingredients for the growing media used in container production—"substrates"—are various bark based formulations. Diversion of bark supplies for other uses, or a sharp and significant change in their market price due to market-distorting subsidies, therefore threatens the domestic nursery and greenhouse industry and much of the $16.6 billion in annual nursery and greenhouse crop sales across the country. Market price distortions or diversion of bark resulting from inclusion in the BCAP will seriously impact domestic production and could fuel loss of market share to imports from Canada and elsewhere.

It is worth noting that already, over 95% of bark byproducts have established markets. Roughly 83% of softwood bark, and 70% of hardwood bark, is already used for energy generation. In this respect, BCAP subsidies would seem to represent a solution in search of a problem. ANLA recently submitted official comments to USDA's Farm Service Agency, in which we offered a series of recommendations on how to address this concern. While the issue is now in the regulatory realm, we are grateful for the opportunity to alert the Committee to the potential unintended consequences that will result if bark and other wood waste materials with established markets are included in the BCAP.

Agricultural Labor and Immigration Policy

As important as the farm bill has become to America's specialty crop industries, it is difficult to have a serious discussion about the future success of specialty crop producers without acknowledging the elephant in the room: farm labor. Hired labor is critical to most specialty crop producers, and we now face a "perfect storm" characterized by the following:

- For at least the last 12 years, a significant majority of workers who plant, harvest, and tend specialty crops and livestock lack proper immigration status even though most employers fully comply with the law when hiring;
- The recession has done virtually nothing to change the reality: few Americans seek farm work, most farm workers are foreign-born, and most lack proper immigration status;
- Aggressive worksite enforcement that began near the end of the Bush Administration has accelerated under the Obama Administration. Specialty crop and dairy producers are especially vulnerable. Farmers are one I–9 audit away from disaster.
- The only legal labor safety net, known as H–2A, has long been difficult and unattractive. Producers are now struggling through the third set of rules in 3 years. The program has descended into regulatory chaos.

We fully recognize that farm labor is not a traditional farm bill issue. Nonetheless, we raise it for this simple reason: lack of timely and thoughtful resolution of the farm labor crisis will hasten the offshoring of our specialty crop and livestock agriculture. As production shifts to Canada or Mexico or Chile or China, America will lose thousands upon thousands of U.S. jobs upstream and downstream of the farmer that exist here now because we are producing here. We respectfully urge your leadership and support for enactment of the bipartisan and urgently needed reforms of the AgJOBS bill, H.R. 2414, whether as part of a comprehensive immigration reform bill, or a smaller first step toward fixing our broken immigration system.

Conclusion

Members of the Committee, thank you for this hearing, and for listening to the views and needs of the U.S. nursery industry. The 2008 Farm Bill for the first time truly recognized the importance of specialty crops, including nursery and floriculture. Together, specialty crops now represent almost half of the value of total crop production in America, and the specialty crop title of the 2008 Farm Bill placed emphasis on practical, solutions-oriented programs. We recognize that the next farm bill cycle will be exceptionally difficult from a budgetary standpoint. We thank you for your work to date, and hope you will join together to protect specialty crops' place at the table, going forward.

ATTACHMENT

April 9, 2010

Director of CEPD,
USDA FSA CEPD,
Stop 0513,
1400 Independence Ave., SW,
Washington, D.C. 20250–0513

Dear Sir or Madam:

This letter is in response to the proposed rulemaking for the **Biomass Crop Assistance Program (BCAP)**—Docket Folder **CCC FRDOC 0001–0145**). These comments are being filed by the American Nursery and Landscape Association (ANLA), the national trade association representing nursery crop producers, landscape design, build and maintenance companies and independent retail garden center businesses. This official submission is also fully supported by the Society of American Florists (SAF), the national trade association representing the entire floriculture industry. SAF membership includes small businesses, including growers, wholesalers, retailers, importers and related companies that produce and sells cut flowers and foliage, foliage plants, potted flowering plants, and bedding plants.

The combined U.S. nursery, floriculture, and landscape industry, collectively known as the "green industry," has an estimated economic impact of $147.8 billion according to 2005 survey and analysis, *Economic Impacts of the Green Industry in the United States.* In addition, the industry employs 1.95 million individuals, generates $64.3 billion in labor income, and provides $6.9 billion in indirect business taxes. Products and services offered by the green industry directly contribute to the U.S. food supply (*e.g.,* fruit tree planting stock), to sustaining our environment, and to improving the quality of life in rural, suburban and urban communities. Ecosystem service benefits of landscape plants include reducing energy needs, fostering carbon sequestration, and improving water quality and storm water management.

U.S. nursery and floriculture crop production represents a major component of the nation's specialty crop agriculture and the "green industry." According to the USDA's 2007 *Census of Agriculture,* nursery, greenhouse and floriculture annual crop sales totaled over $16.6 billion at farm gate. Nursery and greenhouse crop production now ranks among the top five agricultural commodities in 28 states, and among the top 10 in all 50 states. The sector represents roughly ⅓ of the value of all specialty crop production in the U.S. Nursery and floriculture production is the top-ranking agricultural sector in several states, ranging from Connecticut, Massachusetts, and Rhode Island in the Northeast, to Oregon in the Northwest.

As an energy intensive "green industry", we support the President's and USDA's efforts to increase the availability of alternative energy sources, such as biomass, to help reduce the U.S. dependence on foreign energy sources. Therefore, as a matter of principle we do support the biomass energy Section 9001 of the 2008 Farm Bill. We are very concerned, however, about the BCAP Federal subsidy for the redirection of wood and wood waste materials, **specifically bark, bark based materials and mulch** from an existing and established, value-added marketplace to the generation of energy. This will result in market dislocations, supply shortages and possible elimination of these materials for use by all business sectors of the green industry, leading to serious unintended economic and environmental consequences.

Specifically, over 75 percent of the nursery crop and 100 percent of the greenhouse crop production in the U.S. is now grown in containers. The major ingredients for the growing media used in container production—"substrates"—are various bark based formulations. Diversion of bark supplies for other uses, or a sharp and significant change in their market price due to market-distorting subsidies, threatens most of the domestic nursery and greenhouse crop production industry and will jeopardize most of the $16.6 billion in annual nursery and greenhouse crop sales across the country. This will result in major economic dislocations in many rural areas of the U.S. as nursery and greenhouse crop producers are major employers of both seasonal and permanent help in these locations.

As of result of the current economic recession, the nursery and greenhouse industry is already experiencing economic distress. Market price distortion or diversion of bark resulting from inclusion in the BCAP will seriously impact domestic production and drive loss of market share to imports from Canada and elsewhere. Our ANLA members have already received notification from their bark suppliers about future product shortages and complete unavailability of bark, bark based materials and landscape mulch. An industry survey conducted in March 2010 indicated that 95% of the nursery and greenhouse crop producers do not have access to a viable, alternative replacement for bark and bark based nursery and greenhouse crop substrates.

Even before the passage of the Section 9001 of the 2008 Farm Bill, the national nursery industry was concerned about the future availability of these wood waste materials because of long-term structural changes within the forestry industry and the use of bark as a fuel source at wood products production facilities. An industry study—"*Estimation of U.S. Bark Generation and Implications for Horticultural Industries*" (2006) indicated that since the 1980's more than 95 percent of the U.S. bark supply has been utilized in some way as a "value-added product" or market. Industrial fuel consumption already consumes the largest share for bark, absorbing 83 percent of softwood bark and 66 to 71 percent of hardwood bark. Since there is already an established, competitive marketplace for use the wood waste materials as a fuel source for energy production, it is counter-productive for this marketplace to be federally subsidized through BCAP funding.

Recognizing the long term impact of current and future bark supplies going for energy production, the nursery industry launched a collaborative research project involving USDA ARS, land-grant universities and industry, to look at the development of alternative, sustainable replacements for bark in substrates. This project has been underway for 2 years. *At the present time, however, there are no viable marketplace alternatives available for bark materials to be utilized in the production of containerized nursery and greenhouse crops.* Development of viable alternatives will take time and sustained research investment.

In addition to the very negative economic impact that possible BCAP subsidies for bark based wood materials would have on the production of nursery and greenhouse crops, other segments of the green industry which rely on these materials will suffer. Landscaping firms depend upon the availability of bark mulch and mulch based material in the establishment and maintenance of plant material in commercial and consumer landscapes. Retail garden centers rely on the sales of bark mulch and mulch based materials for a large portion of their gross consumer sales in the active spring and fall gardening seasons. A March 2010 industry survey indicated that 60% of the retail garden center respondents have been told by their suppliers to expect a price increase for future purchases, or warned of unavailability, of wood-based mulching materials. Organic mulches used in landscape settings are environmentally important. These materials contribute to water conservation, reduction in use of chemical herbicides, and prevention of soil erosion. Their diversion from established use patterns will have negative environmental consequences.

In regard to the application of BCAP subsidies for bark, bark based and mulching materials we respectfully request the following action in the drafting of the final Rule by the USDA Farm Service Agency.

1. Remove bark, bark based materials, landscape mulching materials, softwood chips and forest thinnings from the list of biomass materials eligible for BCAP programs.

2. Clearly define as *high-value/established market materials* the use of bark, bark based materials and landscape mulch and nursery and greenhouse growing media substrates. In PART 1450, Subpart A, Section 1450.2 add a specific definition of "Value-Added" and "Currently Established Markets." Include bark, bark based materials landscape mulch and bark based nursery and greenhouse growing media substrates as *value-added* and *established marketplace* products—recognizing that there already exists an established, functioning, competitive marketplace for these materials.

3. Under the definition of "Renewable Biomass" in Section 1450.2, we suggest that specifically define the concept/term of "higher-value products" to include bark, bark based materials, landscape mulch and nursery and greenhouse growing media substrates.

4. Conduct an economic impact study. We request that USDA FSA ask that the USDA Office of Chief Economist, in cooperation with the USDA Economic Research Service, conduct a cost-benefit analysis of the marketplace and economic impact BCAP subsidies on the use of "wood waste" materials. The Cost Benefit Analysis, conducted by the Office of Management and Budget under Executive Order 12866, as referenced in *7 CFR Part 1450, Biomass Crop Assistance Program: Proposed Rule does not* adequately address all the possible negative economic impacts that BCAP funding will have on agricultural industries who rely on "wood waste" materials, including bark, bark based materials and mulches as "value-added" products for the production of agricultural crops.

5. Expand the restriction on the use of BCAP funds on federally and other publicly owned lands for "value-added" biomass materials and markets to privately owned forestlands.

6. Focus BCAP on the original intent of incentivizing on-farm production of new, renewable biomass crops and the expansion of and the proper management of privately owned forestlands.

Both ANLA and SAF stand ready to work with USDA FSA in the rule making process so as to effectively craft BCAP policies which will assist in the reaching of the biomass and energy production goals as outlined in Section 9001. In defense of a $16.6 Billion nursery and greenhouse specialty crop agricultural product market however, we must continue to register our great concerns for the unintended negative impacts that the BCAP Federal subsidy program, as it currently relates to wood based materials, has and will have on the availability of bark, bark based and mulch materials and nursery and greenhouse crop substrates that are a critical input and resource for our industry.

We appreciate your serious consideration of the issues that we have outlined in these proposed Rule comments and look forward to your response.

Sincerely,

MARC TEFFEAU,
Director of Research and Regulatory Affairs,
American Nursery and Landscape Association.

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The CHAIRMAN. Thank you very much, Mr. Reelhorn. We appreciate it.

Mr. Rehermann, welcome to the Committee.

STATEMENT OF FRANK REHERMANN, RICE PRODUCER, LIVE OAK, CA

Mr. REHERMANN. Thank you, Chairman Peterson, Ranking Member Lucas, and Members Cardoza and Costa. Thank you for holding this hearing to review farm policy in advance of the 2012 Farm Bill, and thank you for inviting me to testify.

My name is Frank Rehermann. I am a rice farmer from Live Oak, California, up in the Sacramento Valley. My wife and I operate our farm as a family partnership, growing 800 acres of rice. I am a hands-on rice grower of average size. Fortunately for us, my wife also has a career off the farm in education.

Rice is planted on about 550,000 acres in the Sacramento Valley by some 2,500 growers. Our Mediterranean climate is well-suited for the production of medium grain rice. Incidentally, we proudly claim to grow all of the sushi rice used in the United States.

Rice farming also creates thousands of jobs in rural California communities, and our fields provide unparalleled habitat for over 230 species of wildlife.

In reviewing the 2008 Farm Bill, I would like to begin my comments by focusing on the safety net provisions of that bill.

First, the marketing loan provides a modicum of assurance to lenders regarding a grower's ability to service debt. However, as a reality, loan values are no longer close to being equal to production costs, excluding land costs.

Second, the countercyclical payment is critical when prices fall below a modest target price. This is designed to assure that farmers can cover a greater portion of their operating costs when prices are low.

It's worthwhile to note that I have not received a countercyclical payment since this bill began, and I submit that if prices got so low, that countercyclical payments were made, we would be in very, very serious trouble.

Finally, the direct payment is an important part of the safety net. This direct payment, and its predecessors, such as the deficiency payment, have provided an important offset to the increasing costs of producing rice. In recent years, this has been the most important safety net provision for rice farmers.

This consistent program also supports the tremendous habitat provided by rice fields.

Other conservation programs such as CSP and EQIP are mostly not beneficial or effective for rice growers. Conservation benefits in rice can be clearly linked to the commodity title.

We ask you to remember that the current farm bill, specifically these three elements, are working for growers in California and across our nation. Annual farm program spending on rice has been reduced from $1.2 billion to just over $400 million annually.

The current farm bill also contains the programs Average Crop Revenue Election and Supplemental Revenue Assurance. However, as of now, these programs do not work well for rice, as evidenced by the nearly nonexistent sign-ups for these programs.

Risk management products offered under Federal crop insurance have also been of minimal value to rice farmers. We are working now to develop products that may be more interesting to rice growers and more beneficial. What rice growers could greatly benefit from are crop insurance products that will help against—protect against rapidly-increasing production costs.

For an example, field fertilizer and other energy-related inputs are now increasing at an alarming rate, and constitute a major portion of our cost of operation.

We strongly support and participate in voluntary incentive-based USDA conservation programs. We are, however, deeply disappointed in the practical on-the-ground results of many of these programs.

After enthusiastically participating in the development of the Conservation Stewardship Program, we find the new CSP to be very confusing. It is unclear, to many of us growers, how we can transition from the old program to the new. Screening tools are poorly adapted and not easy to understand. As a result, fewer and fewer producers are willing to participate.

In order to work effectively, CSP needs to be demystified and transparency needs to be improved. It is important to note that we appreciate the diligent efforts of NRCS staff, headed up by Mr. Ed Burton, who is with us today. Rice provides an unparalleled environmental dividend valued at $1.5 billion. Where our fields were once burned each fall, many farmers now incorporate straw and reflood, providing a wintering habitat for seven million ducks and geese, that over-winter each year in the Pacific flyway.

Biologists tell us that half of the food for these waterfowl come from rice fields. What is more, over half the managed wetlands rely on water that drains from our fields. So critical is the habitat in the Pacific flyway, that experts estimate that we would lose more than one million ducks if rice acres were cut by half.

These benefits accrue to everyone in this country as a direct result of a viable rice industry. It is the commodity title of the farm bill, and its intended safety net provisions, that supports this flurry of wings, and the essential habitat for so many terrestrial species.

We have, and I will leave with you, an ad that we have done emphasizing the importance of our benefits to waterfowl, and we have been joined in this by many conservation organizations.

Regarding the development of the 2012 Farm Bill, our industry is working to analyze all existing safety net policies and evaluate their effectiveness.

We believe some improvements may be appropriate. Let's not disrupt the production system that continues to provide our country, and millions, around the world, with a safe, abundant, affordable supply of food.

The key principles that are guiding our work in preparation of the next farm bill are first, the maintenance of a strong, effective safety net; second, recognition that current conservation environmental practices on rice farms pay a large public dividend; and third, understanding that risk management tools such as Federal crop insurance, ACRE and SURE, are not currently effective as written, but may be improved.

In conclusion, I would like thank you again for this opportunity to share my views and our initial thoughts on developing a 2012 Farm Bill that can help meet the risk management needs of producers. We look forward to working with you in this regard. I would be happy to respond to any questions you may have.

[The prepared statement of Mr. Rehermann follows:]

PREPARED STATEMENT OF FRANK REHERMANN, RICE PRODUCER, LIVE OAK, CA

Introduction

Chairman Peterson, Ranking Member Lucas and Members Cardoza and Costa thank you for holding this hearing to review farm policy in advance of the 2012 Farm Bill.

I appreciate the opportunity to offer testimony before the Committee on Agriculture concerning rice farmer's views on current farm policy and the development of the 2012 Farm Bill.

My name is Frank Rehermann. I am a rice farmer from Live Oak, California. My wife and I operate our farm as a family partnership, growing 800 acres of rice in the Sacramento Valley of California. I have been farming since 1972.

Rice Industry Overview

Rice is planted on about 550,000 acres in California primarily in the Sacramento Valley. Our Mediterranean climate is ideally suited for the production of medium grain rice. In addition to being the largest producer of this type of rice in the nation, we also grow all of the sushi rice used in the U.S. Rice farming also creates thousands of jobs in rural California communities and our fields provide unparalleled habitat for 230 species of wildlife. Internationally, about half of our crop is exported to Japan, South Korea Taiwan and Turkey.

California rice is grown by 2,500 family farmers and milled into brown or white rice by over 40 marketing organizations. Importantly, the number of marketers has more than tripled in the last decade. This increased competition benefits farmers, consumers and our customers around the world.

Another 2.5 million acres of rice is produced in the other five rice-growing states of Arkansas, Louisiana, Mississippi, Missouri, and Texas. The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain to aromatic varieties. Last year, U.S. farmers produced a rice crop of more than $3.1 billion in farm gate value.

Much of this economic activity occurs in the rural areas of the Sacramento Valley in California, the Gulf Coast region of Louisiana and Texas, and the Mississippi Delta region, which exported some $2.2 billion in rice to markets around the world.

Rice is an important food around the world and at home. The 2005 Dietary Guidelines and MyPyramid recommendation, published jointly by the Departments of Agriculture and Health and Human Services, call for five to ten servings of grains daily, with half the servings coming from whole grains, such as brown rice, and 45 to 65 percent of calories coming from complex carbohydrates, such as rice. Rice is a naturally wholesome food with no sodium, no cholesterol, no glutens, and no trans or saturated fats.

Beyond the substantial economic and nutrition benefits of rice is the environmental dividend from winter-flooded rice fields. This $1.5 billion benefit is unparalleled in all of agriculture. We California rice farmers have embraced the role that our fields play as critical habitat for migratory waterfowl and other wetland-dependant species. Where our fields were once burned each fall, farmers now re-flood their fields, providing wintering habitat for some seven million ducks and geese that overwinter each year in the Pacific Flyway. Biologists tell us that half of the food for these waterfowl comes from rice fields. What's more, over half of the managed wetlands in the state rely on water that drains from our fields for their operations. So critical is this habitat to the flyway that experts estimate that we would lose more than one million ducks if rice acres were cut in half.

California ricelands and adjoining wetlands have also been designated as Shorebird Habitat of International Significance by the Manomet Center for Conservation Sciences. Home to over 300,000 shorebirds, it is the second largest area designated in North America.

Clouds of ducks, geese and shorebirds are seen every winter on the drive into Sacramento on Interstate 80. The flights of pintail and teal that almost stop traffic over the Yolo Bypass at the Vic Fazio Yolo Wildlife area are feeding on the ricelands that are purposefully incorporated into this Federal wildlife area for the food they provide.

All told, some 230 species of wildlife utilize California ricelands during the year, with 31 listed as species of concern. This same success story, with regional differences, is repeated in rice growing regions across the Mid-South.

All of these benefits are essentially free to the people of California and across the nation. It is the commodity title of the farm bill that supports this flurry of wings and essential habitat for so many terrestrial species.

2008 Farm Bill Review

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) provides a strong and effective safety net for California rice farmers by maintaining three critical elements.

First, the marketing loan established in the 1985 Farm Bill provides essential access to financing for farmers. The loan program also serves as an important tool when world prices are impacted by stiff competition from other countries, which underwrite substantial government support.

Second, the countercyclical payment developed for the 2002 Farm Bill is an important tool for farmers when prices fall below a very modest target price. This ensures that farmers can cover a greater portion of their operating costs in a bad year.

Finally, the direct payment is an important part of the safety net both for farmers and for the environment. The direct payment is the foundation of the rice farmer's safety net, providing an important offset to the cost of production of high value crops such as rice. In recent years, this is the only program that has supported rice farmers. This predictable year in and year out program supports the tremendous habitat provided by rice fields. Other conservation programs such as CSP and EQIP are far from perfect and even less predictable. Conservation program benefits in rice can be clearly linked to the direct payment element of the commodity title.

We ask that you remember that the current farm bill is working and that reforms adopted in 2008 are having a tremendous effect. Annual farm program spending on rice has been reduced from $1.2 billion to just over $400 million currently. Under the farm bill, farmers receive a small but predictable level of ongoing support and have the benefit of a greater safety net when market prices fall. This is a system that works for farmers and for the country.

The farm bill also includes the addition of Average Crop Revenue Election (ACRE), as an alternative to counter cyclical payments for producers agreeing to a reduction in direct payments and nonrecourse loan benefits. The bill also added Supplemental Revenue Assurance (SURE) as a standing disaster assistance supplement to Federal crop insurance.

Simply put, these programs do not work for rice, as evidenced by the nearly nonexistent sign-ups for these programs. Structured largely for other crops and relying on significant price and production swings, these two programs are not attractive to rice farmers who are more often impacted by significant increases in production costs.

Crop Insurance

Risk management products offered under Federal Crop Insurance have been of minimal value to rice farmers due to a number of factors. Artificially depressed actual production history (APH) guarantees, high premium costs for a relatively small insurance guarantee, and the fact that rice is unique among most other major crops in its production practices are all major flaws.

For example, since rice is an irrigated crop, drought conditions rarely result in significant yield losses as growers are able to pump additional irrigation water to maintain moisture levels and, thus, relatively stable rice yields. These drought conditions do, however, result in additional production costs due to the need to pump additional water.

What rice farmers really need are crop insurance products that will help protect against increasing production and input costs, particularly for energy and energy-related inputs. For example, fuel, fertilizer, and other energy related inputs represent about 70 percent of total variable costs on average.

In this regard, the USA Rice Federation has been working for over a year now to develop a new generation of crop insurance products that we hope will provide meaningful risk management tools for rice producers to protect against sharp upward swings in input costs. Our objective is to gain approval from the Risk Management Agency (RMA) of two new products that could be available to growers in time for the 2012 crop year.

Conservation Policies

Rice producers are outstanding conservationists and stewards. We strongly support and participate in voluntary, incentive-based USDA conservation programs. We are however, deeply disappointed in the practical, on-the-ground results of many of these programs.

After enthusiastically participating in the development of the Conservation Stewardship Program (CSP), we find the current program confusing. It is unclear how farmers get in the program or how they are even excluded. Screening tools are poorly adapted and not understood. As a result, we hear of fewer and fewer producers willing to participate, unlike the broad participation seen in the initial program. In order to work effectively, the program needs to be demystified and transparency significantly improved.

The Environmental Quality Incentives Program (EQIP), while an effective program for developing infrastructure like tailwater recovery systems, is poorly designed for habitat projects. The 50 percent matching fund requirement is a major stumbling block as farmers conclude that habitat projects can wait. EQIP has far to go before it can be a useful tool to provide incentives for wildlife habitat improvement.

The Wetlands Reserve Program (WRP) is also an inadequate tool for preserving working landscapes. With 30 year contract requirements, this is essentially a land retirement program. While suitable for a small number of acres in the state, it is contrary to the evidence that clearly demonstrates the significant benefits provided by ricelands in production.

We do appreciate the emphasis Congress has placed on technical assistance to producers through the Natural Resources Conservation Service (NRCS). We greatly value these significant NRCS services, especially at the state level, both from agency officials and NRCS-certified third-party providers. Conservation programs do not work without the support provided by NRCS. We simply ask that you give them the tools they need to make conservation programs truly work for rice farmers.

I can assure you that rice farmers care deeply for the environment and we take our responsibility to protect and enhance our farms for future generations seriously. To replace the current commodity title safety net with conservation programs, however, would be disastrous given the experience we have had with CSP, EQIP, WRP and others programs which are simply not tailored to rice farms.

Environmental Policy Challenges

Of ongoing concern to rice farmers is the economic impact of climate change legislation on the U.S. rice industry.

One of the key areas of focus in our analysis is the impact on rice production costs, as a result of higher costs for major inputs such as fuel, electricity, fertilizer, natural gas, and propane. Rice is a high yielding crop utilizing nitrogen fertilizer, which, in turn, is made using natural gas. Moreover, all rice must be dried before it can be stored again using natural gas or propane fuels. Finally, beyond the increased costs of field production, U.S. rice must also be milled before it can be consumed or utilized in products, an expense which is also borne by producers if they are part of a cooperative. All of these already significant costs are expected to substantially increase under pending climate change legislation, both in the short and long term.

Increased input costs greatly reduces our competitiveness compared to others in the global marketplace such as Vietnam, Thailand, Pakistan and India, who will not likely bind their economies to the same level of commitments to greenhouse gas emissions reductions.

Rice farmers are not afraid to address the issues of climate change. California rice farmers have been working for 3 years with the Environmental Defense Fund to understand methane production in our fields. This effort is based on our commitment to understand the data surrounding the impacts of rice farming and to provide policy makers with the information necessary to evaluate viable practices for offset trading. We look forward to contributing solutions for climate change, but our research to date has failed to find any practices that are economically feasible.

Trade Policy Challenges

Another key policy focus for our industry is trade. While many previously negotiated trade agreements have promised market access gains for agriculture, much of what was promised has yet to materialize or is continually threatened by artificial sanitary and phytosanitary (SPS) and other non-tariff barriers.

In California, our key export markets are Japan, South Korea, and Taiwan, and we are regularly faced with one or more of these markets failing to meet their trade commitments.

In terms of new agreements, rice was completely excluded from the free trade agreement negotiated with South Korea, foreclosing new markets for U.S. rice producers there. And the Colombian Free Trade Agreement (FTA), which would provide significant new market access for the Mid-South rice industry, remains stalled.

One market that has the potential to become a top five export market for the Mid-South rice industry almost immediately is Cuba. Unfortunately, the U.S. Government continues to maintain restrictions on our agricultural exports to this country. Cuba, once the number one export market for U.S. rice, is potentially a 400,000 to 600,000 ton market, if normal commercial relations are established. In this regard, we wish to commend Chairman Peterson and Congressman Moran for your leadership in efforts to address this situation with the introduction of legislation to further open agricultural trade as well as remove travel restrictions to Cuba. We look forward to working with you to see this legislation enacted into law.

I would be remiss if I did not at least touch on the Doha Round negotiations of the World Trade Organization (WTO). We are currently terribly outgunned by high foreign subsidies and tariffs and, at least so far, we have seen nothing in the Doha Round negotiations that would change this. In fact, in many ways Doha would make matters worse. Enshrining in our trade agreements decisive advantages for our trading partners, including such countries as China, India and Brazil, may be marketed as trade liberalization in Washington or Geneva but we see it as picking winners and losers in the global economy based on politics. Given rising future global demand for food, the U.S. should exercise great caution in negotiations, so as not to arbitrarily forfeit America's domestic production to less efficient competitors.

Budget Challenges

As we look ahead to the development of the 2012 Farm Bill, we are deeply concerned about the deteriorating budget baseline for agriculture. Today, less than ¼ of 1 percent of the Federal budget and less than 17 percent of the USDA budget is dedicated to the farm safety net. Yet, the renegotiation of the Standard Reinsurance Agreement (SRA) by USDA and the crop insurance companies could result in another baseline reduction of nearly $7 billion. Clearly, agriculture cannot afford this kind of hemorrhaging in advance of what we understand may be a baseline farm bill and the potential of another budget reconciliation effort. Of equal concern is the adverse impact cuts to crop insurance that producers are told they will have to rely on to a greater degree in the future.

As you know, the farm safety net sustained cuts in 2005 during budget reconciliation and in 2008 in the context of the farm bill, even as other policies administered by USDA received funding increases, some very substantial. The success of farm legislation has always depended upon carefully balanced legislation and coalition building. We are deeply concerned that singling out the farm safety net for additional cuts may upset this fragile balance.

2012 Farm Bill Development

Our industry is working internally to analyze all the existing safety net policies and evaluate their effectiveness in providing a measure of protection in the most efficient manner.

We believe some improvements may be appropriate but must be accomplished in a manner that does not cause disruption and upheaval in the U.S. agriculture production system that continues to provide our country and millions around the world with a safe, abundant, and affordable supply of food, fiber and fuel.

The key principles that are guiding our work in preparation for the next farm bill are:

1. Maintenance of a strong, effective safety net that includes marketing loans, countercyclical program and direct payments.
2. Recognition that conservation and environmental practices currently undertaken on rice farms pay a large public dividend.
3. Understanding that risk management tools such as Federal Crop Insurance, ACRE and SURE are not effective for U.S. rice farmers, as currently written.

Conclusion

In closing, I would like to thank you again for this opportunity to share my views on the current state of the rice industry, the diverse challenges we face, and our initial thoughts on developing a 2012 Farm Bill that can help meet the risk management needs of producers. We look forward to working with you in this regard. I would be happy to respond to any questions the Committee may have.

The CHAIRMAN. Thank you very much, Mr. Rehermann. I thank all the members of the panel for that excellent testimony. We will now move to questions. I will recognize Members for 5 minutes. I recognize the gentleman from California, Mr. Cardoza.

Mr. CARDOZA. Thank you, Mr. Chairman. We are on here.

I am going to ask everyone on the panel a very simple question. We have 5 minutes, so we are not going to have much time to discuss it. After I ask the question, I am going to go to Mr. Bledsoe, and then I will come back to you for your answers.

We did a lot of things in the last farm bill. I would like you all to tell me the one thing that is most important to your industry, and the thing that you would most like to eliminate, or remove from the farm bill, or that is causing you problems of impediments.

Mr. Bledsoe, I want to make a comment first, and then I have another question for you, sir.

In my mind, the dairy farmer safety net is sending the wrong market signals, right now, at least in some parts of the country. The triggers based on milk prices alone are no longer adequate in the new climate of high-input costs that our farmers now face.

Jamie, can you please give me some details of your input costs and highlight where and why California has higher inputs than the rest of the country?

Mr. BLEDSOE. Yes. Of course, since last spring, we have made major cuts. But, if you figure a return on investment into your input costs, prior to 2009, we were probably sitting at $19 a hundredweight, would be a good average number to use today. On my farm, because of the cuts I have made, and if I do not figure in return on investment I think I can break even, cashflow, at $13.50 a hundredweight. There are quite a few other farmers in our state that would probably be closer to a $15 and $16 range.

The biggest factor when determining our input costs is feed. It is over 50 percent of our total cost. Corn is the biggest component of our feed ration, and even today, when you try to look ahead, I feel, as a dairy farmer in California, I am competing against the Federal Government for my corn because of subsidies for ethanol.

In the previous Administration they told us that was not really the case, but it is very hard to sell that to my neighbors.

And now, when you do try to plan ahead, and look at corn, now we are also competing a little bit with the hedge funds, with everything coming out of the stock market into the CME, into the commodity markets.

It is very difficult for us, to learn what kind of risk management tools to use. Our number one cost here has been feed, also water. I mean, we can talk for hours on water. But I hope that answered your question.

Mr. CARDOZA. Thank you. There is no question, I think all the members of this panel would agree with you, that the California water situation requires some significant overhaul. The Endangered Species Act is not working for the farmers, for the fish, for any of us in the Central Valley, and certainly not the California economy.

Very quickly now, what is a program that is not working, for each one of you.

Mr. BLEDSOE. For dairy, MILC is not working. In our opinion, it sends a signal to the rest of the country, when prices are low, to make more milk.

Mr. CARDOZA. Is that the program that you think is causing the greatest distortion in the dairy program and sending the wrong signals?

Mr. BLEDSOE. Yes. Right now. This is not a typical year because of the economic crash, but today, we have a billion pounds of cheese on inventory.

Mr. CARDOZA. Okay. Thank you.

Sir. Mr. Campos.

Mr. CAMPOS. Programs that work and programs that don't work?

Mr. CARDOZA. That is right.

Mr. CAMPOS. I believe the EQIP Program, the funding to replace the older equipment has really been working, and I say that in my testimony.

Mr. CARDOZA. That was great testimony, by the way.

Mr. CAMPOS. Last year, in the last farm bill there was about $150 million for that program. California got roughly 25 percent of that—$37 million.

Mr. CARDOZA. Right.

Mr. CAMPOS. That has been working. I believe that California with $100 million, we can change the air quality and the PM_{10} reduction tremendously.

Mr. CARDOZA. For the out-of-area Members, we are out of attainment in $PM_{2.5}$ and PM_{10}. The Air Quality Board regulates us for those small particulates.

Mr. CAMPOS. Yes.

Mr. CARDOZA. Thank you, Mr. Campos. Mr. Diener.

Mr. DIENER. Crop insurance—I have never been able to make it work in California. I look at it as a Midwest program. We are forced to be part of that as part of the particular farm program, and we have to participate. That is what I do not care about. We can talk about that later. But I do care a lot about farmers as the source for the environmental betterment of the society. The NRCS is where you are going to start, working with the ARS, and the specialty crops area, I think we could probably create quite a beneficial habitat within our farms, just like the rice growers are doing within that whole system. As a long-time participant in the NRCS programs, as well as being on the conservation district board, I think that part of the farm bill needs to be strengthened and actually enhanced.

Mr. CARDOZA. We have very little time left. We are overtime. Mr. Kester.

Mr. KESTER. Really quick, I will start with the negative. What I would like to see out of the farm bill from 2008 would be country-of-origin labeling, and the negative effects that has had on producers.

And then positively, I would like to see the conservation title expanded through NRCS programs, specifically EQIP. That program provides three benefits to the producer, the public and the environment.

Mr. REELHORN. For the nursery industry, funding for pest and disease protocol, is huge. We move plants, so we need those programs, and the negative consequence is the biomass research initiative because of the lack of bark availability.

Mr. CARDOZA. Thank you.

Mr. REHERMANN. Very briefly, the most important is the direct payment. The least important are the ACRE and SURE Programs.

Mr. CARDOZA. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. The Ranking Member, Mr. Lucas, from Oklahoma, is recognized.

Mr. LUCAS. Thank you, Mr. Chairman. Mr. Campos, I cannot help but inquire. You mentioned coming from Wyoming to California. Would you be of Basque heritage, perhaps?

Mr. CAMPOS. Excuse me? Can you ask the question again, please.

Mr. LUCAS. You said you came from California by way of Wyoming and the herding business. Would you perhaps be of Basque heritage?

Mr. CAMPOS. Yes. I am.

Mr. LUCAS. The reason I ask that—my very best friend in college, the best man at my wedding, his mother came from the Basque country in the 1940s. So I have spent a little time around the American version of your culture. Wonderful people. Wonderful people.

Mr. CAMPOS. Thank you.

Mr. LUCAS. Actually, pretty intense level of intensity.

[Laughter.]

Mr. LUCAS. Let me mention for just a moment—and that is a respectful statement, by the way—the challenges we face on this Committee as we write a new farm bill. We had $79 billion more in 2002, and when I sat as the Subcommittee Chairman for conservation, we spent $17 billion of that on conservation. In 2008, the world had changed, the budget had changed, we had $7 billion and leadership mandated that virtually all of that go to nutrition spending. That was a mandate from on high, the Speaker's Office. Then, in 2012, or what we will most likely face, at the very best, if we have what we had before, it will be nothing short of a miracle. In the worst-case scenario—and we will see how the Chairman's eyes dilate on this—we may have fewer resources to write a farm bill with. It is just going to be a tough process.

Fair statement, Mr. Chairman? Now with that said, with these tighter resources, and I say this very respectfully to my California friends, because many cousins, third cousins and fourth cousins of my Oklahoma constituents have relatives in your great state. I say that respectfully too.

I get the questions, across the country, especially on things like carve-out of EQIP, which is a critically-important program. I will ask it to all of you, and let you step in to this, if you care to. How do I explain to my constituents in Oklahoma, my colleagues across the country, and also farmers and ranchers, that we should be directing more and more targeted resources to California, when it appears your biggest challenges perhaps are not the EPA but water issues and environmental issues mandated on you by state government. How do I respond to my constituents who say the Feds should pay for the state mandates? Be brave, guys.

Mr. KESTER. Mr. Lucas, I will take a stab at it. My response would be that it is not just a California issue, because I think every state has some sort of regulatory burdens in each state. I would respond that it is a national benefit, expand the EQIP Program and target those funds, because it is the environment across the U.S. that benefits as well as the taxpayers across the U.S., and it is just not a state issue. It is a nationwide issue for conservation benefits, and I pick out California, even though we are higher in the regulatory burdens.

Mr. LUCAS. Yes, sir.

Mr. DIENER. Yes. Mr. Lucas, I would say if you look at the food pyramid that has been developed by USDA, we have 50 percent of that food pyramid grown here. We are all specialty crop growers at some level in this state. We comprise probably 50 percent of the food production for the United States.

If you are in charge of dividing the pot, the fact is is that if you eat, you eat from us. If we do not survive, you do not have the needed crop diversity, especially the specialty crop component of the food pyramid.

Everybody that is beating on you about the old farm program, the new farm program, are asking you for fresh, local food. I can tell you, if you are in Tennessee today, you are not eating fresh and local. It is a little underwater.

The fact is we are shipping produce off our farm today, back East, and they have fresh produce every day from our area here. If the United States wants to have fresh and local produce, they are going to have to get it from California, or it is going to be imported from some other country where there are no controls.

The fact of the matter is that we have the cleanest food, from California, because we have the strictest rules and regulations, all stimulated by the EPA from back in Washington, D.C.

We live under those mandates at the state level as well as the Federal level. We have taken them probably, somewhat, to another level, but what goes on in California goes elsewhere soon. You should help us, because if you do not, you are not going to have us.

Mr. LUCAS. I appreciate that. Anyone else? Just bear in mind, there is the perception, back East, that whatever the standard is, your state government rushes to do it harder, higher, greater than anyone else. Your state government has shown a more aggressive nature about resource reallocation than the folks in the rest of the country, and California has always been subject to the green-eyed monster of envy. I will not deny that for a moment. Not all of us came here. The rest of us stayed in Oklahoma and watched you.

Nonetheless, that classic argument is if we provide enough money for tractors and resources and better equipment, will your standards just get higher and higher and higher? I think it is a legitimate issue; but I appreciate the points that both of you bring back.

Mr. Bledsoe, you mentioned in your written testimony your support for the estate tax bill that has passed in the House, 41–54%, with its top bracket of 35 percent.

I think the bill actually has a top bracket maybe of 45 percent. Let's talk for a moment—and I address this to all of you—the question about exemptions on how many dollars of property can be moved. Assuming you sort out your water issues, assuming you sort our your environmental issues, you do have the most productive ag land. Therefore, the most valuable in the world. Can you move very much farmland for $3.5 million in most of your areas?

Mr. CAMPOS. About 100 acres.

Mr. KESTER. No. Your point is well-taken. The answer is no: $3.5 million does not even come close, even on our rangeland, let alone specialty crops with more intensive farming.

We are always looking for the more generous exemption, because we are not going to be in business if onerous estate tax laws get continued on, or even revert back to 2001 levels. I have been through it. I am a fifth generation rancher, and I have three children. I am trying to keep them in the ranch, and if these estate tax issues are not solved, our sixth generation is not going to be able to stay in business in this state.

Mr. LUCAS. I know that is not an issue that the House Agriculture Committee has primary jurisdiction over. That is Ways and Means in the House. I know in much of the rest of the country, our farmland simply is not as valuable per acre as yours is.

But I do have a sympathy for you in trying to move the work of one or two or three generations, keeping it within the family—and that is not just farms, that is small business too—keeping it within the family.

So I am sympathetic to that. I wish you well in the challenges that you face. I really do. But you have some challenges out here. Thank you, Mr. Chairman.

Mr. CARDOZA [presiding.] Thank you, Mr. Lucas. On behalf of my folks, would like to say that while California certainly does do what you say, and ratchets everything up higher, I do not think there is anybody in this room that would argue against the fact that they think that the Clean Water Act, the Clean Air Act, and the ESA Act cause them significant amounts of challenge every single day.

Mr. LUCAS. I think it is well within California's rights to set the appropriate standards that they view, but it does have economic impacts on the community, and if that affects the overall Federal budget, you get those questions from the rest of the country.

Mr. CARDOZA. Absolutely. Thank you for your questions.

Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman. Mr. Bledsoe, your testimony on challenges affecting the dairy industry was very compelling.

As you know, we are trying to deal with several proposals that involve NMPF and National Holstein Association, all with an idea to try to develop a mechanism to allow dairymen and dairywomen better control over their supply of milk, and, therefore, their prices.

Do you think, at the end of the day, as we deal with this meltdown that has taken place in the dairy industry, that that has to be a critical part of any change in Federal Order?

Mr. BLEDSOE. As you know, there are a host of proposals to now evaluate.

Mr. COSTA. Right. We are working on them.

Mr. BLEDSOE. We are working on them. And a major concern now—and I am representing two boards here, that represent a lot of dairymen.

Mr. COSTA. I know you are wearing a couple different hats.

Mr. BLEDSOE. Yes. I guess the best answer is that we are a large manufacturing state. Our co-op brings in about 17 billion pounds of milk a year, and we are going to produce 750 million pounds of powder and 350 million pounds of butter.

Most of that butter, and powder, needs to go out of the country.

As our boards look at those kind of proposals in our state, we want to make sure that the impacts on imports and exports are not devastating to our industry.

Mr. COSTA. But the current system is devastating right now to the industry, and doing nothing is not a solution. Being a third generation farm family, a lot of my family is still in the dairy business—I just think that producers, at some point, have to have some ability to have some impact, nationwide, on their own supply. Otherwise, they will never have an ability to control the price.

Mr. Campos, you are an American success story, you and your family, and we appreciate all your hard work.

One of the things that you touched upon, in terms of what the industry, the almond industry has done to export those almonds around the world, is I think critical.

In the Farm Bill of 2008, we provided money for the Market Access Program. I would like to find out if the almond industry, in general, and whether or not in your own specific experiences, and marketing in Europe and Asia. What works best and whether or not the Market Access Program is helpful?

Mr. CAMPOS. Yes. The Market Access Program has been very helpful. Another issue that we have, in the almond industry, is trade. We export to 62 countries, worldwide. I do not know if this Committee has any jurisdiction on that, but the trade issue is—the duties that these countries put on almonds. They never grow any almonds, but they still have high import duties.

India has 60 percent. China has 40 percent, they reduced to ten percent, and when you go in, they add value-added tax, so we go back to 40 percent.

Mr. COSTA. This Committee does not have jurisdiction over those issues, but we do know how you get leverage. We continue to argue with the Ways and Means Committee, and others, that fair trade has got to be an essential part of any WTO efforts.

Mr. Diener, I could go on about a lot of the different issues you touched upon. I think that one of the things, having been out to your farm, I would like you to touch upon the ability to not only be among the most conservation-minded water users anywhere in the world, but how we can better deal with some of the problems with the brackish waters that you are attempting to deal with to reuse water.

Can you touch upon that, quickly?

Mr. DIENER. As you well know, Mr. Costa—thank you—one of the solutions that we have is taking a resource that people call a waste product and making a resource out of it.

I do not care whether it is the Waste Management Board from California taking materials out of the landfill or us pulling water from our farms.

The fact is that we have to be resource managers. We have to take a negative and make something positive of it. Then the question becomes, how do you offset the cost of doing that?

As we live in a water-short area, the approach that we have taken, by working with a lot of good people from government, as well as the private sector, is the salt coming out of our ground, and make that a positive.

The salt basically, in this case, is sodium sulfate. Tide soap is 60 percent sodium sulfate. The U.S. buys 1.5 billion tons of sodium sulfate a year to put in soap so we can wash our clothes. They buy that either offshore, or from a mine some place. Why are we not making that from the water that comes out of our ground and recycling it in a green sense, actually taking and making clean water, using minerals that are used in everyday life?

It is just so simple and straightforward. It takes energy. It takes time. It is a very simple idea that requires a very sophisticated process. I think we will achieve success, because we are pretty close to doing that now. Hopefully, by next year we will have this project running and be glad to show everyone.

Mr. COSTA. We will bring people out there, and we appreciate your innovation. I regret that we did not get an opportunity to have a representative of the cotton industry testify, an important part of this effort. I see some of them here today. I do not know if you are still growing cotton or not.

Mr. DIENER. We grew up thinking we were cotton farmers.

Mr. COSTA. I know we need to focus on, and the Chairman and I have had that discussion, our issues with Brazil.

Mr. Kester, you talked about in your testimony, barriers to your ability to market cattle. Do you want to be a little more expressive on those barriers.

Mr. KESTER. Well, I will start on trade, for example. We would like to see the pending trade agreements with South Korea, Panama, and Colombia, for example, be put into effect. Trade represents somewhere upwards of ten percent of the total beef industry dollars generated in the United States. It is a huge component, potentially, to keep a lot of us in business. I would start there.

Mr. COSTA. I appreciate that. My time has expired, but Mr. Reelhorn, I want to thank you for raising the issue of immigration reform. Again, it is not the jurisdiction of this Committee, but, frankly, we have to, on a national level, have immigration reform. Whether it ultimately is in the form of AgJOBS or a comprehensive effort. I think we would all like to see, at least among production agriculture, immigration reform has to happen. I do not know whether we can make it happen this year or not.

Mr. REELHORN. Thank you for addressing it. It has to be on the top of our minds.

Mr. COSTA. My time has expired, so thank you very much, Mr. Chairman.

The CHAIRMAN [presiding.] Thank you, Mr. Costa, for hosting this. I would like to introduce some guests we have here today, who are very important to agriculture.

From the U.S. Department of Agriculture, the California FSA, Director, Mr. Val Dolcini. Why don't you stand up. The Rural Development Director for USDA, Dr. Glenda Humiston. And the State Conservationist from NRCS, Mr. Ed Burton.

Thank you all so much, and thank you for what you do for USDA and for agriculture. Why don't you give them a hand.

[Applause.]

The CHAIRMAN. I recognize the gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I appreciate being here. I don't get to come to California very often, but I enjoy it when I do. I will make a comment about—I don't necessarily want responses back—but with respect to California's higher and higher standards, and the Federal taxpayer not having any real input into how those are set, and why those get set. It is almost as if you are asking us to allow you guys to write checks the rest of us have to cash.

We all want to drink clean water, we all want to breathe clean air. Mr. Costa, I understand your comments, but by the same token, we can't drive public policy based on just what one state does, and why they think something is better, particularly a state that is in as deep financial trouble as California finds itself right now.

Mr. Bledsoe, I was looking at your chart. I am a CPA, by trade. I like those kind of charts. They speak to me. But what it says is folks participating in your business for 9 years have lost, cumulatively, $12.72 a hundredweight. How do you do that?

Mr. BLEDSOE. Equity.

Mr. CONAWAY. I understand. There are only 4 years in which you have made money, and obviously, cumulatively, you are "behind the curve."

How do you turn that around? Other than equity, are there other things that aren't in your chart, off-farm income things that aren't in that chart, that allow you to survive?

Mr. BLEDSOE. Yes. During that period of time the land values have increased here, so borrowing base increases. Dairymen that I know, around the world, are the most optimistic breed of producer in the world, in my opinion. We always think it is going to be better the next day or the next year.

But in California, that question has to be answered with equity, and the value, of our laws.

Mr. CONAWAY. We are doing that at the Federal level, borrowing more money and it won't work at your level. I don't think it's going to work at our level either.

Mr. BLEDSOE. That's true about this year. I think we are done.

Mr. CONAWAY. Okay. Well, our country and you are finding yourself kind a like the fellow that fell off the ten story building. As he passed the fifth floor, he said, "So far, so good." "So far, so good." It gets a snicker every time I say that, but it is grave, and you may be about to see what the impact of it is.

The ACRE, SURE programs. First off, a show of hands. How many are participating in ACRE?

Let the record reflect that nobody raised their hand.

How many are participating in a SURE Program?

Again, no one. Any thoughts as to why that is the case? Anybody on the panel.

Mr. Rehermann.

Mr. REHERMANN. Yes, sir. My opinion is that the longevity requirements of both those programs makes some people reluctant. For instance, I rent some land from some elderly people who are reluctant to gamble on pricing decisions, and reluctant to gamble on programs that go into the future. They are far more interested in what is going on now.

And so therefore, those programs have not been very successful in rice country in California.

Mr. CONAWAY. Okay. So the direct payment tradeoff with ACRE was not attractive?

Mr. REHERMANN. Not attractive. No, not attractive.

Mr. CONAWAY. Okay.

Mr. REHERMANN. Now we have enjoyed some pretty good pricing over the last couple a years. We may be in a downward cycle in that regard, and consequently, interest in those programs may improve. But they are not there today.

Mr. CONAWAY. Okay. Mr. Reelhorn and Mr. Campos, you both asked for new money into your programs. It's probably unfair to ask you this, but at least get some sort of a head nod. Mr. Campos, you wanted $400 million in new EQIP money. Where would you see that coming from? Reduction in spending. Where else? Or raise taxes?

Mr. CAMPOS. Well, the way we see it, this program has been very successful in California.

Mr. CONAWAY. Oh, I understand. But is there any——

Mr. CAMPOS. I would hope that you will look at other programs that are not as successful, and be able to transfer some of that money——

Mr. CONAWAY. Okay. So I would go to the budget that says money for unsuccessful programs, we would go ahead and start reducing that one.

[Laughter.]

Mr. CONAWAY. Mr. Reelhorn, you mentioned the one-to-one match on your research dollars. If we reduce that match, would you call for just a reduction in total dollars spent, so that the Federal share would stay whatever that dollar amount is, and that you guys will just put up less money, so there is less money going into it, or would you want to keep the same amount, total, just have a bigger share for the Federal Government?

Mr. REELHORN. Difficult for me to answer.

Mr. CONAWAY. Okay. Us too.

Mr. REELHORN. I am really good at growing plants.

Mr. CONAWAY. Say again.

Mr. REELHORN. I am really good at growing plants.

Mr. CONAWAY. All right.

Mr. REELHORN. But fortunately, I have representatives to the government that can make those difficult decisions for us.

Mr. CONAWAY. Yes. You mentioned new money for pesticides or pest responses.

Mr. REELHORN. It's huge. Right. It's huge for us, right.

Mr. CONAWAY. Given you could only have one of the two, which would you do?

Mr. REELHORN. One of the two. I am sorry. Clarify.

Mr. CONAWAY. Yes. More money for research, or pest response. Which would you——

Mr. REELHORN. Oh, they go together.

Mr. CONAWAY. I understand that. But you can't have both. Which one?

Mr. REELHORN. Yes.

Mr. CONAWAY. There you go.

[Laughter]

Mr. CONAWAY. You have a great career in politics because that is the standard answer. When faced with a challenge, and when I have friends on both sides of the challenge, I generally stick with my friends.

[Laughter.]

Mr. CONAWAY. All right. What that points out, though, Mr. Reelhorn, is that difficult trades are going to have to be made. The Ranking Member mentioned it. The Chairman is, in all likelihood, probably privy to some information the rest of us aren't. We have tough times ahead in the 2012 Farm Bill. We are going to have to make these kind of choices. One of the criticisms of Congress, because we don't have a balanced budget amendment at the Federal level, and we should, we have taken the path of least resistance, and that is just borrow the money from future generations.

We have to stop doing that. This city council, very nice digs here, but they have to make choices between good programs, and it is hard. We need the wisdom of Solomon to make that happen and we don't have it. But at our Federal level, we have to do a better job of doing that, and we are going to have to cross the Rubicon and pick on good programs.

Mr. REELHORN. And you understand, we are doing that in our businesses too.

Mr. CONAWAY. Yes, you are.

Mr. REELHORN. Whether to keep the employees hired, or whether to buy the new equipment, or what have you, so——

Mr. CONAWAY. But whatever it is, you make the tough choice, and we have to do that at the Federal level as well.

Mr. REELHORN. Absolutely. Absolutely. Yes.

Mr. CONAWAY. I appreciate your comments. Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentleman. The gentleman from Idaho, Mr. Minnick.

Mr. MINNICK. Thank you, Mr. Chairman.

As someone who has spent 12 years, before being elected to Congress, in the retail nursery industry, and one of only two Members of Congress with a nursery industry background, I would like to commend the Chairman and my California colleagues for inviting Mr. Reelhorn to talk about a very, very important segment of the specialty crop agriculture. I was impressed, Mr. Reelhorn, with your statistics about you being ⅓ of the entire specialty crop production in California, and I believe you quoted a $16 billion impact, nationally.

Coming from Idaho as I do, where a nursery industry is also extremely important, I have heard complaints like yours about the BCAP Program, and the impact, unintended impact it is having, not just on bark for the nursery industry, but on raw material for the paper industry, for the particle board industry, and even for taking small trees away from the sawmill industry.

My question to you is this, if you think it is important that this country put in place incentives that will move us away from our dependence upon fossil fuel energy, how would you design an incentive program that nudges the country toward green energy, without having the kinds of disadvantages that your industry, my industry, has suffered through the BCAP approach of basically subsidizing one segment of raw materials, provided it ends up in a specific end-use, and therefore punishing the other end-users?

Mr. REELHORN. Possibly research. Rice hulls are an example. We can use different media. But, you can help me on that. I don't know the answer to that.

Mr. MINNICK. I would like to, but I need some——

Mr. REELHORN. Yes.

Mr. MINNICK. We are about to consider reauthorizing this program, and I share the same reservations you do. That is why I thought you might have some input.

Mr. REELHORN. We are always looking at different media to use Obviously, we want to produce a product that is less expensive and more competitive. I don't know if this answers your question. But it is a difficult one.

Mr. MINNICK. So we take that raw material for you and force you to do something different, because it is no longer competitive for that end-use?

Mr. REELHORN. That is what has happened. Right.

Mr. MINNICK. Let me ask you another question. You mentioned AgJOBS and the need for immigration reform. Let's assume we can't get AgJOBS through—and I hope that's not the case—but I don't see immediate prospects for it. Are there some narrow changes we could make to the H1 and H2 Programs, that would allow your industry to have access to the labor that you need as a year-round producer, to keep the labor talent you need?

Mr. REELHORN. Understand, Mr. Minnick, that we, in California, don't take advantage of H–2A and H–2B, as much as other parts of the country. I understand they are critical.

Mr. MINNICK. It is not just the nursery industry.

Mr. REELHORN. Absolutely.

Mr. MINNICK. We have many, many agriculture industries that are not operating with, at least knowledgeably, legally, because we, in the government, have put you in that position.

But what one or two things would we have to do that would allow you to operate legally?

Mr. REELHORN. Well, the AgJOBS legislation. I would hope that you support that.

Mr. MINNICK. Yes. I do.

Mr. REELHORN. What legislation will allow us to have a stable workforce is a tough one. As I said earlier, I am really good at growing plants, but I need your support to be able to do that.

Mr. MINNICK. Well, continuing to turn a blind eye to the problem is not the solution.

Mr. REELHORN. It's very difficult. Very difficult.

Mr. MINNICK. Thank you very much, Mr. Reelhorn.

Let me ask one question to Mr. Bledsoe. Would the California dairy industry be better off, if you had no Federal income support programs at all, except this new insurance program to which you spoke, and simply left the activities of the Department of Agriculture to funding such things as crop promotion, research, export assistance, conservation incentives, but no other direct incentive programs? Would that be a solution that would be viable for your industry, which is very important to my state as well?

Mr. BLEDSOE. You are speaking about the price support?

Mr. MINNICK. Yes.

Mr. BLEDSOE. Yes. As I mentioned earlier, we are such a large manufacturing state, at least in the near term. We are not willing to give that up. We need to keep our plant capacity, keep our plants alive, and guarantee our producers that they have at least a bottom. Not to say that as we look ahead, that there may not be some interest in a transition off of those programs. But for the moment, we would be done. If those disappeared tomorrow, we would be done.

Mr. MINNICK. Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. I thank the gentleman. I am now pleased to recognize the gentleman from California. Although this isn't his district, when we went roaming around last night, they pointed out that you are pretty close here. So we appreciate you being with us.

I will give you a little bit extra time so you can make an opening statement and then ask some questions. We are glad to have you with us today.

STATEMENT OF HON. DEVIN NUNES, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. NUNES. Absolutely, Mr. Chairman. Mr. Peterson and Mr. Lucas, I want to thank both of you for being out here, taking your time to come out here, to bring the Committee out here. I think it is important for the committees in the House to get out across the country, to see how the real people are living, and what is going on in different states, especially as it relates to agricultural issues, resource issues and other issues. I know this is not easy for those of you who come from a long way away.

I want to thank Mr. Minnick and Mr. Conaway also for coming out.

It is important for you folks, in Washington, to understand what is going on, especially out here in California, and I want to point out that one of the industries that you don't see here today, that perhaps, if we would have held this hearing 10 years ago or 20 years ago, is the forest and timber industry.

We used to have a huge forest and timber industry here, in California, here in the San Joaquin Valley, and all those empty chairs you see there are probably representatives, or monuments, to those forest and timber industry employees that are no longer here.

And what you are seeing, Mr. Lucas kind a hinted at in his questioning about the state government and the rules and regulations that they are putting on agriculture.

But essentially what you are seeing between the state regulations, coupled with, sometimes in combination, sometime separately, with the Federal regulations, is you are seeing total destruction of California's number one industry, and those of you who are from other states, in some cases you are benefiting from California. I know like Mr. Conaway, you have several of my constituents who now have operations, I don't know if they are in your district but I do know that they are in your state.

So, this is part of the bigger problem with our country today, is this continued job destruction throughout the United States of America. But one thing that is for sure, is that there is nowhere worse than the San Joaquin Valley of California, and it is partially water-related, partially air and air regulations, and other regulations that have been put on by the state and the Feds.

But the bottom line is is that another 10 or 20 years from now, there may not be anybody else left in this valley in agriculture, except for maybe a few nurseries and other smaller industries, because by and large, our water is quickly exiting this region.

There is a story today, for those of you who saw the *Fresno Bee*. I get a kick of how they report on these things now. But essentially, we are going to waste away several hundred thousand acre feet this year, due to a state law that was used in Federal court to recreate a salmon run on the San Joaquin River, right here, just a few miles from here.

And of course in the local paper, it is reported as if this is some great water delivery for farmers, when hundreds of thousands of acres are gone. When it relates to the pumps being off, they are still off. The Obama Administration made some meaningful water delivery increases, to get us from five percent—I don't know what it will be now, 30 or 40 percent. But it is important for the record to note that, number one, this could have been done last year and it was not. And number two, we have well over a 100 percent of our water supply, and we are going to be lucky to get 40 to 50 percent of our water supply, which is going to mean there is going to be hundreds of thousands of acres of farmland out of production, probably the same amount out of production as last year.

I just want to take this time and opportunity to impress upon my colleagues from other states, thank you for coming out here to see this. It is very important and I hope that, hopefully, if you come back here in 10 years, that we won't have what happened to the timber industry in all these other industries, like dairy and farming and everything else.

So with that, one area of jurisdiction that is in the Committee that I sit on is the free trade agreements, that I think all of you have, or some of you talked about the Panamanian, Colombian, South Korean Free Trade Agreements. Is everyone here in favor of those agreements? Is there anyone that is not in favor of those agreements?

So let the record show that all six of you are in favor of those three trade agreements. Those trade agreements are still stalled in the House, and hopefully we can move those quickly, because I think trade is really one of the biggest factors for marketing our products overseas.

Well, my time is up, Mr. Chairman. But thank you so much for being here, and I want to thank all the panelists, some of whom are my constituents. So thank you for being here.

The CHAIRMAN. And I will claim my time. I would note that we have a bill in our Committee that is ready for action, that would also increase, significantly, trade, and at least in my district, and in my part of the world, it's a very important issue.

I will ask those of you on the panel. This is a bill that would open up trade with Cuba, and also the travel restrictions.

Do any of you support that agreement? Or any of you oppose it? How many support it?

Mr. REHERMANN. I suppose.

The CHAIRMAN. Mr. Rehermann.

Mr. REHERMANN. Rice industry supports it.

The CHAIRMAN. Yes.

Mr. REHERMANN. Yes, sir.

Mr. CAMPOS. I have been in Cuba on a trade mission, and I think for humanitarian reasons, alone, I think we should have an open trade.

The CHAIRMAN. All right. Well, we are hoping that we can have a successful vote on that in the next couple weeks.

On the BCAP program, it has come up a couple times, that is a program that I designed, or was an idea that I came up with. There was never any intention, on my part, to have wood use this program. And it was designed to bring new crops in that could be the basis for the second generation, third generation biofuels.

During the process, and in the Senate, there was a lot of pressure to expand the definition of *biomass,* and apparently they have more lobbyists than we did—the wood industry.

But one of the things that I did, if we are going to create these new crops, I didn't want to grow those crops unless we have a place to utilize them, to burn them, or try to figure out how to grow these new crops, transport them, so forth and so on.

So we put a requirement in there that they had to have a plant, some kind of a facility to utilize this, and they had to be within, I don't know, a 40, 50 mile radius to make it economic.

Well, the wood industry ginned up the lobby and they knew that they could fit in this definition, and I resisted, but at the end of the day, we put it into law. Had the department gone through the rulemaking in the regular order, this problem would have never happened.

But what they did is they authorized this before the rulemaking because the language was specific enough, apparently, for them to justify it.

Now there is a rule that has been put in place, or is being put in place, that will rein this back in. It would cut the subsidies, substantially, and we think fix the problem. So we are on your side there. This is not something that should have happened and is one of the things that we need to fix.

But as long as I am over here, we are looking at the crop insurance system. We have a SRA that is going on right now, and some of you have heard me say that I think we need to develop a crop insurance system that covers all ag crops, or all of agriculture. I think we need a simpler system than we have, and I think we could come up with one.

And one of the ways that I think we get there is by eliminating CAT coverage and NAP coverage. Is your industry okay with that?

Mr. REELHORN. The crop insurance is very difficult for us to use because we grow a diverse selection of crops, and so it's virtually unusable.

The CHAIRMAN. But you probably have CAT coverage.

Mr. REELHORN. Only because it is subsidized so much.

The CHAIRMAN. Pardon me. What?

Mr. REELHORN. Only because it is subsidized so much. But we will never use it. we will never be able to cash in.

The CHAIRMAN. Well, that is because of the way it is designed.

Mr. REELHORN. Right.

The CHAIRMAN. And my point is, I mean, we could pick up a lot of revenue by eliminating CAT coverage. It actually gives us extra money to fix the other parts of the system.

Mr. REELHORN. Sure.

The CHAIRMAN. But if we could design a product that would fit your needs, and was actuarially sound, and you had to pay some part of it, you would be very much interested in that?

Mr. REELHORN. We would jump at it. We would jump at it.

The CHAIRMAN. How about the rest of you? That would be similar, that where the——

Mr. DIENER. I made the comment, that I don't think your farm insurance program works, but——

The CHAIRMAN. Pardon?

Mr. DIENER. I said I made the comment, that I don't think your farm insurance program works for California. It is a long, involved thing, but we would be interested in being involved in coming up with the right kind of program that would fit that, for everybody, because we have so many diverse crops here. NAP gets so confusing, I mean, you have to be a lawyer to be able to figure it all out.

The CHAIRMAN. Yes. The CAT coverage was originally designed to give people that weren't utilizing crop insurance, to get them to start using the system. It started off at $50 a crop. And it worked. We got a lot more people into the insurance system, especially in the South, than we had before. But I think it has kind of served its usefulness, and that was the main purpose of it when we started it.

And now people are buying it because they have do, because in order to get disaster coverage, or whatever you're required. I think rice has a similar kind of problem with the insurance system, but I think that they could design, we could design crop insurance that would work for rice. That is what we need to be working on, in my opinion, looking at a way to make these coverages effective. It is not going to be free, but it is going to be another risk management tool that people would have available, and I think we should have it.

Mr. Rehermann.

Mr. REHERMANN. The rice industry agrees with you, Mr. Chairman. We can do something. We can come up with a tool. I agree with everything you've said about growers, and now I will speak for California, my area. We only enrolled in CAT coverage because it has been a prerequisite for receiving a disaster payment.

I have been a bought-up customer of crop insurance for several years, and I believe in it. But most growers in California believe because we irrigate, that we have a minimal risk——

The CHAIRMAN. Well, you have a different risk. You have a price risk and you have a cost-of-production risk. You don't have a crop loss risk. So it is a different kind of a situation. But, there is no reason that we can't design a program that fits those needs. One of the things we are looking at is so much of our safety net is focused on the price of commodities, and one of the things that I am interested in is looking at more of a safety net that looks at the cost or production and looks at trying to make the crop profitable and not necessarily just focus on the price.

You know, I think it would be a more efficient way for us to move ahead with the safety net.

Mr. REHERMANN. And we look forward to working with you in that regard.

Mr. LUCAS. Will the gentleman yield for a moment on that point.

The CHAIRMAN. I yield to Mr. Lucas.

Mr. LUCAS. Having now worked with you on several farm bills and through several farm bills, in general, the main point, like CSP, that keeps coming across to me, is the thoughtful way that we work through these processes.

Whatever we do in crop insurance, let's spend a year and a half doing it, and let's not surprise anybody.

The CHAIRMAN. Right. Well, and that is one of the reasons—I will take a little more time here—that is why we are starting early. I think, and I have asked all, you guys know, I have asked all the commodity groups, all the people, not just in the agriculture area, but in conservation and nutrition, energy, fruits and vegetables, all the different areas of the farm bill, to take a look at what we are doing, analyze the money we are spending, and don't just get stuck in this idea that, well, we have to have the same thing we have always had.

Take a look at if we could do this better? Is there a way that we could have a more efficient, effective system, maybe with less money, in some cases?

And that is why I wanted to start a year early, so that we could have that discussion, and we aren't going to surprise anybody. If we waited till next spring, started then, and would try to get a bill done in the next few months, nobody would be ready.

And so that what I am saying to all of you, I want you to get engaged to work with us, to see if there is a way that we can make changes and reforms in this farm program that makes it work for agriculture. That is what we all want. We want risk management, the safety net for producers, the people that are out there feeding this country and feeding the world, and we look forward to working with you.

Thank you very much to this panel. You have been excellent in your testimony, in answering the questions, and we appreciate you taking your time and making yourselves available today. And so you are excused and we will immediately call the next panel of witnesses to come forward.

We have Mr. David Roberts, orange, lemon and grapefruit producer from Visalia. Mr. Jamie Strachan, vegetable producer and shipper from Salinas. John Teixeira, organic tomato, eggplant, bell pepper, melon and corn producer, from Firebaugh. Paul Van Konynenburg, peach, apple, cherry, apricot, almond and walnut producer from Modesto. And Justin Parnagian, peach, nectarine, plum, grape, apricot and citrus producer, packer and shipper, from Fresno.

So welcome to the Committee. We appreciate all of you making the time available to the Committee today, and we will get started. I think we have just about everybody up here. So Mr. Roberts, it looks like you are ready to go.

Mr. ROBERTS. I am ready.

The CHAIRMAN. Your testimony, in full, will be made a part of the record, so we would encourage you to summarize and try to stay as best you can within the 5 minute rule, and we look forward to your testimony.

STATEMENT OF DAVID ROBERTS, ORANGE, LEMON, AND GRAPEFRUIT PRODUCER, VISALIA, CA

Mr. ROBERTS. My name is David Roberts. I am a family citrus producer, here, in the San Joaquin Valley, and I am proud to welcome you to the number one——

The CHAIRMAN. If you are having to leave, do that, but with respect to the witnesses, let's have everybody please be quiet.

Mr. ROBERTS. I am proud to welcome you to the number one citrus-producing, fresh citrus-producing state in the nation. My brother and I have been here since our parents started farming, and hope to witness my son and daughter take over the ranch operations. I would also like to welcome my son, Percy David, probably one of the younger members of the audience here today. He can witness some of the contortions the government goes through to come to solutions.

In addition to citrus, we have smaller interests in avocados, plums, pistachios, Asian pears, and we run a few trucks to harvest our commodities. Our main interest, however, is citrus. I have been on various boards, ranging from water districts to our local farm bureau, and a cooperative citrus packing house. I am completing my term of service as a California Citrus Mutual Director, and for the past 2 years, have been fortunate to serve as board chair. I am not sure how that happened, however, as I was present to defend myself.

It has clearly opened the doors for me to offer policy makers, from a wide variety of areas, my thoughts on edicts and decisions that affect my family.

In the next couple of paragraphs, I wish to highlight comments in my written testimony. First, invasive pests and diseases are not just an agricultural issue. Today, industry is waging a battle against the Asian citrus psyllid and the deadly disease it carries, *Huanglongbing*.

Fellow growers in Florida are literally dying from that incurable disease, and have pulled over 200,000 acres from production. That is about ⅔ of the acres that the California citrus industry has.

Along our coast, we have bark beetles killing pines, we have pitch canker in landscape trees, we have foreign fish destroying our waterways, and we have a multiple of invasive species throughout the country.

The problem is not the exclusion system. We were at the forefront of that battle a few years ago, and I believe USDA, APHIS, along with Customs and Border Protection, are doing all they can to protect our environment. The system is overloaded, and we believe it started back when Congress passed the Plant Protection Act of 1999.

It was then that USDA, and other agencies, acquired a flexibility in determining risk. I can tell you, that as a farmer, what works on paper, through analysis, and in modeling, is not necessarily reality.

It was believed that you can import disease-free and pest-free product from pest-infested areas. After a decade, we don't believe it is working, and we urge the Committee to consider an evaluation of the Plant Protection Act within the context of the farm bill.

Our second immediate concern is an area which we have just learned about, and now fully understand—the use and abuse of biological opinions and the alleged science that serves as a foundation.

Candidly, the issue is not the science. The issue is what question is asked, and then how Fish and Wildlife, or the National Marine Fisheries Service frames the science to answer the question and achieve a preconceived opinion.

Their process does not allow stakeholders such as me to participate. Their process does not call for notice and comment. Their process is conducted in a dark backroom, and their process is adversely affecting production throughout the West.

By edict, within the confines of the ESA, they are removing crop protection tools and limiting the availability of water. They are forcing viable food and fiber land out of production, causing unemployment, reduced economic activity, not to mention a reduction in healthy food products.

Your bill needs to mandate that USDA and EPA have a role in determining risk and mitigation steps. It is hard for me to say that EPA is a partner, but as I visit with them, their frustration over the process is only exceeded by mine. These agencies must have a role in the ESA biological opinion process.

Last, I wish to implore that you remove the word *sustainability* from your lexicon. That is an attack vehicle against family farmers. Quite frankly, I am sick and tired of hearing that I need to be more sustainable. I don't need more regulation to be sustainable. I don't need "cap-and-trade." I know I am a net benefit to the environment because my 75 year old trees produce nutritious food and absorb ozone and VOCs from the air.

I don't need some activist to tell me to be more efficient with water, since I have been on low-volume irrigation systems since before they were born. I don't need government to tell me about sustainability, because all on my own, and with the help of the university, our ranches have been on IPM programs for years.

Believe me—I know a good bug from a bad bug. This word has been adulterated to the point that only this Committee can adequately define the word, *sustainability*.

Which begs the question: does society and Congress really want the family farmer to survive? I always thought my fellow panelists, and I, were the ones that provided the needed food security for the nation.

But in the past 2 years, I wonder. According to the "enviros," all I do is contaminate, waste and poison. Do you want costly programs to subsidize the family farmer, or do you want me to provide and be part of the most efficient farming and food distribution system in the world?

Thank you. Thank you.

[The prepared statement of Mr. Roberts follows:]

PREPARED STATEMENT OF DAVID ROBERTS, ORANGE, LEMON, AND GRAPEFRUIT PRODUCER, VISALIA, CA

Good morning, Mr. Chairman and Members of the House Agriculture Committee. On behalf of my fellow citrus producers I welcome the opportunity to offer our thoughts relative to farm bill deliberations as your Committee begins its exercise to develop a policy that benefits producers and our nation.

Again, my name is Dave Roberts and along with my brother we farm several hundred acres of citrus in the San Joaquin Valley. We are second generation farmers and I hope to turn over a successful operation to my son and daughter. I'm not here to talk about farm bill titles or the previous farm bill. Frankly I don't have that expertise. But I do know how to farm and I do know what government policies are affecting me and my colleagues in the citrus industry.

Our industry is dominated by family farmers. Over 80% of our $3 billion economic activity is generated by families such as mine. Collectively we directly employ 12,000 people and indirectly another 10,000 look to our industry for their employment. We are the nation's number fresh citrus producing state. Depending upon the variety we export approximately 30% of our tonnage, primarily to Asian markets.

My purpose in presenting testimony is to offer my thoughts as to how we on the farm are being impacted by government policies and to bring them to your attention in the hopes that these subject areas are worthy of your consideration as we move forward. Our industry and its representatives utilize the TASC program, crop insurance, the Specialty Crop Block Grants and some day will hopefully benefit from the nutrition language as our nation moves to a better diet.

Invasive Pests & Diseases

But let's talk about our family farm and my concerns and priorities. Invasive pests and diseases are a major priority. I think our government needs to revisit the Plant Protection Act and the latitude USDA now has relative to import issues and phytosanitary subjects. I believe in APHIS, its role and its efforts to protect production agriculture. However I simply believe that our entire system is overwhelmed with product originating from pest or disease infested areas and no matter how hard we work on our border inspection program or how accurate we are in analyzing on paper risks the bottom line is the industry is inundated with pest and disease.

Pest Risk Assessments and border inspections allegedly allow the importation of product, relatively risk free, into our production areas. Yet the reality is something different. More imported product and more consumer travel has created more eradication efforts either by government or the farmer. The system is not perfect and never will be thus are we sentenced to constant and expensive eradication programs that diminishes the ability of our nation to provide food and fiber? The situation in Florida with *Huanglongbing* is destroying the viability of that once vibrant industry. Customs and Board Protection is not necessarily the problem. We have worked with that office and believe they are doing as good a job as possible.

Thus I believe we need to take a step back and determine whether we are not asking for the impossible. Bugs, fruit flies and diseases are constantly threatening the viability of my operation and fellow producers. I believe we have simply overwhelmed our system and throwing more money to inspection and eradication will not solve the problem. So I support any and all efforts to keep the APHIS and CBP fully funded but I ask Congress to reevaluate the impacts and value of the Plant Protection Act. Even though this is a farm bill discussion there are many examples of impact on urban or non-farm environments as well.

Use & Abuse of Biological Opinions

Second, I ask this Committee to insert language mandating the participation of USDA and landowners in the development of Biological Opinions originating from Fish & Wildlife and the National Marine Fisheries Service. Somebody needs to balance the table on these non scientific opinions. I know that sounds harsh but the manner in which they are being used and abused threatens the viability of farming in California, the Northwest and I would assume the balance of this nation.

Without adequate input, without transparency and without balanced direction; but with a bias, these services are robbing farmers like me of our crop protection tools, our water, our land and ultimately our ability to farm in an economically viable manner. I have given water up. I rely less on pesticides today than I ever have and those that I use are much softer in nature. Yet the Services mentioned above fail to take into consideration any input I may offer to achieve an objective. They have failed to acknowledge the work and input from our state government to protect listed species or their habitat. They issue top down edicts that are woefully short on science and long on conjecture. This Committee, the farm bill and Congress must provide balance to a process that is too narrowly directed.

In 1988 when the ESA was last amended Congress wrote in report language: *Agriculture is a major part of the U.S. Economy and provides nutritional sustenance for our population and exports abroad . . . The Conferees, therefore, anticipate that . . . the Federal agencies shall implement the Endanger Species Act in a way that protects endangered and threatened species while minimizing, where possible, impacts on production of agricultural foods and fiber commodities.*

Somewhere that has been lost.

I laugh when I hear Congress is accused of operating in a smoke filled room behind closed doors when in fact that's just what the Services do. I just shake my head when I hear activists, members of government and the media shout that the family farmer must be protected all the while passing or issuing edicts that I can't begin to comply with. I clearly understand the need for the ESA but when it comes to reducing the very foundation for this nation's food security I have to question the fairness.

Committee Members I submit that science is not the issue, it is the manner in which science is directed and whether it is the National Academy of Sciences, or even USDA and EPA the questions asked of them dictate the scientific answer. We have lost the capability of evaluating the whole and deciphering unintended consequences. Add this to the bias that exists with two Service Agencies and it is a recipe for intrusion, lost farm land and reduced production. Is that direction good for this country? It is if you believe reliance on other oil producing nations for our energy is good for the country.

Sustainability

More regulation is not what's needed, more help from government is not what's needed and more "good ideas" are not needed. I farm in an environmentally sensitive and sustainable manner yet that word, sustainability, has become an attack vehicle against the family farmer. Right now my farming costs are exacerbated to the tune of $400 per acre just for regulatory fees and permits. We farm almost 1,000 acres of citrus. My industry consists of 300,000 acres. Somebody must connect the dots. Input costs do rise but the cost of government inclusion has exploded. By the way that amount per acre was quantified by Cal Poly San Luis Obispo with a study initiated in 2004 and updated 2 years ago.

I believe a fair definition of sustainability is necessary within the context of the farm bill. It makes no sense for me to use more water than necessary; spray when it is not needed, contaminate the soil in which I seek to make a living or foul the air to the detriment of my family, my neighbors and those around us. I rely upon the Universities, the scientific community and I continue to strive towards better agricultural practices as they develop. But don't tell me I am not farming in a sustainable manner and don't allow others to saddle me with their vision of farming when I'm the one working the land with a proven track record.

So Committee Members these are my priorities for a viable and profitable future. I do worry about our nation's food security. We are the envy of the world with our production and distribution system. But nobody is connecting the dots and as I try to incorporate or adapt I am forced to become a member of the agribusiness community. Take away my water, my crop protection tools; or inundate me with pest and disease and then attack me for not farming in a sustainable manner and I will leave the ranks of the family farmer. I may survive as an agribusiness person but more than likely I will simply sell my operation to those who have deeper pockets.

So this farm bill must tell me whether I am wanted as a valuable member of our food security team or I am just a wanted criminal being viewed as a negative influence on our environment and nation as a provider of food and fiber.

The CHAIRMAN. Thanks very much, Mr. Roberts. We appreciate it.

Mr. STRACHAN. Strachan.

The CHAIRMAN. Strachan. Okay. I am sorry. Welcome to the Committee.

STATEMENT OF JAMIE STRACHAN, VEGETABLE PRODUCER AND SHIPPER, SALINAS, CA

Mr. STRACHAN. Chairman Peterson, Ranking Member Lucas, and Members of the Committee, thank you for inviting me to testify here today before the House Agriculture Committee. My name is Jamie Strachan. I am President and CEO of Growers Express, a specialty vegetable company located in Salinas, California, with partner-owned and operated farming operations throughout the Salinas Valley, Santa Maria, Oxnard, Huron, Imperial, Yuma, and northern Mexico.

We farm 40 commodities and ship more than 15 million cartons of produce annually. Our crops include lettuces, celery, spinach, brussel sprouts, artichokes, broccoli, cauliflower, and others. My company was mistakenly raided by the FDA and FBI following the spinach outbreak in 2006, and our farming companies lost millions of dollars as a result of this tragic industry event.

Following that, I was a founding member of the California Leafy Greens Advisory Board, the food safety board, and have held roles as Treasurer, Vice Chairman, and now Chairman of the Board. I run a health insurance trust, spending more than $10 million, annually, on health benefits for my employees, a worker's comp insurance company covering more than 3,500 employee, and sit on the board of a packaging cooperative.

We will be one of the first companies in specialty crops to meet the Produce Traceability Initiative, milestones four and five, for putting labels on cases of produce.

As you know, specialty crops represent a mere three percent of farmland, nationally, while contributing close to half the U.S. crop production. The farmland that we have for specialty crops is irreplaceable, and despite what others might think, there is no other place in the country that can grow specialty crops for 9 out of 12 months of the year.

And this cropland, and these crops, will be critical in delivering on the child nutrition objectives and combating the national obesity epidemic.

We use H–2A programs in Yuma and Imperial Valley, along with operating two of the largest farming operations South of the border, to help us balance our labor issues and cost issues.

We operate 30 crews in the U.S., along with multiple distribution centers and packing operations which all require immigrant workers.

The new Arizona law, which requires police to look for illegals, could have large negative ramifications on our operations in agriculture in Arizona. AgJOBS is the answer, or if we need to call it something else, those types of approaches are the answer to keep production of specialty crops in the U.S.

This is the single most important requirement for us to stay competitive in a global marketplace, and to continue to contribute GDP and exports to our economy.

Without viable labor, we will cease to exist overnight.

One current "hot" issue for my company is in commerce and border pathogen testing, that is being performed by FDA and USDA. One of my customers recently moved their purchases of our produce to Guatemala, because the imports from Guatemala are not being subjected to the same border testing and enforcement standards that FDA currently requires on my operations coming out of northern Mexico.

The California Leafy Greens Marketing Agreement is protecting public health by establishing a culture of food safety on the farm. I fully support the efforts being made in Washington to implement a similar food safety system on a national level that maintains the high bars we have established in other states.

As part of my role in California LGMA, I have been actively engaged in the food safety efforts relating to USDA's national leafy greens marketing agreement as well as the food safety legislation, and FDA's current rulemaking efforts.

The California and Arizona Leafy Green Advisory Boards support the development of these programs.

Food safety is a multimillion expense for my organization, and I feel a lot like it is R&D, due to the lack of valid science to support everybody's good ideas. Food safety incentives in the form of tax incentives would be a wonderful way to help handlers do the right thing and invest the necessary dollars in their operations, and assist in determining real answers to these food safety concerns.

The FDA lacks the traceback tools to accurately and identify real causes of foodborne illness outbreaks, or isolate them through targeted recalls based on real-time supply chain information. Until this is addressed in a holistic way, innocent parties, including consumers and industry, will continue to suffer.

I recommend that more research, including the type being authorized by the farm bill, be devoted to food safety and traceability. I encourage Congress, through the farm bill, to fund additional food safety-related research, so we, as growers, can do an even better job of managing risks on the farms.

Organizations like the Center for Produce Safety, and California Leafy Greens Research Board, exist to implement this type of research, and additional funding will make great strides possible in a fairly short period of time.

Further, when an outbreak occurs, a whole industry is affected, whether companies contributed to the event of not. I would suggest that some sort of crop insurance be provided in the event of an outbreak, whereby companies that did not contribute but were hit with decline in sales, like my company in 2006, would receive offsets.

While FDA is likely to receive broad new regulatory authority in the area of on-farm food safety, we believe they can best carry out that mandate by working closely with USDA, the agency that knows agriculture, has experience on the inspection of farms and practices, and has existing regulatory oversight on the farm.

The 2008 Farm Bill provided a significant allocation of funding dedicated to the specialty crop industry, and I want to thank this Committee, and the agency, for that allocation. Four programs that I would like to recognize are the Fresh Fruit and Vegetable Snack Program, the Department of Defense Fresh Program, the Specialty Crop Block Grant Program, and the Specialty Crop Research Initiative.

I support continued expansion of those programs to support healthy eating habits, and combat childhood obesity, increased healthcare costs and poor food quality in our schools and communities.

Healthcare reform, in the way this bill is interpreted, could impact our current costs of healthcare by a factor of four. Currently, we spend about $10 million, so that means upwards of $40 million on healthcare is what we may be faced with, depending on different interpretations of that bill.

So, last, in closing, the specialty crop policies and programs contained in the 2008 Farm Bill generated broad industry support and have helped to enhance the competitiveness of our industry, as well as address critical specialty crop needs.

We look forward to working with this Committee when Congress begins writing the next farm bill. Thank you for allowing me to testify before the Committee today.

[The prepared statement of Mr. Strachan follows:]

PREPARED STATEMENT OF JAMIE STRACHAN, VEGETABLE PRODUCER AND SHIPPER, SALINAS, CA

Chairman Peterson, Ranking Member Lucas, and Members of the Committee, thank you for inviting me to testify before the House Agriculture Committee today. My name is Jamie Strachan, and I am President and CEO of Growers Express, LLC. Growers Express was founded in 1987 by eight produce growers who all believed in a few simple values: Producing our own premium quality products, consistent supply and superior service. Our owners have taken three generations of knowledge and respect for the land and have developed it into one of the nation's largest suppliers of fresh vegetables. Unlike many shippers who have grown in size but have actually reduced their own operations, the vast majority of our 15 million cartons of produce grown and shipped annually are still grown by our own owners. We still maintain the values on which our company is based. Headquartered in Salinas Valley, California, our total year-round ground base exceeds 50,000 acres. To offer our 40+ items on a year-round basis, we also grow in Arizona, Mexico, Oregon, Michigan and Ohio. Our largest volume items— iceberg lettuce, broccoli, cauliflower, green onions, celery and leaf lettuces—are complimented with a full line of bunched items. We also offer several value-added packs to round out our line.

In addition to my role at Growers Express, I also serve as the Chairman of the California Leafy Greens Products Handler Marketing Agreement (LGMA), which is the most rigorous food safety program for produce in the U.S. The CA LGMA is a mechanism for verifying, through mandatory government audits, that growers and handlers implement accepted Good Agricultural Practices in the growing and harvesting of lettuce, spinach and other leafy green products. In other words, the CA LGMA is protecting public health by establishing a culture of food safety on the farm, and I fully support the efforts being made in Washington to implement a similar food safety system on a national level.

The 2008 Farm Bill provided a significant allocation of funding dedicated to the specialty crop industry, and I want to thank this Committee for that allocation. The

2008 Farm bill provided my company and our industry with a set of tools necessary to enhance our competitiveness and expand our markets. While we benefit from most of the programs contained in the Farm bill, there are four that I would like to highlight today:

1. The Fresh Fruit & Vegetable Snack Program.
2. The Department of Defense (DOD) Fresh Program.
3. The Specialty Crop Block Grant Program.
4. The Specialty Crop Research Initiative.

I support the continued expansion of programs, such as the Snack Program and the DOD Fresh Program, that increase the consumption of fresh fruits and vegetables. These programs will develop life-long healthy eating habits for millions of children by providing fresh fruits and vegetables in our nation's schools. In addition, these programs help address the problems our nation faces with increased rates of childhood obesity, increased healthcare costs, and poor food quality in schools and many communities. The mandatory funding provided for the Block Grant Program helps focus on local efforts to enhance producers' ability to compete in the marketplace and provide consumers with safe, abundant food. The Specialty Crop Research Initiative helps to develop and provide the industry with science based tools to address the critical needs of the industry.

Food safety being a number one priority area for my company, coupled with the food safety reforms being discussed in Washington, I recommend that more research funds be devoted to food safety and traceability. While the leafy greens industry and others are doing all they can to raise the bar for food safety, there is a real need for more research in this area. I would encourage Congress, through the farm bill, to fund additional food safety-related research so that we, as growers, can do an even better job of managing risks and upgrading our practices in order to grow, harvest and ship the safest food possible. Organizations like the Center for Produce Safety and the California Leafy Greens Research Board exist to implement this type of research, and additional funding will make great strides possible in a fairly short period of time.

Last, I applaud the USDA for its cooperation with the Food and Drug Administration in recent months on food safety initiatives, and we encourage a continuation of this collaboration. While FDA is likely to receive broad new regulatory authority in the area of on-farm food safety, we believe that they can best carry out that mandate by working closely with USDA, the agency that knows agriculture, has experience on the inspection of farms and practices, and has an existing regulatory oversight role on the farm. In the leafy greens industry, we welcome a greater level of Federal scrutiny and oversight of our practices, but we believe this can best be achieved in a collaborative manner working with both the USDA and the FDA.

Summary

The Specialty Crop policies and programs contained in the 2008 Farm Bill generated broad industry support and have helped enhance the competitiveness of our industry as well as address critical specialty crop needs. We look forward to working with this Committee when Congress begins writing the next farm bill. Thank you for allowing me to testify before this Committee today.

The CHAIRMAN. Thank you very much, Mr. Strachan. We appreciate it.

Mr. Teixeira, welcome to the Committee.

STATEMENT OF JOHN M. TEIXEIRA, ORGANIC TOMATO, EGGPLANT, BELL PEPPER, MELON, AND CORN PRODUCER, FIREBAUGH, CA

Mr. TEIXEIRA. I am from Firebaugh, California, 1 hour northwest of Fresno, an agricultural community of 6,000, to the San Joaquin River. I produce on Lone Willow Ranch certified organic small greens, wheat, alfalfa, hay, tree fruit, herbs, greenhouse transplants, heirloom seeds, grow crops, pastured chickens, pigs and dairy goats.

I am also a partner in Teixeira and Sons, with my two brothers and father, in a conventional family farm of 5,000 acres producing, processing tomatoes, fresh market tomatoes, cantaloupes, alfalfa, wheat, hay, cotton, livestock, greenhouse transplant production, composting 6,000 tons a year. I have been farming 40 years and 20 years organic.

I serve as California Certified Organic Farmers' Fresno-Madera Chapter Certification Standards Chair, and board member of the Organic Farming Research Foundation, and board member of SlowFood Madera Chapter, and board member of the Sustainable Cotton Project.

Thank you, Chairman Peterson, and Committee Members, for the invitation to speak out on developing the next farm bill. We, here in California, appreciate you coming to the Central Valley to hear our thoughts on Federal policies for food and agriculture.

The 2008 Farm Bill established a number of new provisions concerning organic agriculture. These provisions covered research, conservation, crop insurance, and support for the USDA Organic Standard and Certification Systems.

USDA is still in the early phase of implementing some of these provisions. Overall the initial results show promise.

We must nurture these programs, as seedlings, for good results in the future. It is like growing a crop, starting out with a good seed source, preparing the soil, making a good seed bed, and to get a good germination with the right temperature and moisture. We want the seed to pop out of the Earth and continue to grow strong.

The farm bill policies for organic agriculture will be the same.

They get off to a good start but need careful attention and adjustment, so that we have a good bountiful harvest in years to come.

Congress has recognized that organic farming has multiple public benefits, in addition to sustaining high levels of food and fiber production.

These benefits range from conservation of pollinator species to the provision of good jobs in production and processing. In California, the organic market is a strong economic force, and one of the brighter spots in our agriculture economy.

The next farm bill should begin to really leverage these benefits and amplify them by getting more coordination between agencies and programs. The benefits of organic research and organic conservation systems can have positive "spillovers" for improving the environmental performance of all farming systems.

But the agencies need to approach it that way and have a coordinated strategy for this effect. If it receives a fair share of research and development resources organic will lead the way towards a much lighter impact on the nation's soils, waters, and wildlife while providing the productivity that we need.

Research, Education and Extension: Increased funding for organic research and education in the 2008 Farm Bill was historic. Many projects from the first round of funding look promising. The dedicated organic research funds are also helping to build baseline capacity in organic systems research.

But there is still only a relative trickle of science and technology for organic systems coming from the agencies and universities.

Research and education for organic systems is still only about two percent of USDA's research budget. That is only about half of the overall market share that organic products have at retail level.

If you look at the scale of problems that organic systems could affect an outsize contribution, such as pollinator declines and greenhouse gas emissions, and compare that to the relative resources available, you see that the potential contribution is being hobbled.

The overall effort on science and technology for sustainable organic systems has to be scaled up. That is still a primary limiting factor in the long-term success of existing organic farms and for effective transition.

I am particular concerned about seed breeding. We have a critical need for varieties that are adapted to organic systems and we need adequate seed supplies for increased organic production.

We need organic plant and animal breeding for increased resilience in the face of climate change and reduced water supplies. Policy passed by Congress must continue to aggressively rebuild our national capacity for developing and releasing high-quality public cultivars.

Organic can use all the advanced tools, except for transgenic modification, but the science is moving beyond that anyway, and it is not needed.

Marker-assisted selection, environmental genetic analysis, and other tools need to be applied alongside classical breeding tools, to produce varieties in the public domain that respond best to the ecological fertility and pest management strategies that are built into organic systems.

Economic research and regional marketing infrastructure development are crucial to the success of our growing organic production sector. Rewards for organic's environmental services are important, but we still need to have a basically successful economic model in the marketplace.

Here, again, 2008 made a start, and the results of those investments should inform the next stage of scaling up.

Advanced organic soil management systems can improve performance in soil health and biodiversity, water retention and drought tolerance, energy conservation, pollinator health, and more.

Extension programs and applied technology development are needed to put all these parts together in regionally and site specific packages.

The conservation effects of organic agriculture were singled out by Congress in 2008 as an important purpose of Organic Research and Extension Initiative. This area of study is going to be incredibly important and will deserve continued support by Congress.

Conservation Programs: As directed in the 2008 Farm Bill, the USDA Natural Resources Conservation Service has made great strides in trying to integrate organic and transitional production systems into the EQIP and Conservation Stewardship Programs. In some places, this seems to have worked very well.

In other places, it does not appear to be working so well. There is a great need for the NRCS field personnel to be trained in the principles and requirements of organic production. In some places, there is still a need for NRCS personnel to just be open to it at all.

As the 2010 sign-ups and contracts for the NRCS conservation programs are completed and analyzed, we will have a better picture of how to improve Congress's goal of integrating insurance and transitional growers into the programs, and get the resulting conservation benefits that organic systems provide.

I have enjoyed working with our local office, signing up for the EQIP Program and the organic high-tunnel project. I have passed the word to other growers on the benefits of signing up to learn more about conservation practices. NRCS needs to be better at outreach and get the word out. They also need to be able to be better prepared when organic growers and small farmers come into the office.

Crop insurance, credit and disaster payments: Again, we still only have a very incomplete picture of how well the 2008 organic provisions for crop insurance are working.

There does seem to be some focused activity, but we don't have results to see yet. Likewise, the related data collection and analysis, that could help remedy the problems for organic growers with farm credit and disaster payments, is not yet sufficient. We hope that the efforts started under the 2008 Farm Bill will yield enough information to shape further constructive policy changes in the next round of legislation.

In conclusion, Mr. Chairman, there is still a ways to go to get organic agriculture on an equal footing with the USDA's agencies and programs; but we are making great progress. The outcomes are good, not only for organic farmers and their customers, but for all of agriculture.

I thank you for listening and ask that I may be able to submit revised written remarks for the record.

[The prepared statement of Mr. Teixeira follows:]

PREPARED STATEMENT OF JOHN M. TEIXEIRA, ORGANIC TOMATO, EGGPLANT, BELL PEPPER, MELON, AND CORN PRODUCER, FIREBAUGH, CA

My name is John Teixeira. I live at [Redacted] in Firebaugh, California. My town is 1 hour northwest of Fresno, an agricultural community of 6,000 population, next to the San Joaquin River. I produce certified organic small grains, wheat and alfalfa hay, tree fruit, herbs, greenhouse transplants, heirloom seeds, row crops, chickens, pigs, and dairy goats. I am also a partner with two brothers and father in family farm of 5,000 acres producing processing tomatoes, fresh market tomatoes, cantaloupes, alfalfa, wheat hay, cotton, livestock, greenhouse transplant production and composting 6,000 tons a year. I've been farming for 40 years, 20 years organic. I serve as California Certified Organic Farmers' Fresno-Madera Chapter Certification Standards Chairman, and Board member of the Organic Farming Research Foundation. I am also a board member of SlowFood Madera Chapter, and board member of the Sustainable Cotton Project.

Thank you Chairman Peterson and Committee Members for the invitation to speak on developing the next farm bill. We here in California appreciate you coming to the Central Valley to hear our thoughts on Federal policies for food and agriculture.

Building on the 2008 Farm Bill

The 2008 Farm Bill established a number of new provisions concerning organic agriculture. These provisions covered research, conservation, crop insurance, and support for the USDA organic standards and certification system among other things.

USDA is still in the early phases of implementing some of these provisions. I think we can all draw some general conclusions but the Committee will need to sort out some details over the next year in order to fine-tune the details. Overall the initial results show promise.

We must nurture these seedlings for good results in the future. It's like growing a crop: starting out with a good seed source and preparing the soil making a good seed bed to get a good germination with the right temperature and moisture. We want the seed to pop out of the earth and continue to grow strong. The farm bill policies for organic agriculture will be the same: they are getting off to a good start but need careful attention and adjustment so that we have a good harvest in years to come.

Congress has recognized that organic farming has multiple public benefits in addition to sustaining high levels of food and fiber production. These benefits range from conservation of pollinator species to the provision of good jobs in production and processing. In California the organic market is a strong economic force and one of the brighter spots in our agricultural economy. The next farm bill should begin to really leverage these benefits and amplify them by getting more coordination between agencies and programs. The benefits of organic research and organic conservation systems can have positive "spillovers" for improving the environmental performance of all farming systems, but the agencies need to approach it that way and have a coordinated strategy for this effect. If it receives a fair share of research and development resources, organic will lead the way towards a much lighter impact on the nation's soil, waters and wildlife while providing the productivity that we need.

Research, Education and Extension

Increased funding for organic research and education in the 2008 Farm Bill was historic. Many projects from the first round of funding look promising. The dedicated organic research funds are also helping to build baseline capacity in organic systems research.

But there is still only a relative trickle of science and technology for organic systems coming from the agencies and universities. Research and education for organic systems is still only about 2% of USDA's research budget. That's only about half of the overall market share that organic products have at the retail level. If you look at the scale of problems that organic systems could make an outsized contribution (such as pollinator declines and greenhouse gas emissions), and compare that to the relative resources available, you see that the potential contribution is being hobbled.

The overall effort on science and technology for sustainable organic systems has to be scaled up. That is still a primary limiting factor in the long-term success of existing organic farms, and for effective transition.

I am particularly concerned about seed breeding. We have a critical need for varieties that are adapted to organic systems and we need adequate seed supplies for increased organic production. We need organic plant (and animal) breeding for increased resilience in the face of climate change and reduced water supplies. Policy passed by Congress must continue to aggressively rebuild our national capacity for developing and releasing high quality public cultivars. Organic can use all the advanced tools except for transgenic modification, but the science is moving beyond that anyway and it is not needed. Marker-assisted selection, environmental genetic analysis, and other tools need to be applied along side classical breeding tools, to produce varieties in the public domain that respond best to the ecological fertility and pest management strategies that are built into organic systems.

Economic research and regional marketing infrastructure development are crucial to the success of our growing organic production sector. Rewards for organic's environmental services are important but we still need to have a basically successful economic model in the marketplace. Here again, 2008 made a start and the results of those investments should inform the next stage of scaling up.

Advanced organic soil management systems can simultaneously improve performance in soil health and biodiversity; water retention and drought tolerance, energy conservation, pollinator health, and more. Extension programs and applied technology development are needed to put all these parts together in regionally- and site-specific packages.

The conservation effects of organic agriculture were singled by Congress in 2008 as an important purpose of the Organic Research and Extension Initiative. This area of study is going to be incredibly important and will deserve continued special attention by Congress.

Conservation Programs

As directed in the 2008 Farm Bill, the USDA Natural Resources Conservation Service has made great strides in trying to integrate organic and transitional production systems into the EQIP and Conservation Stewardship programs. In some places this seems to have worked very well. In other places it does not appear to be working so well. There is a great need for NRCS field personnel to be trained in the principles and requirements of organic production. In some places there is still a need for NRCS personnel to just be open to it at all. As the 2010 sign-ups and contracts for the NRCS conservation programs are completed and analyzed, we'll have a better picture of how to improve Congress' goal of integrating organic and transitional growers into the programs, and get the resulting conservation benefits that organic systems provide. I have enjoyed working with our local office signing up for EQIP program and the high-tunnel project. I pass the word to other growers on the benefits of signing up to learn more about conservation practices. NRCS needs to be able to do better outreach and Get The Word Out. They also need to be able to be better prepared when organic growers and small farmers do come in.

Crop Insurance, Credit and Disaster Payments

Again, we still have only a very incomplete picture of how well the 2008 organic provisions for crop insurance are working. There does seem to be some focused activity but we don't have results to see yet. Likewise, the related data collection and analysis that could help remedy the problems for organic growers with farm credit and disaster payments, is not yet sufficient. We hope that the efforts started under the 2008 bill will yield enough information to shape further constructive policy changes in the next round of legislation.

In conclusion, Mr. Chairman, there is still a ways to go to get organic agriculture on an equal footing within USDA's agencies and programs but we are making great progress. The outcomes are good not only for organic farmers and their customers, but for all of agriculture.

I thank you for listening and ask that I may be able to submit revised written remarks for the record.

The CHAIRMAN. Thank you very much, Mr. Teixeira, and we will definitely make room for any additional comments you want.

Mr. Van Konynenburg, welcome to the Committee.

STATEMENT OF PAUL J. VAN KONYNENBURG, PEACH, APPLE, CHERRY, APRICOT, ALMOND, AND WALNUT PRODUCER, MODESTO, CA

Mr. VAN KONYNENBURG. Thank you, Mr. Chairman. Chairman Peterson, Ranking Member Lucas, Congressmen Cardoza, Costa, Minnick, Conaway and Nunes, and other distinguished Members of the Committee, thank you for the opportunity to address the Committee today in advance of the 2012 Farm Bill.

My family has been growing fruit and tree, nut tree specialty crops in California for over a 100 years. Thank you for recognizing the contribution and the importance of specialty crops to the overall farm economy.

Before I get to my comments on the 2012 Farm Bill, there are two items of importance that Congress needs to address immediately.

These are the estate tax reform and agricultural labor reform. On the estate tax reform, as you are well aware, in 2009, the estate tax rate was 45 percent with an exemption up to $3.5 million. And that tax expired on December 31, 2009. But a new rate of 55 percent and a $1 million exemption is scheduled to take effect on January 1st, 2011, if there is not a significant change.

As Ranking Member Lucas stated earlier, this estate tax can be unusually hard-hitting on farmers who need substantial capital assets to generate income.

USDA's Economic Research Service estimates that the proposed 2011 estate tax could see up to ten percent of farm estates owing taxes, a marked increase from the 1.5 percent of farm estates which owed tax in 2009. An immediate legislative solution is required.

The next item, the agricultural labor reform. Labor-intensive agriculture, including all fresh market tree fruits, from coast to coast, is faced with a long-term labor problem. This isn't about wages.

Many of these jobs pay well above the minimum wage. Most are $12 to $15 an hour. But the work is physically demanding and seasonal.

Growers need a sufficient, sustainable, and legal supply of workers to produce, pack and market specialty crops to consumers. Without reliable and legal labor, our industry will eventually be forced offshore, or outsourced to where labor is available. This would greatly impact our food safety and reliability.

At a time when the nation's health community is encouraging us to eat more fruits and vegetables, we should do everything possible to encourage their production here and discourage greater dependence on imports.

This is a problem Congress can fix by passing agricultural labor reform with improvements to the H–2A guest worker program and the opportunity to earn legal work status by continued work in agriculture. Please approve the AgJOBS bill.

Now looking forward to the 2012 Farm Bill, please considering expanding specific priorities from the 2008 Farm Bill.

First of all, in the USDA Fruit and Vegetables Snack Program. This program is important since it develops life-long eating habits for children through the consumption of fruits and vegetables.

The current program is particularly effective with school districts that have modern and efficient logistics and distribution infrastructure. However, the program needs greater flexibility in order to assist school districts that are not equipped to handle large volumes of fresh produce.

For these districts, allowing the inclusion of preserved items to the program, such as peach snack cups or a box of raisins, would allow the district to meet the goals of the program.

Second, the Special Crop Research Initiative, also known as SCRI, is helping improve production efficiency, lower costs, and enhance taste and quality for our consumers.

Particularly exciting to our operation has been research into engineering and automation technologies to improve the safety, efficient, and sustainability of apple and stone fruit orchards. Thanks to the SCRI we were able to work with Roger Duncan at the UC Extension to test the Darwin String Mechanical Fruit Tree Thinner in peaches. We must continue research into technology that will reduce labor and enhance the quality of specialty crops.

There are new programs for the 2012 Farm Bill that I would like for Congress to consider. The first is expanding the USDA Germplasm Repository. We need a global DNA database/registration system for the purpose of cultivar protection, so that plant breeders can adequately defend their intellectual property around the world.

The USDA Germplasm Repository is the right agency and program to develop a global repository, that would be the first step in strengthening the intellectual property rights of American plant breeders around the world.

Once fully established, a global recognition of cultivar protection could be enacted.

Second, expand the crop insurance guarantees for all specialty crops. Currently, crop insurance for specialty crops is affordable and workable in some crops and completely unaffordable and unworkable in others.

While there has been significant improvements in cherry and apple insurance programs over the past 10 years, crop insurance for other crops remain nonviable.

As the Committee considers changes, please note the unique aspects of specialty crop production in California. We oftentimes have one operator in partnership with several different land-owning entities. Therefore, having income guarantees for just the operator doesn't always work.

Thank you for the opportunity to testify today. I will be glad to answer your questions. Thank you very much.

[The prepared statement of Mr. Van Konynenburg follows:]

PREPARED STATEMENT OF PAUL J. VAN KONYNENBURG, PEACH, APPLE, CHERRY, APRICOT, ALMOND, AND WALNUT PRODUCER, MODESTO, CA

Chairman Peterson, Ranking Member Lucas, Congressman Cardoza and distinguished Members of the Committee,

Thank you for the opportunity to address the Committee in advance of the 2012 Farm Bill. My family has been growing fruit and nut tree Specialty Crops in California for over 100 years. We currently grow almonds, apples, cherries, peaches and apricots in Stanislaus County.

Let me first say to the Committee how much we appreciate the Specialty Crop provisions that were included in the 2008 Farm Bill. Thank you for recognizing the contribution and importance of Specialty Crops to our overall farm economy. Specialty Crops account for nearly half of all U.S. cash crop receipts, play a vital role in our economy and are important for our health.

Before I get to my comments on the 2012 Farm Bill, there are two items of importance that Congress needs to address immediately: Estate Tax Reform and Agriculture Labor Reform.

Estate Tax Reform

- In 2009, the estate tax rate was 45 percent with an exemption of up to $3.5 million. The tax expired on December 31, 2009, but a new rate of 55 percent and a $1 million exemption is scheduled to take effect on January 1, 2011. The estate tax can be unusually hard hitting on farmers who need substantial capital assets to generate income. USDA's Economic Research Service (ERS) estimates that proposed 2011 estate tax could result in up to 10% of farm estates owing taxes, a marked increase from the 1.5% of farm estates which owed tax in 2009. An immediate legislative solution is required.

Agricultural Labor Reform

- The farm bill presumes that Specialty Crops will be harvested and available to market. However, labor intensive agriculture, including all fresh market tree fruits, from coast-to-coast is faced with a long term labor problem.
- It's not about wages; many of these jobs pay well above the minimum wage ($12 to $15 per hour national average). But the work is physically demanding and seasonal. It is next to impossible to find American workers who are capable and willing to do the work.
- Growers need a sufficient, sustainable, and legal supply of workers to produce, pack and market specialty crops to consumers.
- Without reliable and legal labor, our industry will eventually be forced offshore—outsourced—to where labor is available.
    - This would greatly impact our food safety and reliability.
    - At a time when the nation's health community is encouraging us to eat more fruits and vegetables, we should do everything possible to encourage their production here and discourage greater dependence on imports.
- This is a problem Congress can fix by passing agricultural labor reform with improvements to the H–2A guest worker program and the opportunity to earn legal work status by continued work in agriculture. Please approve the AgJOBS bill.

Looking forward to the 2012 Farm Bill, please consider the following:

Overall Recommendations

- Tree fruits and nuts are vital to the good health of the American diet. The next farm bill should support foods which the nation's medical community believes will enhance health and help fight disease.
- Improving the Specialty Crop provisions in the farm bill that addresses nutrition, increases food safety, expands exports, fights invasive pests and disease, and expands research is not just good for farmers, but it is a victory for every American's health.

Expand Specific Priorities from the 2008 Farm Bill

- **USDA Fruit & Vegetable "Snack" Program:** This program is important since it develops life-long healthy eating habits for children through consumption of fruits and vegetables.
    - The current program is particularly effective with crops that have long storage life (apples) or a long growing season (table grapes) and with school districts that have modern and efficient logistics and distribution infrastructure.
    - However, this program needs greater flexibility in order to assist school districts that are not equipped to handle large volumes of fresh produce. For these districts, allowing the inclusion preserved items—such as peach snack cups or a box of raisins—would allow the districts to meet the goals of the program.
- **Specialty Crop Research Initiative** (SCRI) is helping improve production efficiency, lower costs, and enhance taste and quality for our customers. The SCRI has supported collaborative projects already impacting specialty crops, including the apple and stone fruit industry. Particularly exciting to our operation has been the research into engineering and automation technologies to improve the safety, efficiency, and sustainability of apple and stone fruit orchards. Thanks to the SCRI, we were able to work with Roger Duncan at UC Extension to test the *Darwin String Thinner* in peaches. We must continue research into technology that will reduce labor and enhance the quality of Specialty Crops
- **Specialty Crop Block Grants:** This program provides Federal help to meet crop specific problems with localized solutions. This program is funded by the USDA but operated by state departments of agriculture to focus on regional and local needs for specialty crops such as improving food safety, increasing the consumption of home-grown specialty crops as well as pest and disease research.
- **Market Access Program:** Let's continue to grow the export market, where much of the world's future population expansion will occur. Exports are a bright growth market for almonds, apples and cherries. We need to enhance critical trade assistance and market promotion tools to expand international markets for apples and other specialty crops.
- **Pest and Disease Prevention Programs:** Please continue to support the USDA's work with the California Department of Agriculture to implement prevention and mitigation protocols to combat invasive pest and diseases, which cost the economy billions of dollars per year.
- **Section 32 Program:** We need to be serving more fresh and canned fruits and vegetables to our children. Please recognize their importance and therefore emphasize these items over fried or less healthy processed foods.

New Programs for the 2012 Farm Bill

- **Expand the USDA Germplasm Repository.** We need a global DNA database/registration system for the purpose of cultivar protection so that plant breeders can adequately defend their Intellectual Property. The USDA Germplasm Repository is the right agency and program to develop a global repository that would be the first step of strengthening the Intellectual Property rights of American plant breeders around the world. Once fully established, a global recognition of cultivar protection could be enacted.
- **Expand crop insurance guarantees for all Specialty Crops.** Crop insurance in Specialty Crops is affordable and workable in some crops and completely unaffordable and unworkable in other crops. While there have been significant improvements in cherry and apple insurance programs over the past 10 years, crop insurance programs for other crops remain nonviable.

Thank you for the opportunity to testify today. I'd be glad to answer your questions.

The CHAIRMAN. Thank you, Mr. Van Konynenburg.

Mr. Parnagian, welcome to the Committee.

STATEMENT OF JUSTIN PARNAGIAN, PEACH, NECTARINE, PLUM, GRAPE, APRICOT, AND CITRUS PRODUCER, PACKER AND SHIPPER, FRESNO, CA

Mr. PARNAGIAN. Thank you. Good morning, Chairman Peterson, as well as Members of the Committee. My name is Justin Parnagian and I am an employee, as well as a member of the Fowler Packing Company family, which grows, packs and ships stone fruit, table grapes and citrus throughout the world.

My grandparents, Sam and Gladys Parnagian, who were already farmers in the area, started Fowler Packing less than a decade after World War II. My father, Dennis Parnagian, along with his brothers, joined the family business after completing their formal education, and helped grow our company, continuously, for more than 50 years.

I am proud to be the latest generation actively growing, selling and shipping healthy fruits all around the United States and the globe.

We very much appreciate the House Agriculture Committee, and all of you taking the time and making the effort to be here in Central California, an area that is, arguably, the most productive agricultural region in the world.

We look forward to the continuing dialogue as it relates to the discussion and the formation of the 2012 Farm Bill.

While it truly does seem such a short time ago, we were discussing the 2008 Farm Bill, those of us in production agriculture in California very much appreciate your foresight in holding these hearings at this early point of the process.

As a specialty crop producer who grows fresh grapes, tree fruit and citrus, I was particularly gratified that the current farm bill recognized for the first meaningful time, the importance of specialty crops in improving the quality of life for all Americans.

Due to the focus and resources of the current bill, we better understand the importance of fruits and vegetables, and their role in providing needed nutrition and fighting obesity.

We applaud the efforts of First Lady Michelle Obama and her childhood obesity initiative, appropriately named “Let’s Move,” and the ability of the farm bill to assist in providing funding for healthier diets for our youth, as evidenced by the expansion of the Fruit and Vegetables Snack Program to all 50 states.

However, as we all know the 2008 Farm Bill did not just stop at nutrition, but looked to improve the overall competitiveness of specialty crops by providing critical trade assistance and market promotion tools that help grow international markets; expanded research and APHIS initiatives to combat invasive pests and diseases; invested in the latest research to make the nation’s food supply safer, more economical, better tasting and nutritious; promoted the conservation of our agricultural resources; and expanded the funding for state specialty crop competitiveness projects in all 50 states.

We believe we are on the right track with these kinds of investments, in that they provide true value for all of our citizens. But, realizing the fiscal and budgetary challenges our country now faces, we are even more committed to analyzing and assuring that all of these programs provide the tangible returns that will guide the allocation of resources under the next farm bill.

I can tell you from personal knowledge of the success of such programs as EQIP, that help on our conservation and environmental efforts. TASC that assists in developing markets for California tree fruit in Mexico, working in conjunction with the California Grape and Tree Fruit League, and MAP funds that help promote our products around the world.

As we move forward in the 2012 Farm Bill discussion, there remains clear benefits to increase consumer education and awareness in consuming fruits and vegetables.

We also need to recognize the importance, from many viewpoints, but particularly that of national security, of the production of our domestic food supply. We will again require a farm bill that will help our competitiveness, strengthen our research efforts, enhance our conservation programs, and encourage investment and efficiency in all agricultural production sectors.

But in addition, we will also need to address developing issues that look to negatively impact the true sustainability of California agriculture and its ability to produce that domestic food supply.

These include the lack of sound science connected with biological opinions related to the Endangered Species Act, and the resulting reductions of water and plant health material supplies.

I would hope the USDA would assist in advocating on behalf of agriculture in regard to these issues with the EPA, as well as the Department of the Interior, and to work with the NRCS, to provide additional and more efficient water supplies.

If we do not address these concerns properly, the chances that we will continue to outsource an increasing percentage of our fruits and vegetable from other countries such as China will only grow.

And please make no mistake, they will be eager to take our place.

We look forward to providing specific and detailed examples, and working with you through this very important process. Thank you very much, again, for taking the time to be here today.

[The prepared statement of Mr. Parnagian follows:]

PREPARED STATEMENT OF JUSTIN PARNAGIAN, PEACH, NECTARINE, PLUM, GRAPE, APRICOT, AND CITRUS PRODUCER, PACKER AND SHIPPER, FRESNO, CA

Good morning, Chairman Peterson, Ranking Member Lucas, Congressman Boswell, Congressman Conaway, Congressman Costa and Congressman Cardoza. My name is Justin Parnagian and I am an employee as well as a member of the Fowler Packing Company family. My grandparents, Sam and Gladys Parnagian, who were already farmers in the area, started Fowler Packing Company less than a decade after World War II. My father, Dennis Parnagian, along with his brothers, joined the family business after completing their formal education and has helped grow our company continuously for more than fifty years. I am proud to be part of the latest generation actively growing, selling and shipping healthy fruits all around the United States and the globe. We very much appreciate the House Agriculture Committee and all of you taking the time and making the effort to be here in Central California; an area, as you know, that is arguably the most productive agricultural region in the world. We look forward to the continuing dialogue as it relates to the discussion and the formation of the 2012 Farm Bill.

While it truly does seem such a short time ago we were discussing the 2008 Farm Bill, those of us in production agriculture in California very much appreciate your foresight in holding these hearings at this early point of the process. As a specialty crop producer who grows fresh grapes, tree fruit and citrus, I was particularly gratified that the current farm bill historically recognized for the first meaningful time the importance of specialty crops in improving the quality of life for all Americans. Due to the focus and resources of the current bill, we better understand the importance of fruits and vegetables and their role in providing needed nutrition and fighting obesity. We applaud the current efforts of First Lady Michelle Obama and her childhood obesity initiative appropriately named "Let's Move" and the ability of the farm bill to assist in providing funding for healthier diets for our youth as evidenced by the expansion of the Fruit and Vegetable Snack Program to all 50 states.

However as well all know, the 2008 Farm Bill did not stop just at nutrition but looked to improve the overall competitiveness of specialty crops by providing critical trade assistance and market promotion tools that help grow international markets; expanded research and APHIS initiatives to combat invasive pests and diseases; invested in the latest research to make the nation's food supply safer, more economical, better tasting and nutritious; promoted the conservation of our agricultural resources and expanded the funding for state specialty crop competitiveness projects in all 50 states. We believe we are on the right track with these kinds of investments in that they provide true value for all of our citizens but realizing the fiscal and budgetary challenges our country now faces we are even more committed to analyzing and assuring that all of these programs provide the tangible returns that will guide the allocation of resources under the next farm bill. I can tell you from personal knowledge of the success of such programs as EQIP that help on our conservation and environmental efforts, TASC that assists in developing markets for California tree fruit in Mexico working in conjunction with the California Grape and Tree Fruit League, and MAP funds that help promote our products around the world.

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But in addition we will also need to address developing issues that look to negatively impact the true sustainability of California agriculture and its ability to produce that domestic food supply. These include the lack of sound science connected with biological opinions related to the Endangered Species Act and the resulting reductions of water and plant health material supplies. I would hope that USDA would assist in advocating on behalf of agriculture in regard to these issues with the Environmental Protection Agency as well as the Department of Interior and to work with NRCS to provide additional and more efficient water supplies. If we do not address these concerns properly, the chances that we will continue to outsource an increasing percentage of our fruits and vegetables from other countries such as China will only grow.

We look forward to providing specific and detailed examples and working with you through this very important process. Thank you very much again for taking the time to be here today.

The CHAIRMAN. Thank you very much, Mr. Parnagian. I thank all of the witnesses for their excellent testimony.

I would like to recognize Mr. Earl Williams, who I think is in the audience, from the California Cotton Growers and Ginners Association. We had a hard time getting everybody to fit in here, but I just want you to know, you maybe are aware, I met with your national people last week, and it is probably premature to talk about what we are going to do, given the Brazil case and all that.

But we look forward to working with you to make this all work and figure out how to get through this. We appreciate you being here today and look forward to working with you as we move forward.

The gentleman from California, Mr. Cardoza.

Mr. CARDOZA. Thank you, Mr. Chairman. I appreciate each of you being here today. I asked the previous panelists a single question, because I think it speaks about what we need to do more of and what we need to do less of.

My question is, what is working for you in the bill, very briefly, and what is not working for you in the bill, and what you would like to see eliminated.

So Mr. Roberts, why don't you begin.

Mr. ROBERTS. The Plant Protection Act has allowed more invasive pests and diseases to come in our direction. I hope you are all aware of *Huanglongbing*, I am sure you are, but we have never fought a battle like that before.

I think we could ask the Office of Management and Budget, I believe, to do an audit of what we were faced with before the Act, and what we are faced with now, as far as incursions of diseases and pests. I think the system is failing us on the risk of what is acceptable to come in. I don't think we can do any better job of monitoring our borders than we are currently doing.

We are overwhelmed by the amount of pests and diseases that may be headed in our direction.

Mr. STRACHAN. I think the thing that we like about the recent farm bill is just the Fresh Fruit and Vegetable Snack Program. The thing that I don't like about it is that it is not in every school, or there is not enough funding for it to be in every school.

I would encourage you to reauthorize it at a higher level, so that it can get to everybody.

Mr. TEIXEIRA. Yes. More funding for organic research has started. We need a little bit more.

Mr. CARDOZA. What do you think the adequate level of research would be?

Mr. TEIXEIRA. Well, it's only at two percent, so if you could double it, or more, it would be big advantage. I know it is a gradual thing and it costs money. It has got to come from somewhere. So we have a start, let's nurture it and continue to grow it.

Mr. CARDOZA. Have any of the organic practices been able to be applied to general crop practices?

Mr. TEIXEIRA. Yes. I use a lot of organic practices in conventional ag, composting for one, cover crops. A tremendous amount of my neighbors, in my area, are responding to some of these innovative ways. We need more research and a systems approach, and it just takes time; but it is making a change.

Mr. VAN KONYNENBURG. The Specialty Crop Research Initiative is working. I would urge its continuance. What is not working is the current way we are going about doing crop insurance. For specialty crops, especially, our main insurable need is for hail, or something like that. Right now, the private hail market is working in some areas; it is not in others. And long term, this year, given the economic conditions, labor, for our area is not going to be an issue this year. But long term, labor is going to be an issue.

Mr. PARNAGIAN. I believe the Trade Assistance Programs are working for us and MAP funding, as we ship and promote our products throughout the world. That is of extreme benefit to us. What is not working is little too early to tell yet, so I can't comment on that right now.

Mr. CARDOZA. Mr. Van Konynenburg, I know you I experienced huge problems with the hail. Some of your colleagues who grow peaches have just been devastated. The current program requires you to maintain practices all the way to where you would normally pick, in order to show whether the blemish is there or not, and if you do that, you only get 50 percent. You just continue the losses.

Mr. VAN KONYNENBURG. It doesn't work.

Mr. CARDOZA. Doesn't work.

Mr. VAN KONYNENBURG. The current program doesn't recognize how much money has gone into the crop. It is a disconnect between what is reality.

Mr. CARDOZA [presiding.] Exactly. Thank you for your testimony and thank you for being here. Next up, Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman. I guess, first, let me put this question to Mr Parnagian, and then anyone else who wants to touch on it.

You testified to the effect the EPA is making the domestic market a great place for the Chinese and other countries to sell to us.

Would you expand on that for just a moment.

Mr. PARNAGIAN. Well, the EPA, you say, is making it easier for China? I don't necessarily think that it was the EPA. But I think that the restrictions that are required, and I think justifiably so, that are required within California, because we have to maintain certain levels and standards in our farming practices.

I think China doesn't have those restrictions on their growing practices, and a lot of the restrictions require labor and added cost to our product. A huge competitive advantage for China is the fact that their labor is very cheap, and they don't have those types of restrictions, thereby making it easy for them to get into our country, to bring product in. They can deliver it at a much, much lower price than we can, and obviously, what is very attractive to a lot of consumers, is price.

We deal with crops that are—you know, it's very elastic, it's a true form of price equals demand sense, and the lower price that these Chinese can bring in their products, they can overshadow us and they can beat us to market.

Mr. LUCAS. From your marketing experience, and then I'll call upon everybody else who might offer an opinion, does it make a difference when a product is labeled California or USA, or is the consumer typically more focused on the bottom line?

And I'm not asking for a scientific analysis, just your impression.

Mr. PARNAGIAN. My opinion?

Mr. LUCAS. Your opinion.

Mr. PARNAGIAN. It depends on the economy. We were seeing a resurgence in California grown products, and I would like to think that the consumers do pay particular attention to that. I can't be certain that that is the case. I think that if they see a nice-looking piece of fruit, competitively priced, they're going to initially go to that. I mean, that is what my gut tells me.

Mr. LUCAS. Anyone else like to touch on either part of that question?

Mr. VAN KONYNENBURG. Yes. We are in favor of food labeling for origin, especially I think a lot of the issues is there is more—we have earned more good will and trust than some of our offshore competitors. And so when someone buys something that is made up of fruit concentrate that came out of China *versus* fruit concentrate that came out of the United States, I think that makes a big difference. There is traceability.

Mr. STRACHAN. As far as fresh fruits and vegetables, typically, the best-selling fruit and vegetables are the ones on the shelf. There is typically only one to choose from when you go into a store. So a lot of times, the decision to buy domestic *versus* international lies with the buyer, the purchaser that represents that retail store chain or that food service chain.

We would continue to encourage country-of-origin labeling, so that the end consumers ultimately see what decisions those retailers and food service companies make in terms of their vegetable and fruit selection.

Mr. ROBERTS. Actually, on the biological opinions, the citrus industry would like the EPA to be more involved in that, because those biological opinions are supposed to be science-based, but they see them as opinion papers. They are being directed to come to a preconceived answer that we are doing things wrong.

The Center for Biodiversity is ready to launch suit on the use of 400 crop protection tools. Without those crop protection tools, I think we are pretty much finished.

EPA is not given a chance to offer their expertise in that system with Marine Fisheries Service. That needs to be more open, the biological opinions need to be more open than they are now.

Mr. LUCAS. Thank you, Mr. Roberts. Anyone else? I yield back my time, Mr. Chairman.

The CHAIRMAN [presiding.] Thank you, Mr. Lucas.

Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman. Mr. Roberts, in working with you and your association over the years, dealing with trade issues with a number of countries; I am wondering if you would care to comment on what we might be able to do to make trade more fair. There are limitations to what the jurisdiction of this Committee is.

Do you want to make any quick comment on that.

Mr. ROBERTS. We need to make sure that we revisit the 1999 Plant Protection Act and look at the amount of risk that we are subject to on diseases and pests. Our system is being overwhelmed.

Mr. COSTA. I think that is a good description. I mean, we try to deal with these issues, we push and we push, but I think you describe it quite well in terms of being overwhelmed.

Mr. ROBERTS. The free trade agreements that were mentioned earlier, I don't remember what all countries were involved in it, but the Koreans are maintaining a 54 percent tariff against citrus. We are not completely happy with that.

Mr. COSTA. Yes. The bottom line is free trade is fine as long as it is fair trade, and it has got to be a two-way street, and too often that is not the case.

Mr. ROBERTS. In California, it costs us, as a citrus producer, $400 in state regulatory costs, more than it does a producer in Texas.

And then you add on the Federal costs of doing business in the United States *versus* some of these other countries, and you put the two together, and we are quite a burden to be the low-cost producer.

Mr. COSTA. That is in spite of that fact, some of my other colleagues may not know—but we have become the number one citrus state in the nation, as a result of all that good work, notwithstanding the challenges.

Mr. ROBERTS. Yes.

Mr. COSTA. Thank you for your good work. Mr. Strachan, we have talked before on the efforts with regards to food safety and your testimony went into detail about that. The problems we have had with leafy greens over in the Salad Bowl, in Salinas, but there are a lot of people that grow a lot of leafy greens in the valley, out in my district on the west side.

I want to commend your efforts in supporting our food safety systems with United Fresh, Western Growers, and a whole lot of other ag organizations. We got that out of the House, thanks to Chairman Peterson's help, and others. Congressman Cardoza and I worked very hard on that.

The bill that is over on the Senate side, they are trying to pattern it after our efforts. What concerns might you have if there is a chance that we can get a conference committee this year and get a national food safety standard out there.

Mr. STRACHAN. You know, the committees, the FDA agencies, everybody has been really open to trying to learn from the experience that we have had. We have been running a food safety forum that combines government auditing with industry, and been running it for about 3 years now. We have a lot of experience——

Mr. COSTA. And the traceback program, as you noted, has really been perfected, here in California.

Mr. STRACHAN. Yes. And so I think the lessons that we have learned are starting to make their way into the bill. They were, in many ways, in the House bill, and so I think we are really positive about the way the legislation is moving along. I don't have any specific feedback. I have read both bills. I am fairly familiar with them. I have a few concerns about some of the traceback provisions.

Mr. COSTA. Please bring any concerns to our attention. We will go from there. Before my time expires, I want to get to the other three witnesses.

Mr. Teixeira, you share the same last name as my father's grandmother, so we may be related somewhere back there. What do you think is the potential for organic farming in this country? You talked about a number of statistics in your testimony. What do you think the appropriate role on the Federal side is in dealing with both our traditional farmers and the organic farmers that are continuing to grow in numbers.

Mr. TEIXEIRA. Organic agriculture is the fastest-growing segment in the United States right now. It is growing very fast. A lot of people are in transition. I think there are a lot of things to be looked at. We have to address some of the concerns in that growing phase. Organic research is a real important component. The transition component is very helpful for transition growers to start up and get involved, and I think that has really made a big difference by having those funds. It has really increased the amount of people involved.

Mr. COSTA. Thank you. Two more quick questions, if you don't mind, Mr. Chairman.

Mr. Van Konynenburg, I just want to ditto the importance of good estate planning. We would not be able to keep our farm in our family had that not happened. I am glad that you noted that we, who represent agriculture areas, need to continue to see if we can come together on estate taxes, because if are going to maintain family farms in America, you have to have this issue dealing with the estate tax resolved in a way that makes sense.

I also want to commend you for your comments as it relates to immigration reform. It is long overdue. I think agriculture has stepped to the plate in terms of the need to have reform, whether it is AgJOBS or comprehensive reform, which we must achieve. I don't know whether we are going to be able to put it together this year or not.

Finally, Mr. Parnagian, your family and ours have worked together over the years, and we commend you. We made some progress on obesity with the farm bill, last time, to get healthy fruits and vegetables in the school lunch program, and expand those efforts.

What else should we be doing as we look at the 2012 Farm Bill to increase consumption of healthy fruits and vegetables? I don't care where they are grown in this country, they are a key to dealing with obesity. What are your thoughts on how we can do a better job?

Mr. PARNAGIAN. We have seen that when you're training the children and getting them involved at a early age with the fruits and vegetables that is a huge incentive. I don't know what more you can do.

We do support what you have done with the school systems. I think continuing to educate the children and getting them involved, in any way, with soccer programs and whatnot, becomes the building blocks of healthy habits.

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

The CHAIRMAN. I thank the gentleman. The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I appreciate this panel coming here. While we have been sitting here this morning, my wife has sent me a picture of her one tomato plant, with two tomatoes on it, of which she is spectacularly proud. And it gives me just a microscopic sense of what pride you bring to the table in providing this country with the safest, most abundant, and cheapest food supply in the world. Those of you in the tomato-growing business, who are in direct competition with my wife, don't lose a lot of sleep about her having much of an impact on the tomato market.

[Laughter.]

Mr. CONAWAY. When you talk about the estate tax, you need to be for something. And I am for repeal. But that is probably not going to be in the cards. If you look back at 2006, the House passed a version that was not a bad first step in getting rid of it totally, but not a bad compromise.

It would have provided for a $5 million exemption that is indexed for inflation, a step-up in basis, it would have provided a tax rate for the first $25 million of taxable estate to be at the capital gains rate, and anything beyond $25 million would be double the capital gains rate.

And it would have addressed this issue much better than what we think might be coming around.

So as your organizations look at your responses to the estate tax and what you want, you might look back at the 2006 version that passed the House, that we were not able to get through the Senate.

As we talk about immigration and labor, I am hopeful that as this thing moves forward, that the voices on both sides can be what I refer to—remember when you came in off the playground and the teacher would say, all right, boys and girls, let's start using our inside voice. Much of this debate over the last 3 years has been conducted at the top of our lungs.

We have been screaming at each other, and when you scream at somebody, they don't really listen, and when somebody screams at me, I don't listen.

This is important stuff. These are human beings. These are people. And it is perfectly okay for America to operate in America's best interest. It is in America's best interest to protect our borders and secure them. It is in America's best interest to know who is in this country. But these are people and we need to deal with them accordingly, and I think we can.

We have to be careful that the folks on the way left and the way right don't dominate this conversation, going forward, because this is important stuff. I don't know if we will get it done this year but we need to get it done.

The employers, as one of the earlier panel members said, you need to be able to comply with these laws, you want to comply with these laws, and it is important that we get that done right.

One of the things about the conversation we have not had yet, is what will the employer responsibilities be for this workforce that we might be provided under the reform?

So you need to be thinking about that as well, because that is going to help those who see the workforce as a threat, to understand that that is not really the case.

I would like to get some comments, because the folks in Texas who try to deal with this issue, and bring in people who are unfamiliar with how hard labor is in your industry, they don't really last more than a half a day, at best, and that the only people who will do this work are the folks who have been doing it and know how hard it is.

Can you comment, Mr. Van Konynenburg. Thank you for the comment earlier about today is it is not really an issue because the unemployment across this country is ten percent. And when you hear that number, and then you hear folks talk about not being able to find people to go to work, there is a disconnect. And so could you talk to us, anybody on the panel want to talk just a little bit about that?

Mr. VAN KONYNENBURG. There is a high unemployment, so labor is not going to be, at least for our area, an issue this year.

But there is a, for whatever reason, a need for a stable supply of labor who can pick fruit, thin fruit, prune trees. That is what we have to have. Unfortunately, it is seasonal. I try to spread it out as best I can get, and situate our operation the best I can to keep people working, 9, 10 months out of the year, if I can; but it is seasonal and it is always going to be seasonal.

We have to have a long-term solution that recognizes that this labor need is going to be with us for fruit and vegetable growers. This is the reality, going forward.

We have people who want to work. Let's put together a program that is workable and let's get away from the noise. I wholeheartedly agree with you. Right now, we have the volume up too loud. We have to have a workable solution that works for everybody.

Mr. CONAWAY. Mr. Roberts. Thank you, by the way, for bringing the easiest to pronounce last name to this panel.

Mr. ROBERTS. Several years ago, when labor was tight, I did take part in a small pilot H–2A worker program. All I did during that period of time was donate my crop to that program. I mean, the harvest costs in that program ate every dollar my crop was worth, and then some. That program was certainly not a viable option for us. It was too burdensome, too costly, there was no incentive for the workers to speed up, to learn quick. The housing, the transportation. It was way too much for us to handle.

It is not fair of the U.S. Government to make me a criminal every day. I mean, I do everything I can to do things right. But, I cannot tell you that all my guys are legal. I get forms. I turn them in. I photocopy them. I do everything I am supposed to do. But I am made to feel like a criminal, on multiple levels. It gets rather frustrating.

We need a good documented guest worker program, I think would be the solution. I know that may not be palatable to a lot of people, but for food security I would appreciate it.

Mr. CONAWAY. I do think we could have a worker program that is based on two pretty straightforward issues. One, if you are in this country on a legal basis, you can work. If you are illegal, you can't work, which means let's make it as easy as we can on the employers to comply, and then enforce that compliance. And two, if you have a job, fine; if not, you go home. Nothing to do with citizenship. It's absolutely citizenship-neutral, doesn't help, doesn't hurt. It just provides taking the ag arena, those folks who want to come here and work, seasonally, to do that, and I think we can make this work.

But we are going to have to "lower the volume" in order to listen to each other properly, in order to make this thing work.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Thank you. I thank the panel for their excellent testimony. We appreciate you taking the time to be with us today and answering the questions, and it was very helpful to the Committee. So you are excused.

I recognize the Ranking Member for any closing statement he might have.

Mr. LUCAS. Thank you, Mr. Chairman. Just to note, briefly, that the Committee does place great value on your California Members of the Agriculture Committee. I think I can say, not only for myself, but on behalf of the Agriculture Committee, you have many challenges here but you also have some of the most tremendous resources—soil, weather, the climate, all of those things. Given a fair fight, you will continue to be the productive "jewel" you have always been.

We want to help facilitate that and you will see us work through a very tight budget in the coming year, to try and make that happen. And I think I can say that in a bipartisan spirit, Mr. Chairman.

The CHAIRMAN. That is definitely true. I associate myself with your remarks. I would yield my time to Mr. Costa and Mr. Cardoza for any brief closing statements they would like to make.

Mr. COSTA. Again, I want to thank you, Mr. Chairman, and the Ranking Member, for the time and the patience that you have taken to come out here. Congressman Cardoza and I, as Members of the House Agriculture Committee, enjoy working with U.S. agriculture throughout the country. We are obviously very proud of our agricultural resiliency and our productiveness, and our quality and innovation, here in California. The challenges we face here, in some cases, are different, but I think we share many of the challenges throughout the country. That is why this hearing today is important.

The hearings we are having around the country are important as we reset the table for the 2012 Farm Bill. When you talked about being criticized for being premature in these actions, let me commend both of you for being at the right place and the right time.

As you noted in our hearing, Friday and Saturday, we didn't meet the timeline in the last farm bill, so starting early seems prudent given all the challenges and the fiscal constraints we are going to have to deal with in Washington.

So I add these comments to those that both of you have made, my colleagues here. We share, in a bipartisan fashion, the advocacy of American agriculture. We try every day to continue to allow you, our producers, to do what you do best, which is produce the finest food and fiber anywhere in the world.

To the witnesses on this panel and the previous panel, we say thank you. For those who were not able to testify, we regret that. When you have 400 commodity crops in California, and you have two panels, it makes it difficult. Know that those of you who weren't able to testify, we will take your written testimony, your submission, as a part of the evidence.

There will be further hearings that will take place. I want to close by thanking the Fresno City Council, and the mayor, for allowing us to use these very nice chambers. To the comment from my colleague from Texas, they were built in better fiscal times. It was 10 years in the planning, and this building, as modern as it looks, was completed, I think over 15 years ago. We thank them for allowing us to use the council chambers today.

Mr. CARDOZA. I just will say thank you to you all again for coming here. I think this was a productive hearing. I think you heard our constituents tell you, directly, what doesn't work and what we need to work on. Some of the things that we did change in the last farm bill are "hits" that folks are very pleased with. There are a few things that turned out to be "dogs" and we need to work on those. And there are programs that simply aren't meeting the needs. Industries like dairy that are just devastated.

The dairymen need to be on the same page, or at least close to the same page. We have talked about it, time and time again. But Mr. Chairman, I know that with the cooperation that is on this Committee, that we can forge something that will work for the different parts of the country.

Thank you for being here. I thank everyone for attending and have a great trip home.

The CHAIRMAN. Thank you very much. I thank the gentleman, and again, for those that weren't on the panels, you can send any kind of testimony, any kind of information, suggestions, to the Committee, it will be made part of our hearing record, at *www.agriculture.house.gov.*

And so with that, under the rules of the Committee, the record of today's hearing will remain open for 30 calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member, and this hearing of the Committee on Agriculture is adjourned.

[Whereupon, at 12:03 p.m. (PDT), the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED LETTER BY ALAN J. BENGYEL, CITY MANAGER, CITY OF ORANGE COVE, CALIFORNIA

April 27, 2010

USDA Rural Development
Fresno, CA.

RE: Letter of Support for USDA Rural Development Programs

Dear Sirs:

The City of Orange Cove is a rural agricultural farm worker community located in eastern Fresno County. The City has been actively involved with a variety of USDA programs ranging from farm worker mortgage assistance, community water and sewer infrastructure funding assistance, Intermediary Relending business financing and Rural Business Enterprise Grant programs funding. We currently have two USDA water system loans outstanding with your agency. The City has benefited tremendously from USDA assistance.

Our needs remain ongoing, and we are currently working with USDA Rural Development for two major infrastructure financing projects for our community sewer and water systems. We have had ongoing meetings with USDA staff to address these issues. We plan to have financing in place with USDA, for these projects, within the next 12 months. These projects are critical for the ongoing stability and growth of our community. As well, we are working with USDA Rural Development staff for another round of farm worker mortgage assistance funding for another 35 homes in our community.

We wholeheartedly support USDA Rural Development's mission. We encourage ongoing legislative support for USDA's programs. Our community has befitted greatly from the professional support of USDA agency personnel. These USDA programs items are greatly needed for our community, and we support all efforts to maintain USDA Rural Development programs in place.

Sincerely,

ALAN J. BENGYEL,
City Manager.

SUBMITTED STATEMENT FROM PAUL BOYER, COMMUNITY DEVELOPMENT MANAGER, SELF-HELP ENTERPRISES

USDA Rural Development is an important resource for small disadvantaged communities in our country. Historically many San Joaquin Valley communities have benefited from these programs. However, due to the current USDA definition of rural and because it is anticipated that 2010 Census data will eliminate the eligibility of many communities, California's share of RD Water and Waste Disposal funding will diminish. The following includes excerpts from the recently completed (February 2010) "Jobs, Economic Development, and Sustainable Communities" report prepared by the California USDA State office containing the issues raised in 43 Jobs Forums held throughout California.

Find a Definition of Rural That Fits California's Needs and Realities

The USDA definition of "Rural" impacts the eligibility of communities and individuals to receive financial assistance. Rural Development has several different definitions for its programs. The definitions are not standardized and often confusing. Different programs and services at the state and national level define rural area, rural community, and rural city and/or county in a variety of ways. Some programs use definitions such as "communities under 50,000 that are rural in nature," "areas of less than 2,500 not in Census places," or "nonmetro county."

All SJ Valley counties now have MSAs and do not have their population counted as rural. Yet, those of us that live outside the few Valley metro areas definitely live in a rural experience. The growth experienced within the San Joaquin Valley communities is often without the generally-related economic benefit such as diversified economies, developed infrastructure, and access to important services such as health care and higher education. When applying for resources, rapidly urbanizing rural areas can find themselves ineligible for rural-targeted programs due to tight population eligibility criteria. However, because of the limitations discussed above, these areas are often unable to compete when vying for resources against truly urban and suburban areas.

Changes to Federal funding formulas should be made to reward counties working to direct growth to cities to protect agricultural land and open space.

California policy encourages "city-centered" or "regional" growth patterns that concentrates population growth, development and economic activities in areas that are then considered non-rural under current USDA definitions. In California this is even more so now with green house gas goals further discouraging sprawl and encouraging preservation of agricultural land.

Standardize and simplify the definition of "Rural".

USDA has several different rural definitions which can be confusing and contradictory. Rural Development has separate and distinct rural definitions for its Housing, Business, Water & Waste, and Community Facilities programs. Simpler and more standardized definitions would improve public understanding about USDA programs that are available in rural areas.

Funds should be allocated to states based on the percent of the population that lives in eligible communities.

Fifty percent of the weight in allocating funds nationally under the Water and Environmental Program and Communities Facilities Program is based on rural population. In the past, population data came from the population living in communities the Census determined to be rural (less than 2,500 population). However program eligibilities under the actual statutes are much higher. Aligning allocations with actual numbers of population that is eligible under the statutes would allow for a much more equitable allocation of funds throughout the country.

Utilize Census block group data and Census designated places instead of county level data to determine areas of persistent poverty.

Several Rural Development programs maintain set asides for persistent poverty counties. These set-asides supplement regular state allocations to provide added resources in areas of persistent poverty. USDA's Economic Research Service defines counties as being persistently poor if 20 percent or more of their populations were living in poverty over the last 30 years (measured by the 1980, 1990, and 2000 decennial Censuses). County size varies significantly across the country. Georgia has 159 counties with an area of 59,000 square miles. Fifty counties are designated persistent poverty. California has 58 counties in 164,000 square miles and **no persistent poverty counties.** Many SJ Valley cities, Census Designated Places and Census Tract Block Groups chronically exceed the 20% poverty level with some over 30%.

Census income data is collected to the Block Group level and as Census Designated Places (CDPs). If persistent poverty were calculated on that basis throughout the country there would be a greater possibility of eliminating areas of persistent poverty that exist in many states.

Regulatory Allocation Factors

Below are regulatory factors for 3 of USDA's programs: Water and Environmental Program (WEP, which includes Water and Waste Disposal), Community Facilities (CF), and Business and Industry (B&I). The data was updated in 2009 based on data from the Economic Research Service.

As you can see under Rural Population (Criteria A), California's minimal percentage of national rural population is a significant factor in the allocation of funds since only communities less than 2,500 are counted as rural. Criteria B and C below are calculated using non-metropolitan population and unemployment data. Typically the use of non-metropolitan population and unemployment data significantly penalizes the more populous states by eliminating a significant portion of the population eligible under the statute from the formula used to allocated funds. We see this as an even more significant issue once the 2010 Census data is received and implemented.

WEP/CF/B&I Allocation Formula

(from USDA regulations 1780 and 1940–L)

The current criteria used in the basic funding allocation formula to states are:

(A) State's percentage of national rural population will be 50 percent.

(B) State's percentage of national rural population with incomes below the poverty level will be 25 percent.

(C) State's percentage of national nonmetropolitan unemployment will be 25 percent.

In California WEP, CF and B&I programs will all lose many eligible communities after receipt of the 2010 Census. This is supported from the 2008 population estimate for cities which shows 14 California cities will no longer be eligible for assistance from WEP; 18 for CF and 19 for B&I programs. In addition, a number of CDPs would be eliminated, but those estimates have not yet been made.

Most of these communities are in the SJ Valley and are agricultural in nature. Consideration should be made to raising the limits on population for these programs. The current cut off for Water and Waste Disposal is "rural and rural areas means any area not in a city, town or Census designated place with a population in excess of 10,000 inhabitants, according to the latest decennial Census of the United States."

Recommendations

- Increase the cap for population for Water Environmental Program from 10,000 to 20,000.
- Change the allocation formula to states for WEP/CF/B&I Programs by:
  - Redefining "Rural" as less than 20,000 population.
  - Counting chronic poverty (>20%) for cities, CDPS and Census Tract Block Groups with less than 20,000 population.
  - Counting unemployment for cities, CDPs, and CT Block Groups with less than 20,000 population.

PAUL BOYER,
Community Development Manager,
Self-Help Enterprises.

SUBMITTED STATEMENT FROM HON. MIKE LANE, COUNCIL MEMBER, VISALIA CITY COUNCIL, STATE OF CALIFORNIA; MANAGEMENT ANALYST, SELF-HELP ENTERPRISES

I appreciate the opportunity to provide input for development of the 2012 Farm Bill. There is nowhere more appropriate for input than here in the center of the world's richest agricultural region—the San Joaquin Valley.

Self-Help Enterprises is a regional nonprofit organization which for over 45 years has worked closely with USDA Rural Development to develop, improve, and preserve housing for low income valley residents and especially farmworkers as well as the infrastructure that is essential to the communities we call home.

We utilize Rural Development programs to provide mutual self-help housing, housing rehabilitation, multifamily rental housing, and sewer and water systems.

As many of those who speak today know so well, agricultural in California is more than farms—it is the communities, the infrastructure, and the people who manage the farms, who work the farms, and who provide the services that rural communities depend upon. Though this might surprise our more urban counterparts, the Valley consists of much more than the 99 and I–5 corridor. In fact, the rest of the valley is mostly unincorporated, invariably poor, economically disadvantaged and typically woefully lacking in infrastructure.

Unincorporated communities like Planada, Ballico, Delhi, Kettleman City, Armona, Lost Hills and cities of under 25,000 population like McFarland, Avenal, Huron, Firebaugh, Mendota, Dos Palos, Livingston and Patterson are home to 45% of the valley population.

With the most "affordable" housing in the Valley, these communities are often plagued by substandard housing, lack of municipal resources, and outdated infrastructure.

In a report commissioned by the Valley congressional delegation, the Congressional Research Service stated, "By a wide range of indicators, the San Joaquin Valley is one of the most economically depressed regions in the United States."

At the same time, we know the Valley as an area of great resources and even greater potential.

So just as this is an appropriate venue to hear input about agriculture policies in the farm bill, so too is it an appropriate venue to hear about USDA's critical role in community development and the importance of USDA's comprehensive role.

These communities—like so much of rural America—need investment beyond what they alone can muster—and it is important that a national agriculture policy incorporate the broader investment needs of agricultural communities.

It is against this backdrop that the "other" part of USDA, the Rural Development mission area works quietly, yet effectively, to invest in the communities we call home, and the lives of those who live there. And the story of rural development in this valley is one of successes. As you know, the RD, mission area encompasses three distinct but coordinates efforts—RBS, RUS and RHS.

USDA Rural Development has been a key resource for Valley communities. Perhaps the most significant element of USDA's Rural Development role one that is often taken for granted—is the delivery system. Throughout the San Joaquin Valley, indeed throughout the nation, USDA is connected in to rural communities in a way that is unique. Key because it is often the people who make the connection to resources, who provide the TA necessary to enable the community to access the complex resources available to them. In recent years, despite consistent reductions, RD staff have continued to have a major impact. But staff reductions cause strains, and it is important to maintain the delivery system that exists.

Of course, when you get right down to it, the other key element of USDA's Rural Development role is capital—it takes capital to invest in our communities, and the USDA capital and technical assistance programs are crucial to past and future success. It is important to realize that loan guarantees and shallow resources are not a substitute to direct capital investment.

For example, in one Kern County community SHE worked with USDA to provide a water system. Without grant capital from USDA low income families would have faced bills of $54 per month house for water on top of the existing sewer charge. By comparison, in Visalia we pay about $58 per month for water, sewer, trash & street cleaning.

The programs known among us as 502, 504, 514 & 516, 515, 535, sewer and water systems loans and grants, and the Rural Community Development Initiative, constitute a direct investment in rural people, in Rural Communities, in Rural America. In fact, California leads the nation in production and utilization of the 502 program. This key rural homeownership program has a very low foreclosure rate.

An important element of the Rural Development role is the fact that RD does not try to go it alone, but works in partnership with other Federal, state, local, and private resources.

Working in partnership, USDA and SHE, counties, cities, and perhaps most significantly, the people of those communities, have been extraordinarily effective in bringing resources to the local level.

Whether it is an investment in a community water system, the construction of rental farm labor housing in Planada, the opportunity for mutual self-help homeownership in Shafter, or a new roof over the heads of an elderly couple, the resources of USDA Rural Development constitute a direct investment in rural people, in rural communities, in rural America. It is a noble mission and an excellent investment.

The definition of "rural" continues to be of concern particularly in light of the 2010 Census. Rural counties in California are far larger than most counties in the Midwest and East. In fact, several counties in the San Joaquin Valley are larger than whole states. However, due to the fact that these large counties contain a Metropolitan Statistical Area (MSA) they are defined as "Metro Counties" notwithstanding the fact that outside of the urban area they are completely rural counties in nature and heavily agricultural.

SUBMITTED LETTER FROM BARRY F. KRIEBEL, PRESIDENT, SUN-MAID GROWERS OF CALIFORNIA

May 28, 2010

Hon. COLLIN C. PETERSON,	Hon. FRANK D. LUCAS,
Chairman,	*Ranking Minority Member,*
House Committee on Agriculture,	House Committee on Agriculture,
Washington, D.C.;	Washington, D.C.

Re: Sun-Maid Growers of California 2012 Farm Bill Testimony

Dear Chairman Peterson and Ranking Member Lucas:

Sun-Maid Growers of California is a vertically integrated cooperative owned by approximately 750 farmer-members. As Sun-Maid's President and Chief Executive, I am submitting this testimony for the 2012 Farm Bill on behalf of our growers.

Maintain the eligibility of dried fruit in all school meal and snack programs and in the WIC program—Traditional dried fruit, like raisins, dried plums, figs and dates are nutritionally dense, shelf stable, have no shrinkage and are always available as an alternative to fresh fruit in all governmental meal, snack and feeding programs. Traditional fruits contain no added or infused sugars and have essentially the same nutritional food values as their fresh counterparts, only without the water. Additionally, when compared to many processed snack foods offered in schools and, when considering the Administration's national goal to reduce childhood obesity, traditional dried fruit it is an all natural alternative, contains no fat and has no added salt.

Dried Fruit/Raisin Participation in USDA Programs—Currently, there is a prevalent USDA theme for schools to participate in the "buy local" and "know your farmer, know your food" programs. While such messages appear harmless in thought, they clearly have nutritional and practical limitations. Certain nutrient dense, natural products which are only produced in one area of the United States, like traditional dried fruits, yet are sought nationally by school nutritionists and other Federal feeding programs, can be restricted for purchase. Simply, California school districts would be able to access an abundance of raisins or other traditional dried fruit, yet other school purchasers throughout the country would be able to access fewer dollars for those same products. Conversely, sellers of traditional dried fruit would not be able to compete on a level playing field by selling to schools throughout the nation if those schools are incentivized to "buy local" products.

Another element we question under the "buy local" and "know your farmer, know your food" themes is the fact that implementing such programs displace existing providers of fruits and vegetables produced on now what could be considered "non-local" farms. If the Department is to provide incentives for schools to "buy local," is it in turn going to compensate those farmers whose sales are displaced by such actions? There is nothing prohibiting schools from presently buying local without a special program. We believe buying local should be defined as purchases of fruits and vegetables produced within the borders of the United States and its territories. Please consider instead the theme, "***Buy Local, Buy American, Buy Healthy!***"

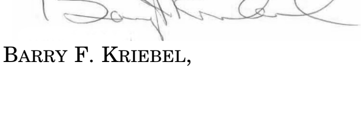
Compliance with the Buy American requirement—State agencies have an obligation to ensure that purchases under the Child Nutrition Programs and by School Food Authorities adhere to the Buy American requirement. While it is clear the language of the requirement states ". . . the Department shall require that a school food authority purchase, to the maximum extent practicable, domestic commodities or products," the compliance with the requirement is highly questionable. Fresh fruits and vegetables produced in the United States are seasonally available to schools. Essentially, when they are not available, schools could purchase non-domestic produce for their students. This action would seem inconsistent with the intent of the Buy American program which is to encourage the consumption of domestic products. The program should be modified to require the purchase and consumption of fruits and vegetables in all forms which would include fresh, dried, canned and frozen.

We believe the spirit of the Buy American program can be maintained and conformity take place by implementing the following compliance steps and modifying the requirement as shown below:

- Include a Buy American clause in all procurement documents including product specifications, bid solicitations, requests for proposals, purchase orders, *etc.*
- Monitor contractor performance.
- Require suppliers to certify the origin of the product sold to schools.
- Examine product packaging for identification of the country of origin.
- Change the language in the Buy American requirement to state ". . . the Department shall require that a school food authority purchase, to the maximum extent practicable, domestic commodities or products ***in all forms including fresh, dried, canned and frozen.***"

Thank you for your leadership and this opportunity to submit testimony for the 2012 Farm Bill. We look forward to working with you through this very important process in support of the United States agricultural industry.

Sincerely,



BARRY F. KRIEBEL,

President,
Sun-Maid Growers of California.

SUBMITTED LETTER FROM JEFF MARCHINI, PRESIDENT, MERCED COUNTY FARM BUREAU

May 20, 2010

Hon. COLLIN C. PETERSON,
Chairman,
House Committee on Agriculture,
Washington, D.C.

Chairman Peterson:

The Merced County Farm Bureau represents one of the most productive agricultural counties in California and the United States. We have over 1,600 members in dairy and ranching industry as well as growers of almonds, tomatoes, and sweet potatoes crops. We are encouraged by the efforts of Chairman Collin Peterson (D–MN) to bring the full Committee to the Central Valley to discuss the 2012 Farm Bill.

California agricultural producers have typically not been deeply involved in farm bill issues, but in recent years the farm bill's focus has expanded to include new programs and provisions that benefit many of our members. The 2008 bill's historic inclusion of the first-ever specialty crop title has proved especially important to our growers of fruits, vegetables and nuts. Many producers also take advantage of conservation programs, including the popular EQIP, a program that recently was threatened for budget cuts. Research, nutrition, and other areas of agricultural policy also receive greater attention in the 2008 bill.

Looking to 2012, the Merced County Farm Bureau would like to work with the Congress to ensure that the farm bill continues to acknowledge the importance of promoting conservation programs like EQIP, preserving the specialty crops title, and strengthening other programs that ensure a safe and abundant domestic food supply. We are eager to share our thoughts, comments, and expertise in the crafting of a bill that works for our producers. Thank you for taking the opportunity to visit us in order to learn more about the challenges we face to farm and ranch in California.

Sincerely,

JEFF MARCHINI,
President,
Merced County Farm Bureau.

SUBMITTED LETTER BY ANTHONY R. MENDES, CHAIRMAN OF THE BOARD, CALIFORNIA DAIRIES, INC.

May 3, 2010

Hon. COLLIN C. PETERSON,
Chairman,
House Committee on Agriculture,
Washington, D.C.

Dear Congressman Peterson:

On behalf of its producer-members, California Dairies, Inc. (CDI) respectfully submits this letter into the hearing record for the farm bill field hearings. CDI is a full-service milk processing cooperative owned by approximately 465 producer-owners located throughout the State of California and collectively producing over 17 billion pounds of milk per year, or 42% of the milk produced in California. CDI supplies 40% of its milk directly to customers located in California and processes the balance in its own processing plants. Our producer-owners have invested over $500 million in seven large processing plants, which are projected to produce about 350 million pounds of butter and 750 million pounds of powdered milk products in 2010.

We thank the Members of the House Agriculture Committee for calling the series of field hearings and allowing members of various agricultural sectors the opportunity to present our respective industry views that the Committee may find to be valuable during future farm bill discussions. I appreciate the occasion to speak to the current status of the U.S. dairy industry, current dairy policy considerations and our suggestions for the next farm bill.

The situation that the U.S. dairy industry has faced in the last 18 month has led to a proliferation of ideas and proposals for new policies and programs. Ostensibly, these proposals have been put forth as solutions to the incredibly difficult times that dairy producers have had to endure. While the goals of the various proposals differ in the details, the suggestions are mostly focused on stabilizing milk prices or providing a higher floor price for milk. Conceptually, the programs are laudable, and most producers could support the idea of higher and more stable prices. In fact, CDI's Board of Directors voted affirmatively at its April 27th 2010 Board meeting to work with Agri-Mark Dairy Cooperative (Agri-Mark) and National Milk Producers Federation (NMPF) to help them further develop their concepts for creating a more stable environment for dairy producers.

The various proposals being considered, including those from Agri-Mark and NMPF, are at various stages of review within the dairy producer community. As they are being discussed in broader forums, we are starting to see modifications to the proposals so that they share more common elements. We remain hopeful that the process of convergence continues so that a single proposal emerges for dairy producers to consider. We recognize that there are still unresolved issues in all of the plans, even in their current stages of development. We are also cognizant that as the concepts are transformed into enabling language, the details provided may ultimately affect how many producers will support the programs when they are finalized.

While we hope that continued discussions among dairy producers will result in the general agreement needed to move the programs forward, it is clear that the proposals are new enough to the dairy industry and complex enough in their administration that they are not likely to be implemented very soon. The dairy industry needs stabilizing forces sooner rather than later. Therefore, we recommend that consideration be given to a program that can provide what the dairy industry needs quickly. As such, we favor programs that encourage dairy producers to utilize risk management tools, some of which are available today. In doing so, dairy producers would be establishing their own guaranteed income.

We offer two potential programs that highlight the use of risk management tools. The first program would need to be developed but would follow some basic principles that would serve as cornerstones of the program:

1. The risk-management program would be voluntary. All dairy producers nationwide would choose whether or not they participate.

2. The program would be established as an incentive-based program that rewards those producers who choose to be proactive in establishing their own milk pay price.

3. Dairy producers who execute a risk management strategy, such as buying a put, would be compensated to offset the cost of initiating that strategy (*e.g.,* premiums and brokerage fees).

To be mindful of the effort of deficit reduction, we recommend that other government dairy subsidy programs (such as the MILC program) be restructured or eliminated in order to generate the funding necessary to carry out the risk management-based program.

The second option we would favor is to simply revive the Dairy Options Pilot Program (DOPP) that was provided for in the Federal Agriculture Improvement and Reform Act of 1996. In January of 1999, USDA started the DOPP to introduce milk producers to the futures and options approach for managing risks. It was a cost-sharing program that allowed dairy farmers to gain hands-on experience with options trading for a period of 6 to 8 months. USDA paid 80 percent of the premium (or cost) of each option and broker fees up to $30 per option. A similar but more expansive program could be implemented to keep within the theme of emphasizing risk management. Based on the experiences acquired with the DOPP, there may be reason to launch a modified program that uses some of the elements of the DOPP but improves on the original concept.

Either of the two programs would be a tremendous step forward in helping to stabilize milk prices. We also see that implementation of a risk-management program can be pursued while we work to address other issues that would enhance returns to all U.S. dairy producers, such as establishing and enforcing higher fluid standards throughout the U.S., and maximizing the exposure of dairy products in school lunch programs and "WIC" programs by introducing new products, such as snack-sized yogurt products and string cheese.

Thank you for the opportunity to submit these views.

Sincerely,

ANTHONY R. MENDES,
Chairman of the Board.

SUPPLEMENTARY MATERIAL SUBMITTED BY KEVIN D. KESTER, CATTLE AND GRAPE PRODUCER, PARKFIELD, CA

May 28, 2010

Hon. COLLIN C. PETERSON,
Chairman,
House Committee on Agriculture,
Washington, D.C.

Dear Mr. Chairman:

I appreciated the opportunity to serve as a panelist at the May 3, 2010, House Committee on Agriculture field hearing on the 2012 Farm Bill in Fresno, California, representing the California Cattlemen's Association. I wanted to take this opportunity to share a few additional comments in response to a question raised by two Members of the Committee at the time.

During the question and answer period, questions were raised that implied that farm bill funds in California were being sought only as a means to mitigate the state regulatory burden and that—for that reason—our state was already receiving or seeking to receive a disproportionate amount of farm bill funding.

I in no way believe that California is receiving an uneven share of funding and would offer the following response in addition to the comments I made at the time.

First, California agriculture's request for farm bill funds is primarily targeted at the Conservation Title, which represents a relatively small portion of the bill, particularly as compared to dollars allocated through other titles. Those conservation funds are applied across millions of acres of California farm and ranchland that stretch across a vast number of geographic and ecological zones to help improve habitat, conserve and manage water, improve air quality and stimulate other conservation activities that provide benefits to landowners, the environment and the public at large.

In addition to the conservation challenges faced in California's diverse agricultural production, ranchers and farmers in the state also encounter higher than average incidence of endangered species habitat and proliferation, development pressure and associated land value appreciation that make managing a business especially challenging. As such, demand for programs to conduct conservation work in the state greatly outstrip the availability of dollars and technical assistance to conduct projects. As I mentioned in my testimony, each year there are hundreds of California farmers and ranchers who propose to address important resource concerns and are willing to invest their own money to improve environmental resources, but are turned away from EQIP because of the lack of funds available in California.

In light of the significant ecological challenges in the state, there is a lot that can be accomplished through government and private collaboration. Even still, in many programs California receives equal or lesser allocations of funds compared to states with significantly lower acreages of farm and ranchland or agricultural productive output. California's farm gate revenue is much higher as a percentage of the nation's total than is our allocation of Federal conservation funding.

Beyond the proportionately low allocation of Conservation Title funding to California, it even more disheartening that our state receives a significantly lower portion of Conservation Technical Assistance (CTA) funding than other states. CTA makes it possible for NRCS to provide voluntary, non-regulatory technical assistance to help people conserve, maintain and improve the long-term sustainability of working landscapes. This funding is imperative to put conservation program dollars on the ground and to assist the state's land managers in improving management decisions. In a state where there is already a general shortage of technical assistance, it is imperative that in the next farm bill California does not experience a decrease or it will further erode Natural Resources Conservation Service's conservation capacity.

Despite the size and scope of production in our state and these many challenges, most ranchers and farmers in California receive no direct payments as they grow and raise a staggering range of more than 400 crops and livestock commodities that feed people all around the country and the globe. Many of these products are grown only in California and therefore made available solely due to the work of California farmers and ranchers. These factors speak to the need to increase, not decrease, investment in ensuring conservation work can be completed.

Mr. Chairman, as California agriculture remains the economic powerhouse of the most populous state in the Union and as our state's progressive farmers and ranchers continue to seek more creative ways to raise the food and fiber our nation needs in a fashion that continues to enhance our natural resources, we look forward to your continued support.

Thank you again for the opportunity to participate in the hearing and to share my comments. Please be in contact if I can ever be of assistance or feel free to contact Matt Byrne in the CCA office at [Redacted].

Best regards,

Kevin D. Kester

KEVIN D. KESTER,
First Vice President.

HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

TUESDAY, MAY 4, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Cheyenne, WY.

The Committee met, pursuant to call, at 8:00 a.m., at Laramie County Community College, Center for Conferences and Institutes, 1400 East College, Centennial Room 130, Cheyenne, Wyoming, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Cardoza, Markey, Lucas, Conaway, Fortenberry, Smith, and Lummis.

Staff present: Keith Jones, John Konya, Robert L. Larew, Lisa Shelton, April Slayton, Nicole Scott, Pelham Straughn, and Sangina Wright.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

The CHAIRMAN. This hearing of the Committee on Agriculture to review U.S. agriculture policy in advance of the 2012 Farm Bill will come to order.

Good morning everybody, and thank you for joining us today as we have our fourth hearing this weekend. We are glad to be here in Cheyenne and hear from the area farmers and ranchers about the issues facing agriculture in rural communities.

As we demonstrated in the 2008 Farm Bill, it's about much more than just farms. We continue the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business, but we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruits and vegetable products and organic agriculture.

While traditional farm programs have a relatively small proportion of the funding in the farm bill, these programs are essential to the continuing success of U.S. agriculture.

We have a system of independent farmers and ranchers working the land, and without the certainty the farm programs provide, many of these farmers would not be able to get the financing that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of their busy time of the year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. And a bill that's this large and covers so many important issues takes a lot of time, a lot of effort to get it right; and I'm committed to a process, as we had last time, that is open, transparent and bipartisan.

For all those joining us today in the audience, I hope that you'll participate in the process by sharing your thoughts on the farm bill with us. We have a survey posted on our Committee website. We have cards available today with that web address so that everyone has a chance to tell the Committee about what's working and what new ideas we should consider for the next farm bill. That address is *www.agriculture.house.gov.* Anybody that's in the audience that's not on the panel is welcome to provide that testimony to the Committee, or anybody that is watching on the web.

We are, for the first time in history, broadcasting all of these field hearings on the website, and people around the country are watching us. So we appreciate everybody being here. We have a lot of ground to cover, so let's get started.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good afternoon, and thank you for joining us for today's House Agriculture Committee hearing. We are glad to be here in Cheyenne to hear from area farmers and ranchers about the issues facing agriculture and rural communities.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business. But we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture.

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of this busy time of year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. A bill this large and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process that is open, transparent, and bipartisan.

For all those joining us today in the audience, I hope that you will also participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on our Committee website, and we have cards available today with that web address so that everyone has a chance to tell the Committee about what is working and what new ideas we should consider for the next farm bill.

We have a lot of ground to cover, so let's get started.

The CHAIRMAN. I recognize the Ranking Member, my good friend and colleague and working partner, Mr. Lucas, from Oklahoma for an opening statement.

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

Mr. LUCAS. Thank you, Mr. Chairman. And let me note ever so briefly the nice, little, gentle breeze you have out there reminds me of western Oklahoma this morning; so I do feel at home. It's a pleasure to be here with you and to be a part of this important process of preparing the 2012 Farm Bill.

I think it would be appropriate, Mr. Chairman, if it's all right, I would yield my time to Wyoming's very own outstanding Member of the Agriculture Committee, Congresswoman Lummis, for her comments at this moment.

OPENING STATEMENT OF HON. CYNTHIA M. LUMMIS, A REPRESENTATIVE IN CONGRESS FROM WYOMING

Mrs. LUMMIS. Well, I would like to thank the Ranking Member and thank the Chairman. On behalf of all the people of the State of Wyoming, and particularly our ag community, I want to welcome all of you to our state. We're honored and grateful that you brought the House Agriculture Committee to Cheyenne, and I'm personally grateful to my colleagues on the Committee who are here today. I apologize for our brisk breeze. It's usually not this bad, but winds around here don't usually calm down until around the first of June. We have the most gorgeous summers and falls that you can possibly imagine, but we're still grappling with winter in May. Thanks for your indulgence of our brisk breeze.

It would be easy to hold an all-day hearing and still not cover the wide variety of issues facing agriculture in Wyoming. I know several people from around the state have prepared and will submit written testimony for the record. Amongst them are the Wyoming Wool Growers Association which is seeking the Committee's help to adjust the Loan Deficiency Payment Program and a strong Federal partnership in dealing with predator control; the Wyoming Association of Conservation Districts whose on-the-ground conservation efforts result in tangible environmental improvements all across our state; and the Rural Electric Co-ops who appreciate the Committee's work on the RUS program and seeks our assistance in the face of railway rate hikes pending as a result of Warren Buffet's recent acquisition of Burlington Northern.

But I'm going to move on now to the main topics of our hearing today. The scourge of bark beetle is taking its toll on the forests of Wyoming and the West. Over the past decade, about 17 million acres in Regions 1, 2 and 4 have been affected by bark beetle epidemics. I wish the Committee had time to fly over the areas, and I know Representative Markey agrees because her area is as affected as ours in the Medicine Bow. The magnitude of the problem is really difficult to grasp without seeing it. But this hearing and the opportunity to hear witnesses who can vouch for the seriousness of this issue is truly important, and I'm really grateful that you came today for that. For my part, last week I introduced H.R. 5192, the Forest Ecosystem Recovery and Protection Act, which takes some of the best bipartisan ideas on forest management and adds some new strategies to begin the long road to forest recovery.

Forest health is critical to Wyoming's livelihood and economy, but so too is the health of Wyoming's vast ranges, open spaces and, particularly, watersheds. In the semi-arid climate of this state, the health of the land is synonymous with the health of the state. There's an old saying in Wyoming, Mr. Chairman, and I think we were exposed to it last night, that whisky is for drinking and water is for fighting. That gives you an indication of how important water conservation is to our farmers and ranchers.

Farm bill programs like EQIP, the Farm Ranchland Protection Program and the Grassland Protection Program are invaluable tools, and they're so important to the lasting success of both the ag industry and land and water conservation that I look forward to the testimony on the second panel about these programs.

Again Mr. Chairman and Mr. Ranking Member, we're so grateful that you came. And I hope you can see by this turnout this morning, and at the reception for you last night, that this means a lot to us, that you chose to come to our state. And we are really grateful for the opportunity to have input on the next farm bill. And, Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentlelady.

And we thank her for her hospitality and the warm reception that we've received in Wyoming. I want to assure her I made certain on the last farm bill that we got the loan rate for the wool raised, and we will continue to work on it. We want to keep the sheep industry going in this country, and we know they have challenges.

We welcome the first panel of witnesses. But, before I do that, we have some people here that do a great job for us at USDA, and I want to recognize them. Gregor Goertz, the head of the Wyoming FSA operation; Mr. Derrel Carruth, who is the Rural Development Director for USDA; and Xavier Montoya, who is the State Conservation Officer; and the State Director, Todd Ballard. So thank you for your service. Let's give them a hand. They do a great job.

We welcome the first panel: Mr. Bill Crapser, the Wyoming State Forester from Cheyenne; Rick Cables, Regional Forester, Region 2, from the U.S. Forest Service; Nancy Fishering, forest products producer from Montrose, Colorado. And I guess, Mr. Cruz, you're in a support role here.

Mr. CRUZ. Yes, sir.

The CHAIRMAN. So we welcome you to the Committee. A lot of people don't realize we have jurisdiction over a lot of the forest policy. We sometimes don't pay as much attention to that as we should; so we're pleased you're able to join us today and look forward to you educating us a little bit about some of the issues.

So welcome to the Committee. Mr. Crapser, you're up. Your full testimony will be made part of the record, and we would like to keep it to 5 minutes. We've got to get back to Washington and vote tonight; so we've got to keep this show on the road. So welcome to the Committee.

STATEMENT OF BILL CRAPSER, FORESTER, STATE OF WYOMING, CHEYENNE, WY

Mr. CRAPSER. Thank you, Mr. Chairman, Members of the Committee. Welcome to Wyoming. I also apologize for the wind. We are in red flag fire danger in the eastern half of the state today because of the wind. My name is Bill Crapser. I'm the State Forester, and I appreciate the opportunity to speak to you today.

Wyoming has approximately 11½ million acres of forest within its boundaries. Of these forests, about 9 million acres are in Federal ownership and 2½ million acres are in private, tribal or state ownership. The state and private forestry program authorized by Congress and administered by the U.S. Forest Service, along with the other forestry programs in the farm bill, are invaluable tools in helping the state provide technical and financial assistance to private landowners promoting stewardship and the health of our forests. Without these programs, the long-term ecological, financial and societal value of these forests would be lost.

Like all areas of the country, Wyoming faces many challenges and threats. We've heard a lot about the bark beetle and fire, and they're probably our two largest threats that our forests face, but they are just two of the challenges that the forests face.

As a key element of the 2008 Farm Bill, states were directed to develop a statewide forest resource assessment and strategies to address the issues raised in the assessment. I'm proud to say that they're due in July, I believe, to the Washington Office of Foresters. I'm proud to say that Wyoming has completed this task. I will be giving Mr. Cables our assessments and strategies today. I believe we're the first state to finish our assessment in the country, and I'm pretty proud of my crew for that.

We don't have time today to review the entire assessment, but I would like to hit some of the high points on how we developed our assessment and what it does for us. It's an all-lands approach to forestry. It assesses a snapshot in time of the status of all forestlands. We developed it with a wide variety of input from agencies, interest groups and individuals. The assessment is a geospatial analysis using 14 key data layers identified by our partners. These include everything from development risk to wildfire risk, insect and disease, aquatic habitat, community forestry, green infrastructure and several other data layers.

With the help of our partners, we then developed 15 threats that face Wyoming's forests. And it's in my written testimony, the threats and the strategies. I would just like to hit on a couple of the threats. These threats that Wyoming is facing in forest health issues is probably unprecedented. Congresswoman Lummis alluded to the bark beetle issues. We've never seen anything like where we're at with bark beetles across the state.

Threat two is a lack of a viable forest products industry. Seven years ago when I became State Forester, there were seven large sawmills—fairly large—sawmills operating in the state. Today there's one in operation. Congresswoman Lummis used to be one of my bosses when she was State Treasurer. And I didn't usually tell the landlord how successful I had been in losing the industry, but we do have a huge drop in industry.

Many areas of older forests are being converted to young forests just by Mother Nature, by the bark beetle and by the amount of mortality in this forest. Threat of wildfire both in the urban interface, and outside the urban interface, and in watersheds, is on the great increase. Our occurrence of fire and our acreage burn have almost quadrupled over the last 10 years.

Aspen is a growing focus of concern within the Rocky Mountain Region. We're seeing Aspen decline throughout the Rocky Mountains and there are lots of different health problems with Aspen stands. We have numerous challenges facing any type of healthy forest community.

Water quality and water quantity is an important issue. Congresswoman Lummis again said that whisky is for drinking and water is for fighting. Water is a big issue in our state and in our part of the country.

Terrestrial habitat is under pressure; and we have fragmentation of land ownership. We're seeing a lot of ranches and farms that really just can't afford to stay in the farming business or ranching business anymore for various reasons. They are being pretty much forced to fragment their lands and divide up a lot of their lands.

Access for management is becoming more and more complicated with new owners, different ownerships, Federal lands, state lands all intermingled, and that continues to be an issue.

With any type of global climate change, the high deserts are always on the front runner of those type of issues. The management guidance for private landowners, because of all these things, is increasingly important.

And invasive species, including insects, plants, all types of things, is on the increase. As most of you know, in the Midwest right now, we have a huge outbreak of Emerald ash borer. It's killed most of the ash trees in Indiana, and in Michigan. That bug is moving West. Even in a state like ours, about 30 percent of the street trees in our communities and cities are green ash. So if Emerald ash borer gets in this state, we're seeing a huge impact. Nebraska is even in worse shape. I think there 47 percent of your street trees in Nebraska are affected by the Emerald ash borer.

What we plan to do with these documents is to help focus our efforts and to help the Forest Service focus their efforts in areas and in projects that will deliver maximum return on investment. We believe that partnership between the state and the Federal agencies, both the Forest Service and NRCS, are important for all of us to succeed, and the forestry programs and the farm bill are important facets of that success. Thank you very much.

[The prepared statement of Mr. Crapser follows:]

PREPARED STATEMENT OF BILL CRAPSER, FORESTER, STATE OF WYOMING, CHEYENNE, WY

Good morning and welcome to Wyoming. My name is Bill Crapser, I am the State Forester for Wyoming and I appreciate the opportunity to testify before you today.

Wyoming has approximately 11.5 million acres of forests within its borders. Of these forests 9 million acres are in Federal ownership, and 2.5 million acres are private and state lands. The State and Private programs authorized by Congress and administered by the U.S. Forest Service, along with the forestry programs in the farm bill are invaluable tools in helping the state provide technical and financial assistance to private land owners promoting the stewardship and health of our forests. Without these programs much of the long term value (ecological, financial, societal) of these forests would be lost.

Like all areas of our country the forests of Wyoming face many challenges and threats. We have heard and seen a lot about bark beetles and fires of late, but these are just two of the challenges we face.

Under the 2008 Farm Bill states were directed to develop a Statewide Forest Resource Assessment along with Strategies to address issues raised in the assessment. I am proud to say that Wyoming has completed this task, and that our documents are being submitted to the U.S. Forest Service this week. We do not have time today to review the entire document, but I would like to take this opportunity to hit on a few of the high points.

Our Assessment and Strategies were developed with the help and input of wide variety of agencies, interest groups, and individuals. The assessment is a geospatial analysis using fourteen key data layers identified by our partners including: Development Risk, Forest Fragmentation, Wildfire Risk, Insect and Disease, Aquatic Habitats, Terrestrial Habitats, Water Quality and Supply, Economic Potential, Green Infrastructure, Community Forestry, Agro-Forestry, and land Stewardship Potential. These data layers allowed us to identify priority landscapes, and to focus on issues and threats that are facing our forests.

With the help of our partners we then developed fifteen threats that are facing the forest of Wyoming along with strategies to deal with them.

Threats and Strategies:

- ***Threat 1:*** Wyoming is facing *forest health issues* that are probably unprecedented.
- ***Threat 2:*** lack of a viable *forest products industry.*
- ***Threat 3:*** In many areas, older forests are being *converted to young forests* on a large scale due to bark beetle epidemics.

  1. Increase age class and species diversity.
  2. Use fire as a tool.
  3. Ensure a predictable, dependable supply of forest products.
  4. Develop additional forest products markets.
  5. Retain whitebark and limber pine.

- ***Threat 4:*** The threat of *fire in the Wildland Urban Interface* (WUI) is significant and expanding.
- ***Threat 5:*** Wildfires in areas *outside of the WUI* are also a threat.

  1. Mitigate risk of catastrophic fires in WUI areas.
  2. Increase training and capacity.
  3. Actively manage suitable lands.
  4. Reintroduce prescribed fire.
  5. Utilize natural fires.
  6. Continued cooperation between agencies.

- ***Threat 6:*** Wyoming's *low elevation riparian forests* are in decline.

  1. Increase stream flow rates.
  2. Manage ungulate populations.
  3. Manage upstream forests.
  4. Forest management activities in riparian areas to increase forest health.
  5. Increase the public's understanding.

- ***Threat 7:*** *Aspen* is a growing focus of concern within the Rocky Mountain region.

  1. Increase regeneration of aspen.
  2. Analyze current and potential aspen sites.
  3. Manage ungulate populations.

- ***Threat 8:*** There are numerous challenges to maintaining *healthy community forests* in Wyoming.

  1. Enhance species and age diversity.
  2. Increase local community forestry expertise.
  3. Enhance funding and build capacity.
  4. Measure progress within communities.
  5. Build green infrastructure.

- ***Threat 9:*** In an arid state like Wyoming, *water quality and quantity* will always be important issues.

  1. Compliance with Wyoming's Silviculture BMP's.
  2. Conduct forest management activities.
  3. Emphasize riparian forest restoration.
  4. Reduce runoff from urban areas into watersheds.
  5. Evaluate community tree canopies.

- ***Threat 10:*** *Terrestrial habitat* is under pressure in Wyoming.

  1. Encourage landscape level planning.
  2. Provide management information.
  3. Maintain continuity across ownerships and programs.
  4. Mimic natural disturbance regimes.

- ***Threat 11:*** *Fragmentation of land ownership* is likely to adversely affect natural resource management in Wyoming.
- ***Threat 12:*** *Access for management* is becoming more complicated.

  1. Cross-boundary collaboration.

2. Manage subdivisions as one land unit.
3. Landscape-level travel management plans.
4. Provide incentives to conserve working forestlands.
5. Keep forestry practices financially viable.

• ***Threat 13:*** Management *guidance for private lands* is increasingly important.

1. Emphasize stewardship plan development.
2. Provide information and education to private landowners.
3. Better inventory on private lands.
4. Establish/maintain a local contractor base.
5. Provide financial incentive for management.
6. Develop and implement Certification programs for landowners.

• ***Threat 14:*** Wyoming will be on the leading edge of the impacts of *global climate change.*

1. Explore the carbon sequestration potential.
2. Address forest management under a changing climate.
3. Adapt water management to accommodate changes.

• ***Threat 15:*** *Invasive species,* both insects and plants, pose a threat to forested lands.

1. Monitor invasive insects, pathogens, and plants.
2. Early Detection and Rapid Response (EDRR) guidelines.
3. Build awareness of invasive species.
4. Focus efforts on the control and management.
5. Develop rehabilitation and restoration strategies.
6. Encourage management techniques that do not promote the spread of invasive species.
7. Manage forests and rangelands to increase resistance.

We plan to use these documents to help in focusing our efforts and limited funds (both Federal and state) in areas and on projects that will deliver the maximum return on our investment.

We believe that the partnership between the state and the Federal agencies, both the U.S. Forest Service and the NRCS are important to all of our success, and that the forestry programs in the farm bill are important facets of that success.

Thank You.

The CHAIRMAN. Thank you, Mr. Crapser, for that testimony.

Ms. Fishering, welcome to the Committee.

Are we going to have Mr. Cables do the presentation? All right. You have a PowerPoint for us.

STATEMENT OF RICK CABLES, REGIONAL FORESTER, ROCKY MOUNTAIN REGION, U.S. FOREST SERVICE, U.S. DEPARTMENT OF AGRICULTURE, GOLDEN, CO; ACCOMPANIED BY PHIL CRUZ, DEPUTY FOREST SUPERVISOR, MEDICINE BOW-ROUTT NATIONAL FOREST, U.S. FOREST SERVICE, USDA

Mr. CABLES. Mr. Chairman, Members of the Committee, good morning. My name is Rick Cables. I'm the Regional Forester for the Rocky Mountain Region of the U.S. Forest Service which includes five states including Nebraska, Wyoming and Colorado, South Dakota and Kansas.

I'm going to give an overview this morning on this bark beetle situation we have in my region and touch a little bit on some of the interior West issues. With me is Phil Cruz, the Deputy Supervisor on the Medicine Bow-Routt National Forest, and he'll be available for questions.

This is the State of Wyoming. You're right here in Cheyenne. This is the Medicine Bow National Forest, the Bridger-Teton Forest, the Shoshone National Forest, Black Hills National Forest up here. The red is forests that are substantially dead in terms of the mature timber. It's a huge amount of acreage. I'm going to focus my discussion right now on the Medicine Bow and the national forests in Colorado. But I just want to show you the extent of the insect and disease damage.

And again, this is Yellowstone National Park right here. I'm going to show you a progression from 1996 to today in terms of the bark beetle, and the red will indicate that the forests that are—that have a hundred percent mortality. So just watch closely: 1998, 1999, 2000, 2002, 2003, 2004. In the last couple of years, this thing has exploded: 3.6 million acres of dead forests the size of the State of Connecticut. And the ramifications in terms of infrastructure threats and human health and safety threats are significant, and we're very worried about that.

This just gives you an indication of what's happening now. One county commissioner said to me that this issue has gone from, "Oh, my God, the trees are dying" to "Oh, my God, the trees are falling." We have two major threats: Falling trees and fire.

On average over this 3.6 million acres, we're going to see 100,000 trees a day fall down for 10 years every day unless we have a wind event then they will fall earlier.

Here is just a 50 yard stretch of trail. You can see how labor intensive it's going to be to keep the trails open. Here's a slide of an aerial view. There are horseback riders right here riding on a trail with a bunch of deadfall. That threatens them and threatens the infrastructure itself. Here is the same view of the horseback riders at ground level right here.

In recreation sites, we've had to remove every tree. Also, we have major world-class ski areas in this area: Breckenridge, Vail, Steamboat, Keystone; in Wyoming, the Snowy Range. And with the substantial portion of the timber that provides shelter and wind protection on ski areas being lodgepole pine which are dying at these incredible rates, we're removing the dead trees as fast as we can, working with the ski areas.

Power lines and utility corridors are threatened. We have over 550 miles of power lines. One tree on a power line, and you're out of power. So you can just imagine if you look at those corridors how much cutting back adjacent to the infrastructure we need to do to protect the power source.

As for roads, there are 3,700 miles of roads in this country. We've treated about 500. We've got 3,200 miles to go. And of all the values that are really threatened, this is a picture of the watershed. This is the Colorado River Basin; this is the Rio Grande Basin; this is the Arkansas River, the Platte River. There are 177 counties that depend on water from this watershed. The reach of this watershed in this country is unparalleled in the West. This is literally the headwaters of the West. With our 13 downstream states, agriculture interests depending on this water, the condition of the watershed is not very good right now given the mortality with the trees and the falling trees.

We have 211,000 acres to be treated adjacent to communities to protect from fire. You can see the data here. Miles of roads, trails, power lines. Significant infrastructure in this area.

Last year I ordered a national incident management team, which is one of the big, elite teams, Type 1 teams that address fires just because I wanted to look at this as an incident not in individual pieces or by state. That team gave us an initial assessment a few weeks ago that we're digesting right now in terms of actions to take. Last year Secretary Vilsack allocated or dedicated $40 million to be spent on this issue, which we really appreciate, but there's so much work to do.

And there are opportunities related to this incident in terms of jobs, sustaining the supply of wood and biomass, and the research associated with it. So there's a lot of work to be done and a lot of opportunities associated with this. But it's a daunting challenge.

So we'll look forward to your questions, Mr. Chairman. Thank you.

[The prepared statement of Mr. Cables follows:]

PREPARED STATEMENT OF RICK CABLES, REGIONAL FORESTER, ROCKY MOUNTAIN REGION, U.S. FOREST SERVICE, U.S. DEPARTMENT OF AGRICULTURE, GOLDEN, CO

Mr. Chairman, Ranking Member and Members of the Committee, thank you for the opportunity to appear here today to discuss the implementation of the Food, Conservation and Energy Act of 2008 in Wyoming. The National Forests of this state lie in two Forest Service Regions: the Medicine Bow, Shoshone, Bighorn, and two ranger districts of the Black Hills are in the Rocky Mountain Region, known as Region 2. The Bridger-Teton, as well as portions of the Wasatch, Ashley, Caribou and Targhee, are in the Intermountain Region, known as Region 4.

Let me start by acknowledging the hard work of the Members of this Committee and your staff. Having worked with my staff over the past 15 months to implement titles in the bill relevant to the Forest Service, I can fully appreciate the months of hard work that went into crafting this important piece of legislation. You are all to be commended for the strong bipartisan bill that overcame multiple obstacles before becoming law.

I know many of you are very interested in the status of the bark beetle outbreak, so before I describe specifics of farm bill implementation, let me briefly discuss the existing forest condition in Wyoming. In 2009, our annual aerial survey in Wyoming detected increased mortality in several species: 1,205,000 acres of lodgepole, limber, whitebark and ponderosa pines killed by mountain pine beetle; 26,000 acres of Engelmann spruce killed by spruce beetles; 3,800 acres of Douglas-fir killed by Douglas-fir beetles; and 86,000 acres of scattered mortality in subalpine fir caused western balsam bark beetle and root disease.

In the areas where mountain pine beetles have been active for the past several years, standing dead trees are starting to fall, posing threats to public and employee health and safety. On the Medicine Bow National Forest, falling dead trees threaten over 20,000 acres of Wildland Urban Interface, 334 miles of trails; 1,396 miles of roads; and 41 developed recreation sites (campgrounds, picnic grounds, trailheads, and administrative sites).

In FY 2010, we are prioritizing work in those areas that receive the most public use such as roads and developed recreation sites. We plan to reduce hazardous fuels on 5,914 acres in the wildland urban interface, and we plan to mitigate falling tree hazards on 52 miles of roads and 21 miles of trails.

Now I'll turn my remarks to implementation of the farm bill in Wyoming. The 2008 Farm Bill made significant changes to the Cooperative Forestry Assistance Act and provided a number of new authorities for the National Forest System several of which have been implemented in Wyoming.

Market-Related Contract Term Additions (MRCTA) (Sec. 8401)

The 2008 Farm Bill authorized the Secretary to use market-related contract term additions to add up to 4 years to the terms of certain timber sale contracts awarded prior to January 1, 2007. Prior to the 2008 Farm Bill, contracts could only receive a maximum of 3 years of MRCTA. The agency revised its regulations on November

4, 2008, to allow all contracts, regardless of their award date, to receive up to 4 years of MRCTA. In Wyoming, purchasers took advantage of the MRCTA timber contract relief on four sales in Region 2, and four sales on the Bridger-Teton in Region 4.

Contract Cancellations and Emergency Rate Redeterminations (ERR) (Sec. 8401)

The 2008 Farm Bill also authorized the Secretary to provide Emergency Rate Redeterminations and cancellations to certain qualifying timber sale contracts awarded between July 1, 2004, and December 31, 2006. Specifically, the farm bill gave the Secretary discretion to cancel certain qualifying contracts that were advertised as of June 18, 2008, (the farm bill's date of enactment) at rates at least 50 percent less than the sum of their original bid rates. Other qualifying contracts were eligible to have their rates redetermined to more accurately reflect timber markets. In Wyoming, seven timber sale purchasers requested rate redeterminations, and six of them had their rates reduced. The seventh contract, which was on the Bridger-Teton National Forest, was cancelled subsequent to the emergency rate redetermination.

Forest Resource Coordinating Committee (Sec. 8005)

The Forest Resource Coordinating Committee, chaired by the Chief of the Forest Service, was established in accordance with the Federal Advisory Committee Act to provide advice and assistance in coordinating USDA actions that relate to educational, technical and financial assistance to private landowners for conservation, management, productivity and improvement of forestland. Specifically, for the Forest Service, it provides advice on implementation of the Cooperative Forestry Program. Nominations are being reviewed and our goal is to have the first meeting of the Committee in calendar year 2010.

State Assessments and Strategies (Sec. 8002)

Each state forestry agency is working on a State Assessment of forest conditions state-wide across all ownerships, including an assessment of threats to forestland and resources in the state, and on developing a Strategy that identifies priorities for the protection, conservation, and enhancement of forest resources. This program has provided an opportunity for state forestry agencies to collaborate with interested parties. In addition, this program captures the essence of the all lands landscape scale approach to management of our forests. State assessments and strategies are due to the Forest Service by June 18, 2010, and will be reviewed by the Deputy Chief for State and Private Forestry.

The Wyoming State Forestry Division has solicited input from a wide variety of stakeholders on drafts of its Assessment and Strategy, and it has worked closely with the Wyoming Forest Supervisors and Regional Office staff. The draft Wyoming State Assessment and Strategy identifies three primary threats related to bark beetles: unprecedented deterioration in forest health due to epidemic bark beetle levels, lack of retention of a viable forest products industry as an essential forest management tool, and conversion of older forests to young even age stands due to beetle epidemics.

Competition in Programs Under Cooperative Forestry Assistance Act of 1978 (Sec. 8007)

Competition in Programs Under Cooperative Forestry Assistance Act of 1978 (Sec. 8007): For the past 3 years, approximately 15 percent of Cooperative Forestry Assistance funds have been awarded nationally through a competitive process to better conserve, protect and enhance forest resources. Wyoming received $431,749 through this competitive process for the following projects:

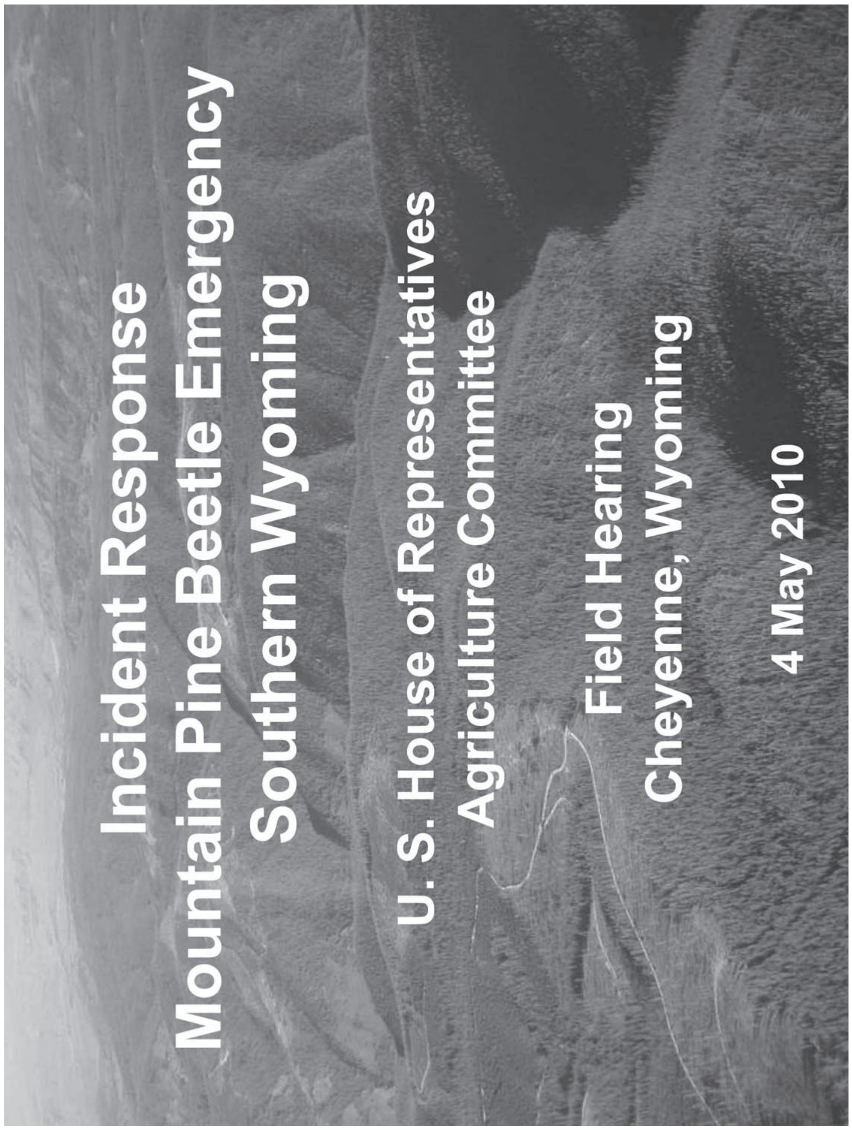
- Clear Creek Vegetation Enhancement, $74,500;
- Wyoming Information and Education Program, $56,812;
- Southeastern Wyoming Tree Enhancement, $ 33,000;
- Northern Laramie Range Integrated Forest Management Project $255,075; and
- Forest Landowner Education Project: "Today's Forest," $12,362.

Community Wood Energy Program (Sec. 9013)

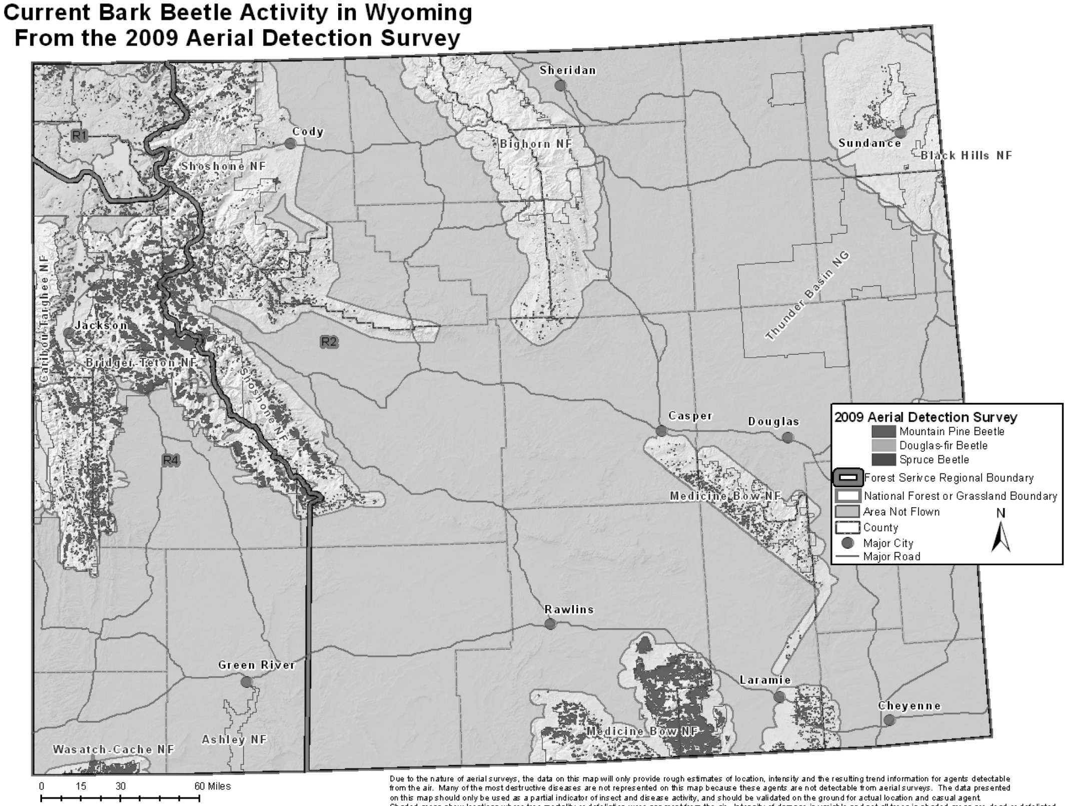
This program provides grants to state and local governments to develop community wood energy plans and to acquire or upgrade wood energy systems. The President's 2011 budget includes full funding of $5 million.

This concludes my prepared statement. I would be pleased to answer any questions you may have.

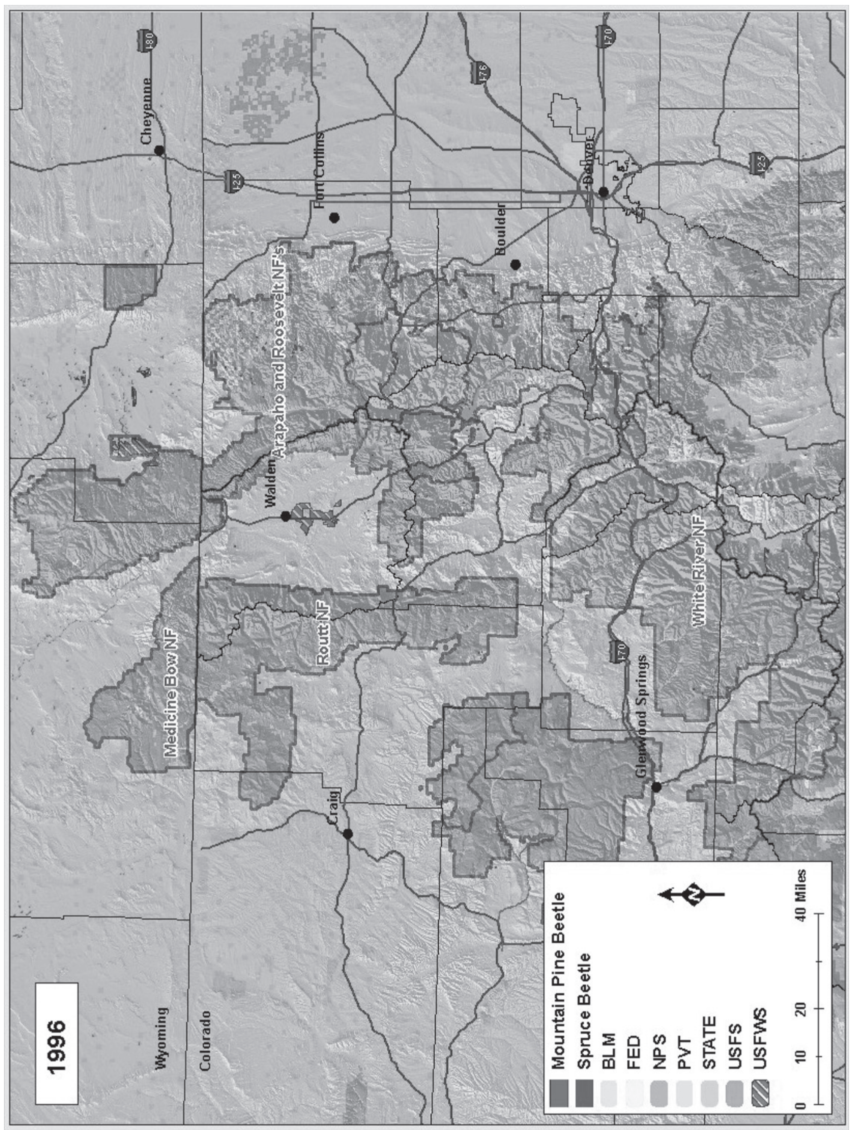
ATTACHMENT


Incident Response
Mountain Pine Beetle Emergency
Southern Wyoming
U. S. House of Representatives
Agriculture Committee
Field Hearing
Cheyenne, Wyoming
4 May 2010

Current Bark Beetle Activity in Wyoming
From the 2009 Aerial Detection Survey



Due to the nature of aerial surveys, the data on this map will only provide rough estimates of location, intensity and the resulting trend information for agents detectable from the air. Many of the most destructive diseases are not represented on this map because these agents are not detectable from aerial surveys. The data presented on this map should only be used as a partial indicator of insect and disease activity, and should be validated on the ground for actual location and casual agent. Shaded areas show locations where tree mortality or defoliation were apparent from the air. Intensity of damage is variable and not all trees in shaded areas are dead or defoliated.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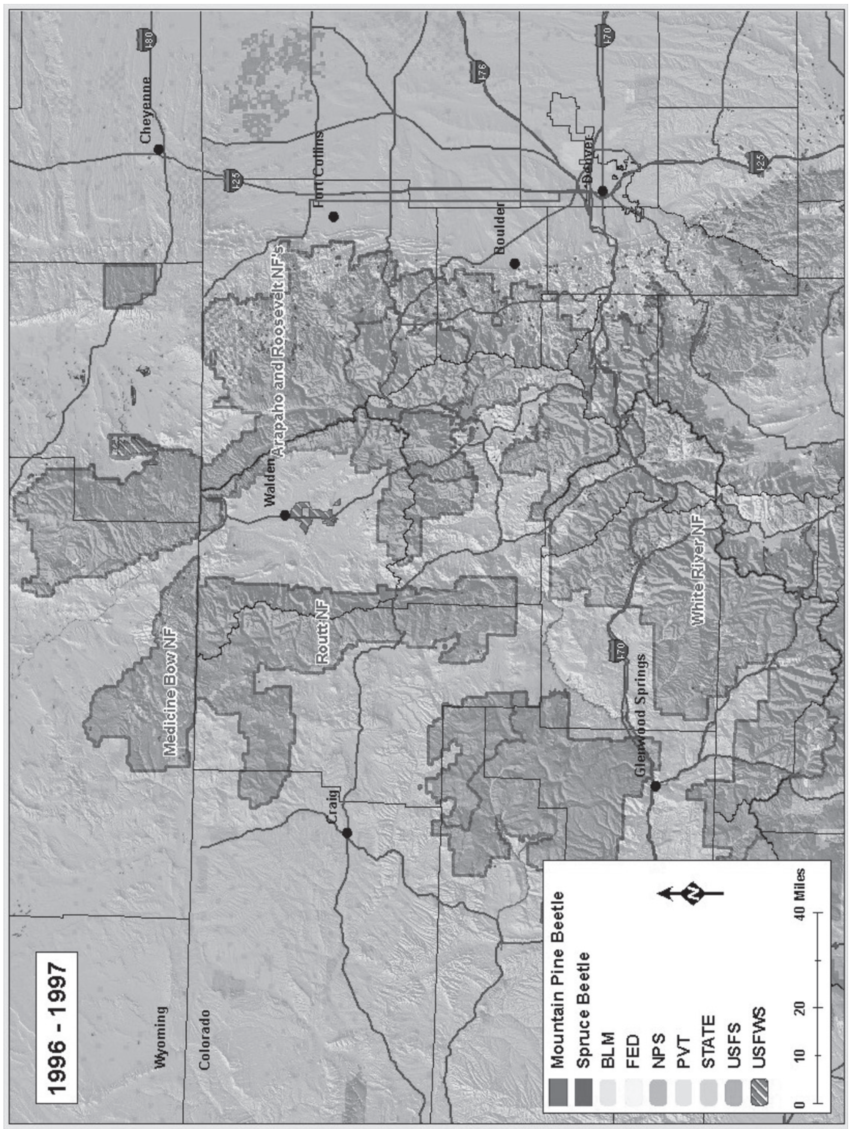
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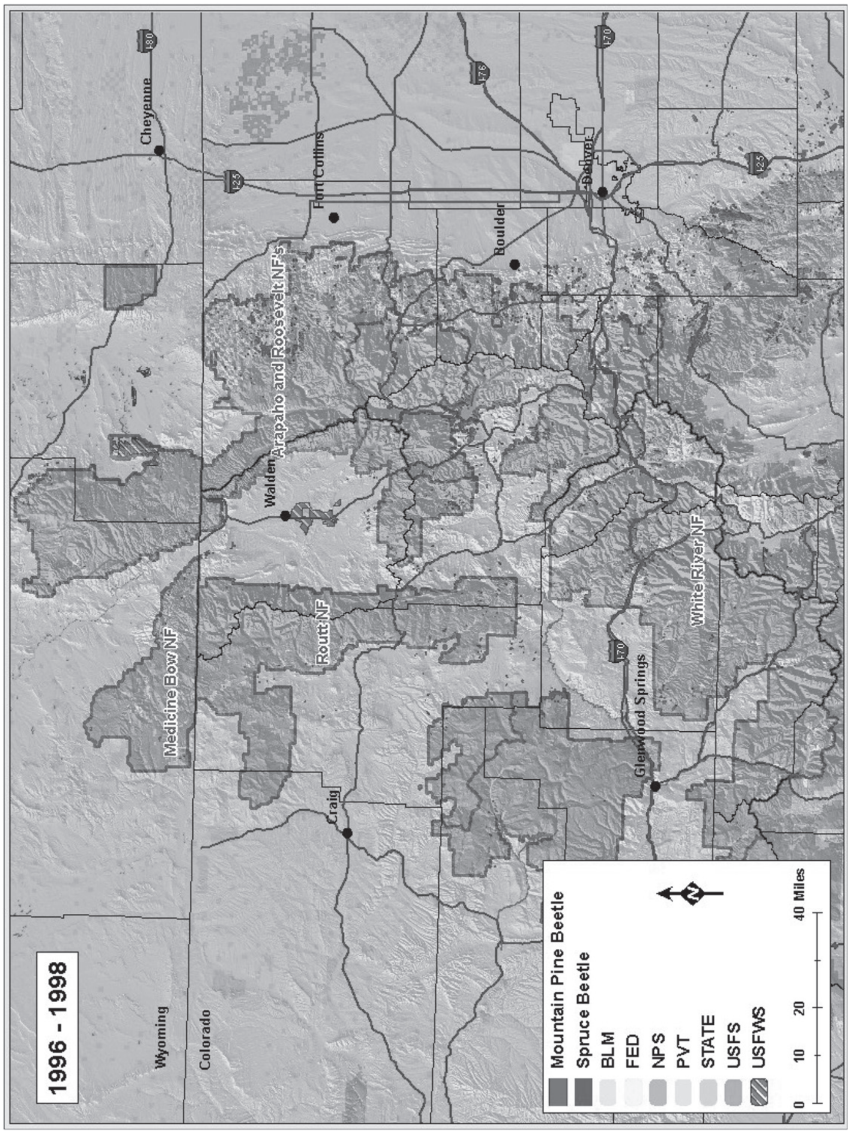
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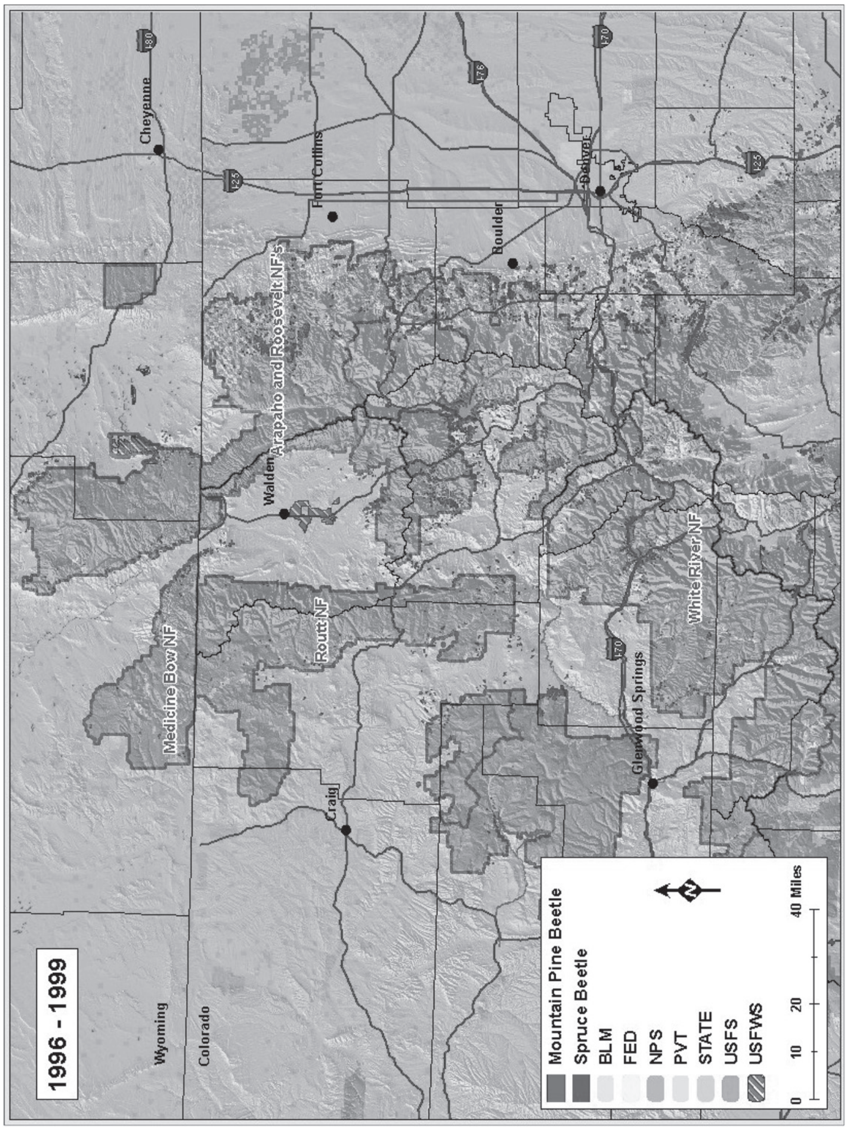
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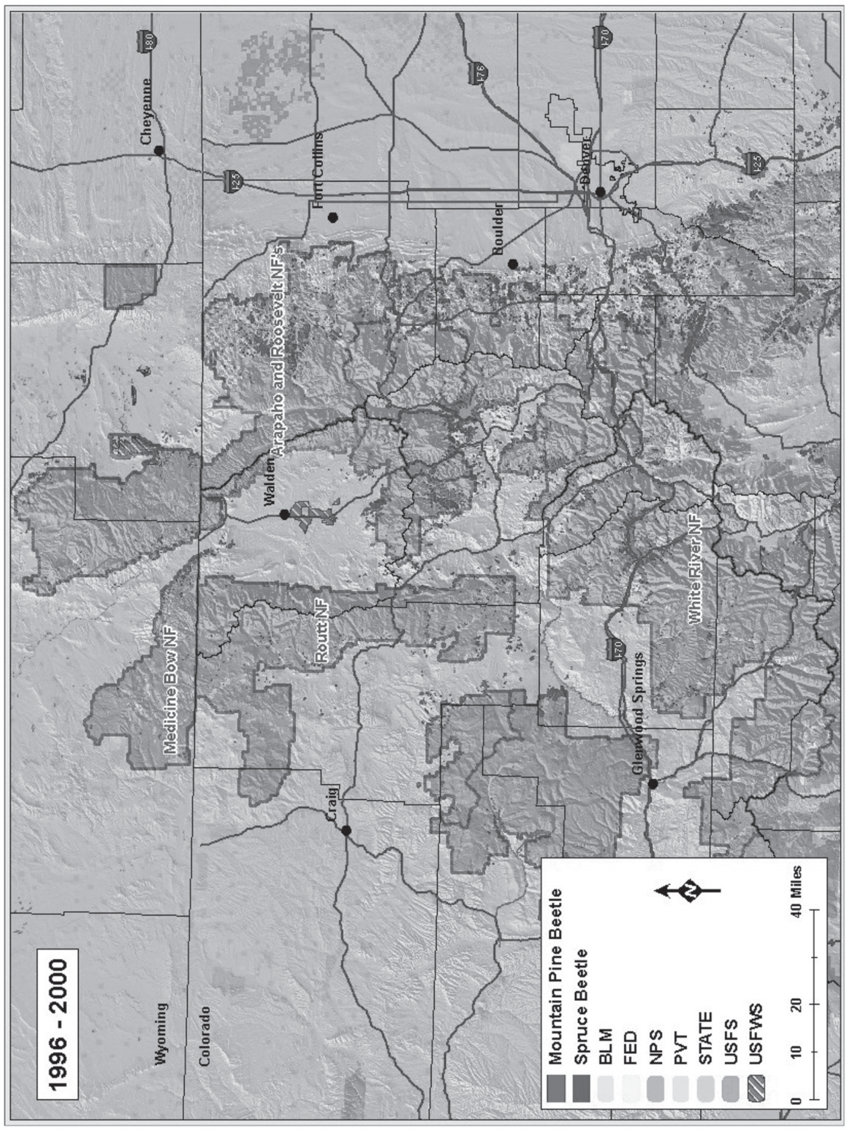
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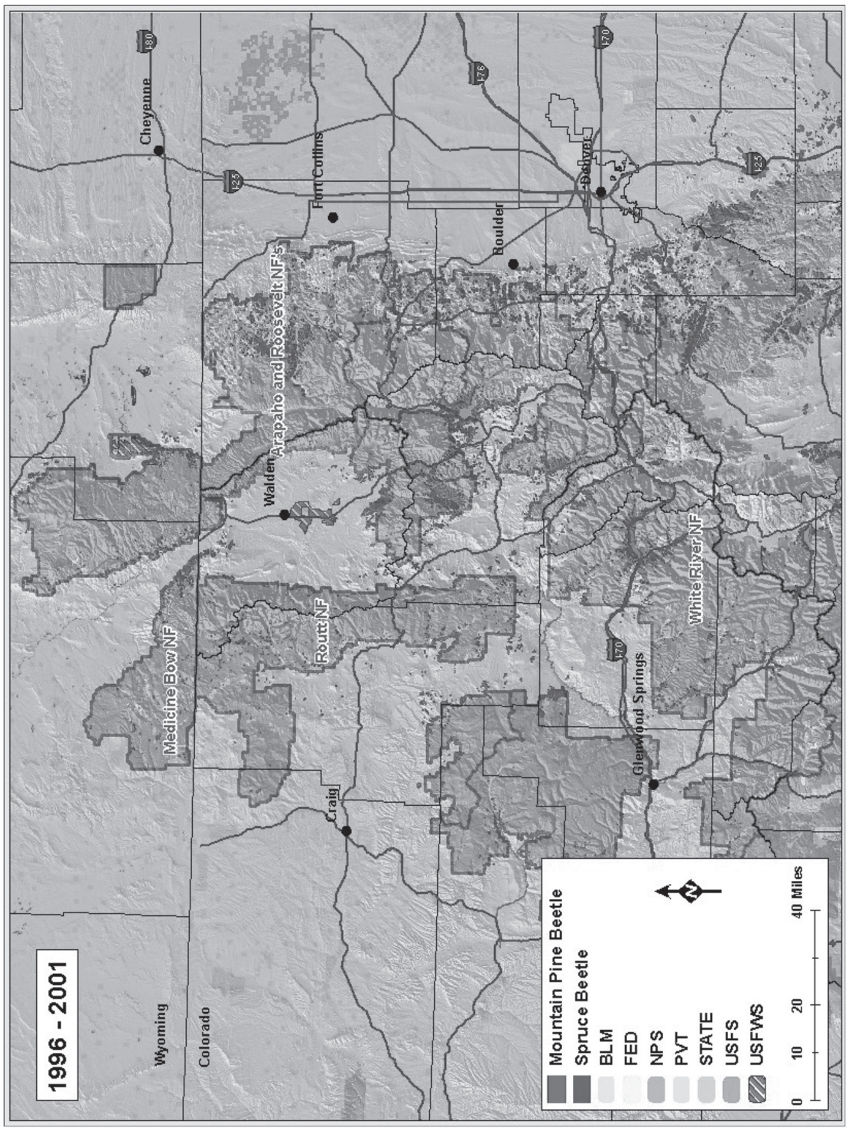
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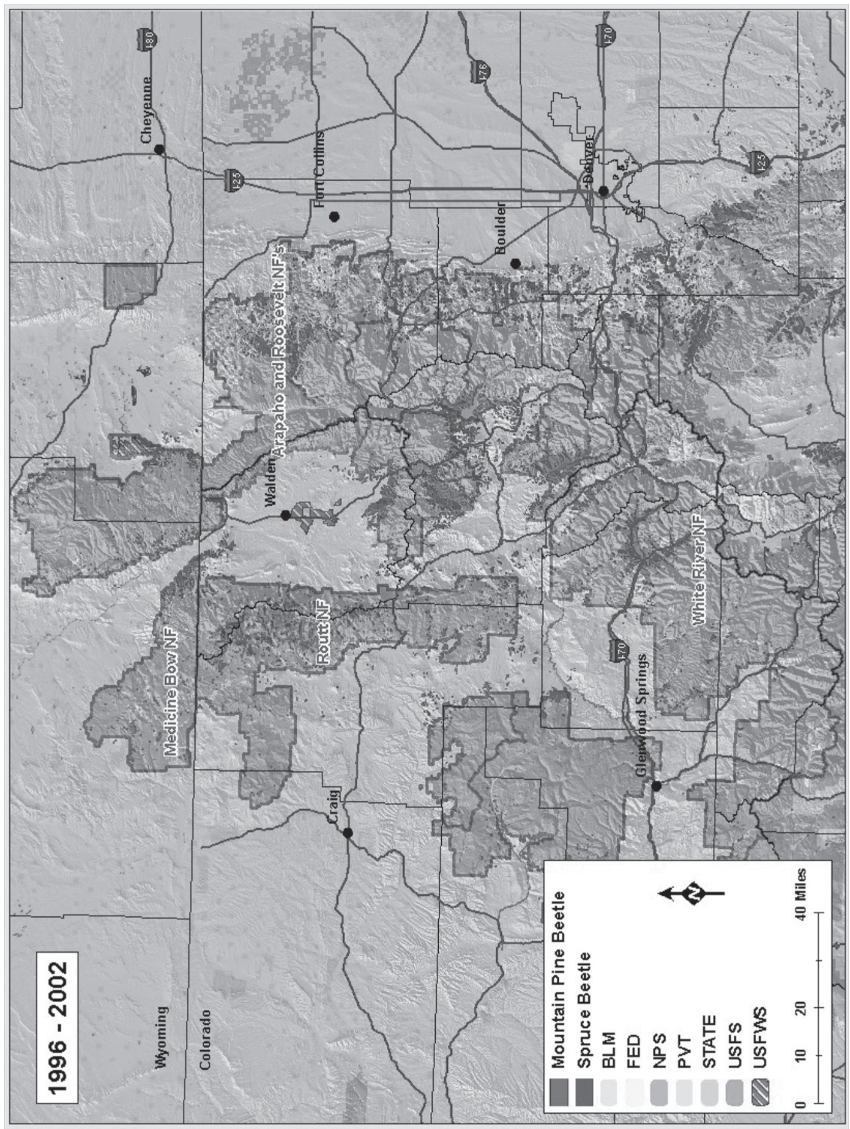
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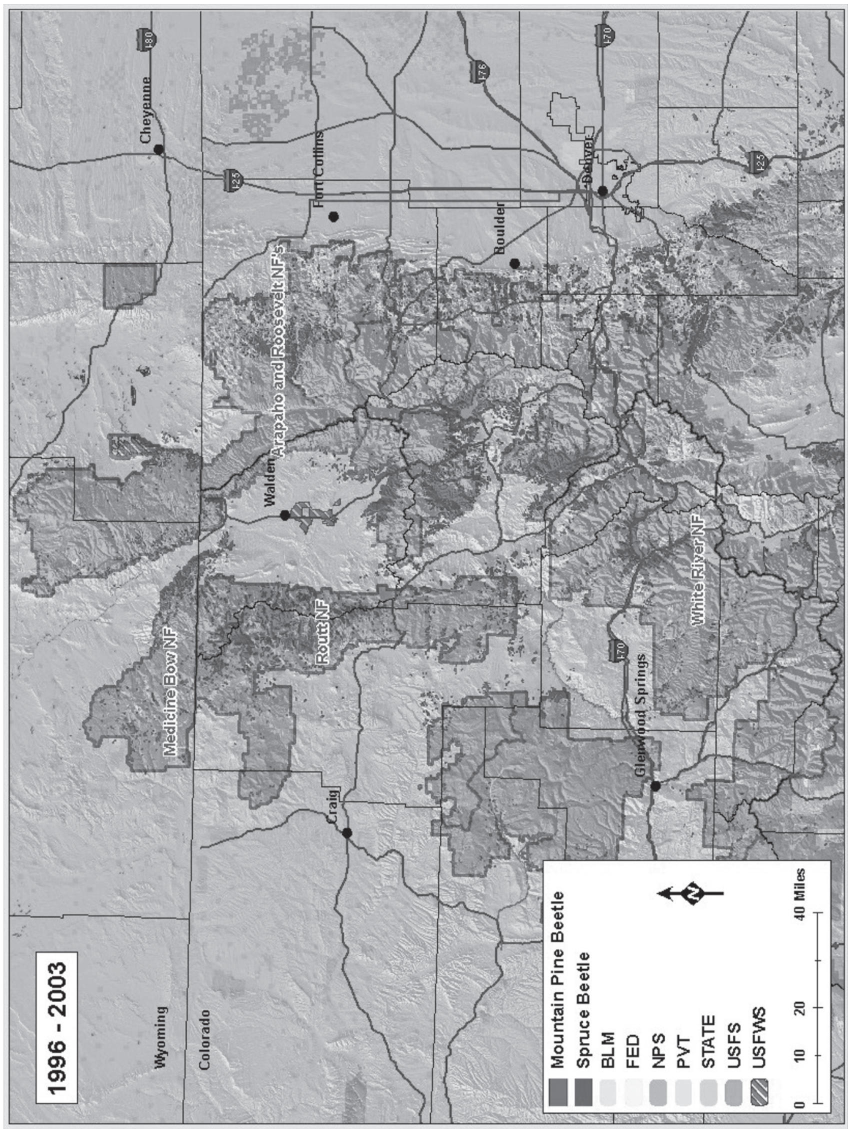
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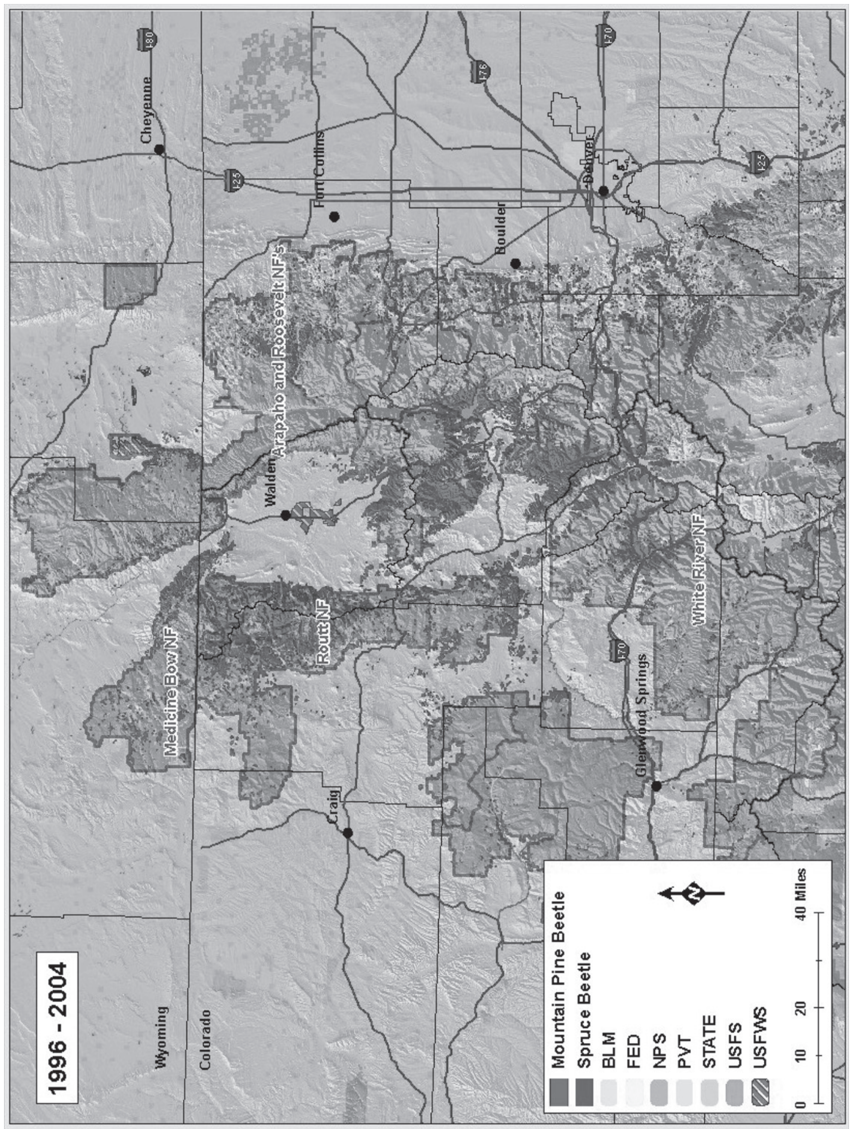
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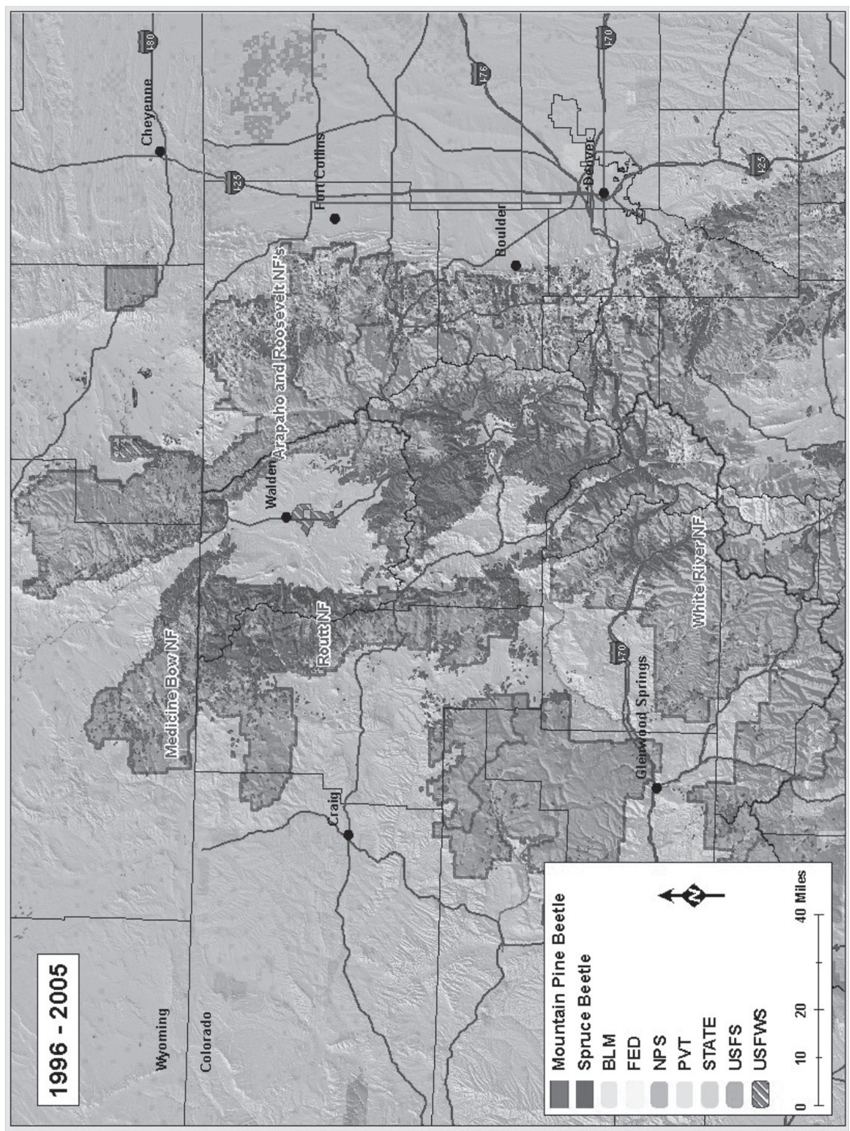
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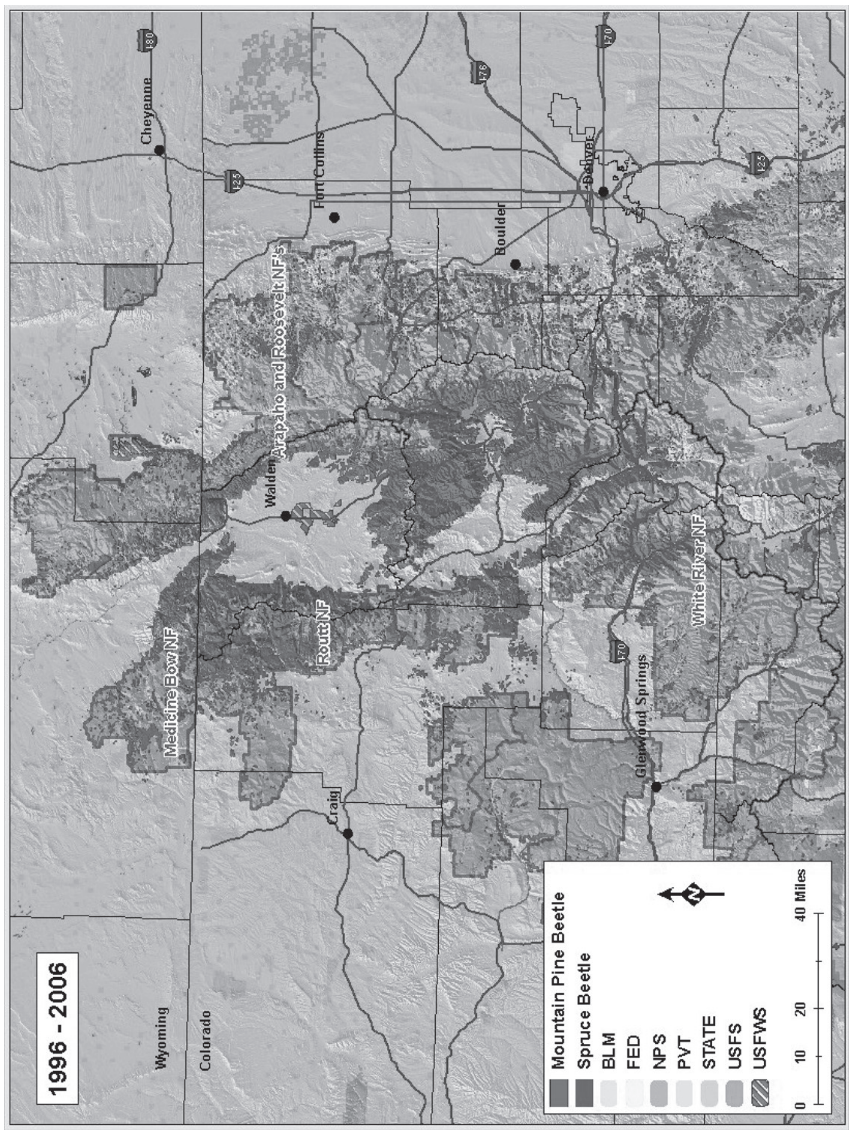
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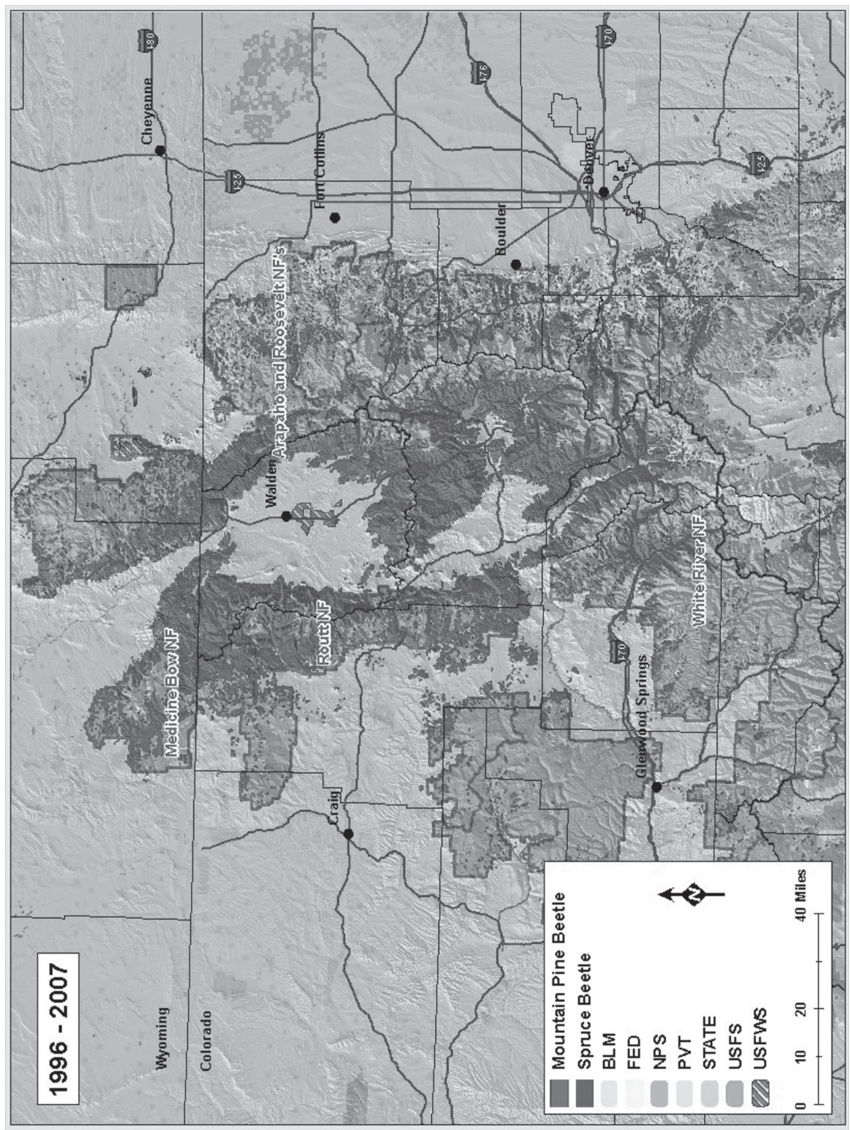
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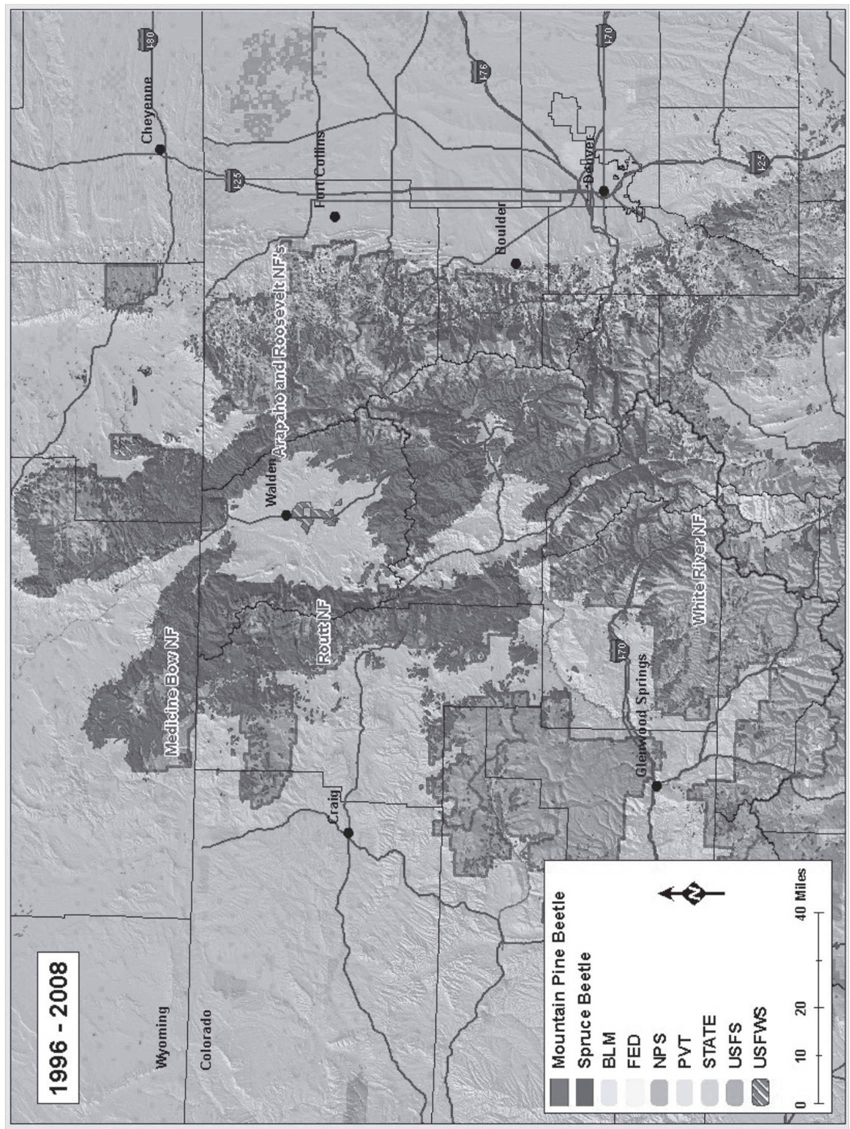
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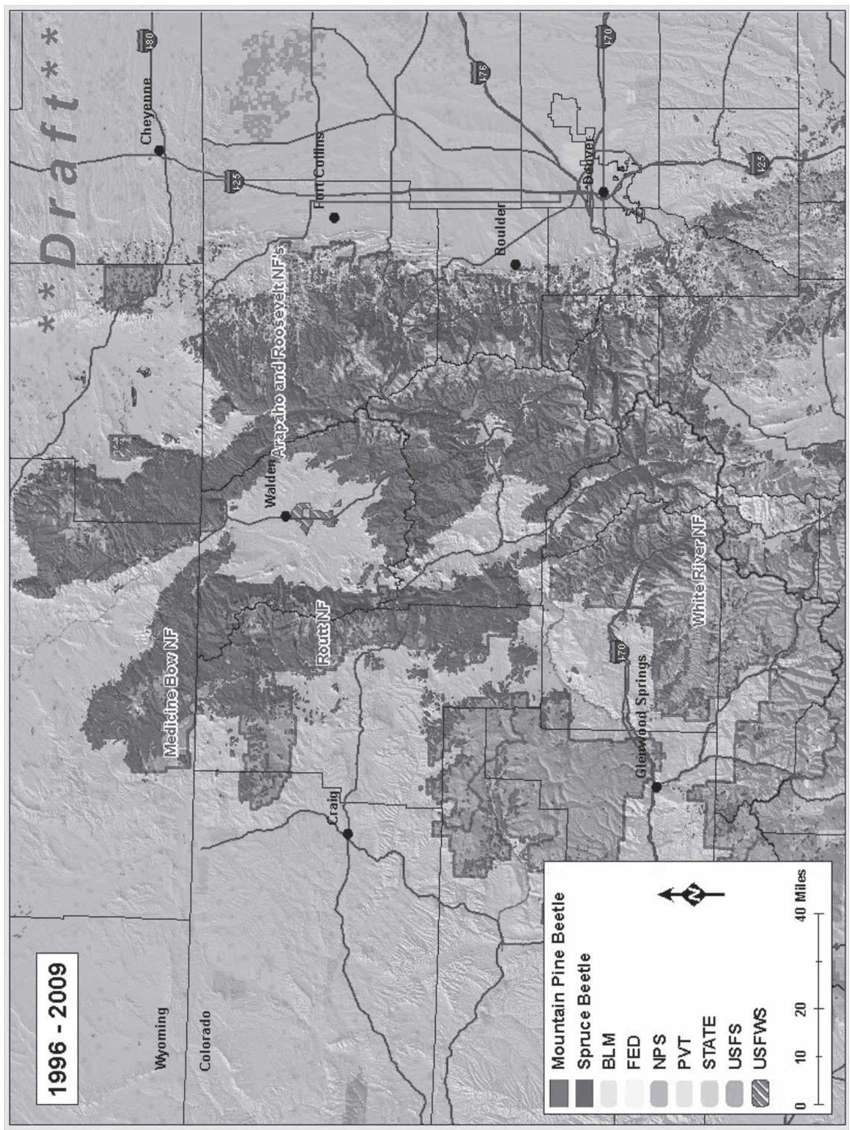
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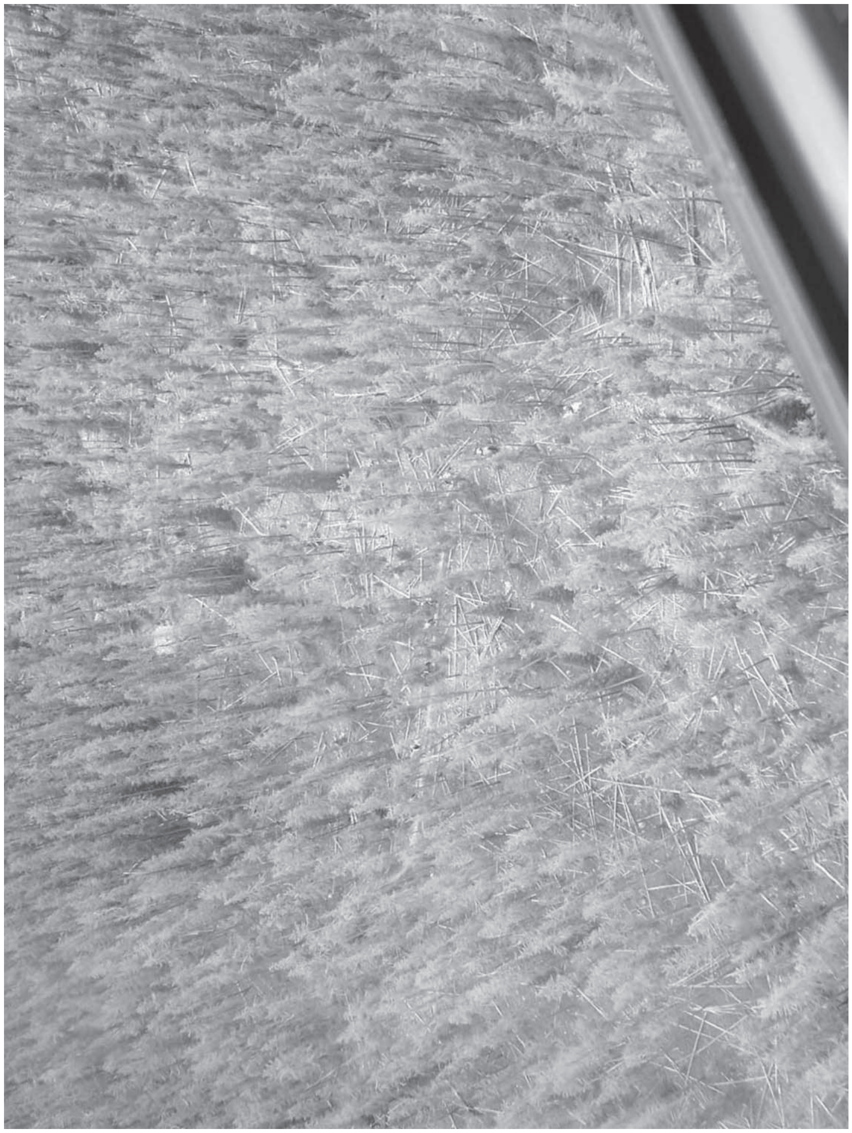


Tree Falling Rates

Lodgepole pine trees killed by beetles begin to fall

- within 3 years after death in thinned stands
- within 5 years in unthinned stands

Thinned stands

- 50% had fallen within 8 years
- 90% within 12 years.

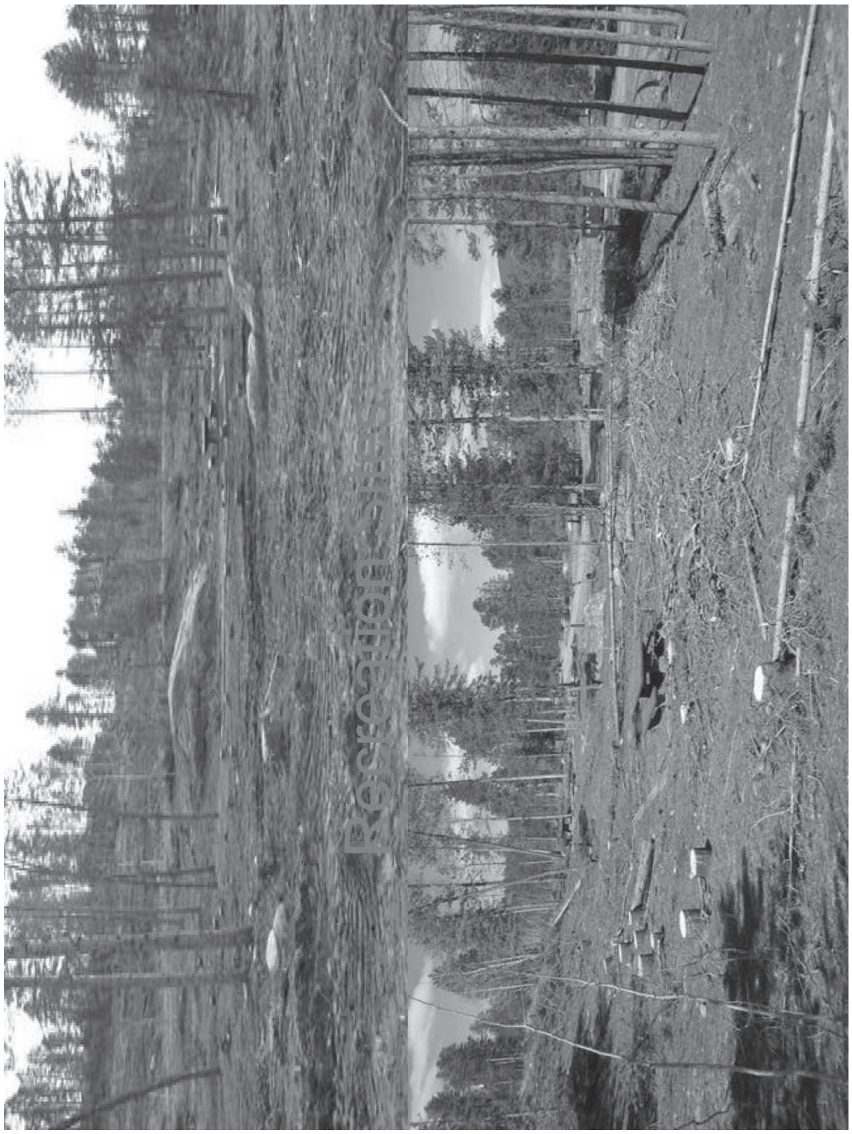
Unthinned stands

- 50% had fallen within 9 years
- 90% within 14 years.

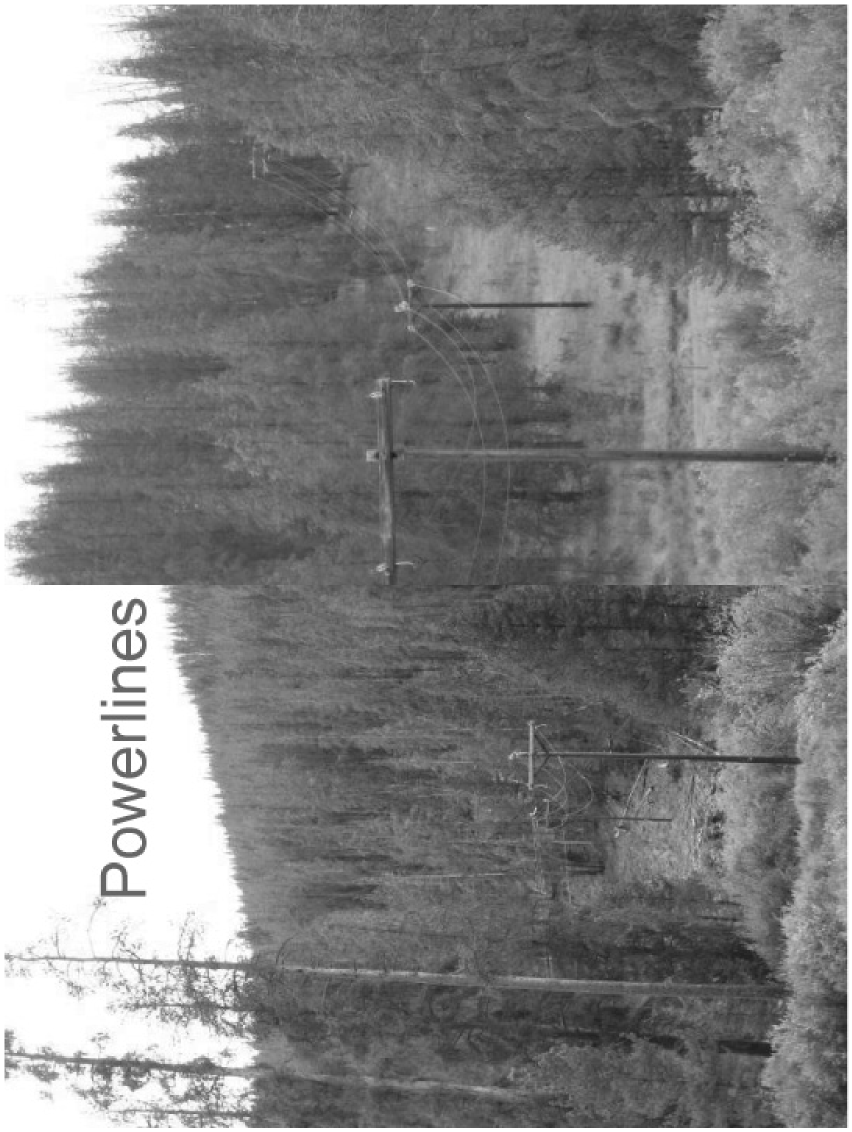
(Mitchell and Preisler 1998)


Hazard Tree Math
On average, about 100,000 dead lodgepole trees will fall *each day*, for 10 years, across the area of the epidemic (three national forests).
The average dead lodgepole tree weighs about a thousand pounds.
Applying the Universal Law of Gravity, a falling tree will
strike a "target" at 57.3 mph.

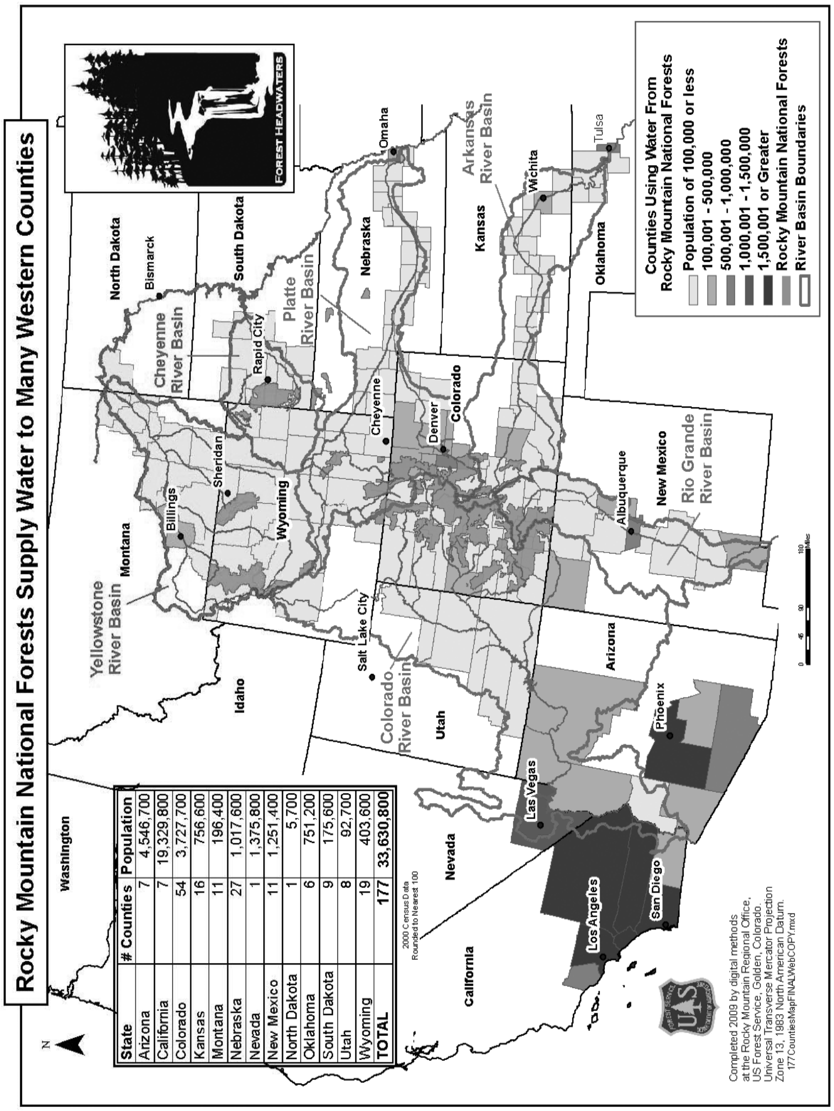

Clearing trails


Recreation


Ski Areas


Powerlines


Roads

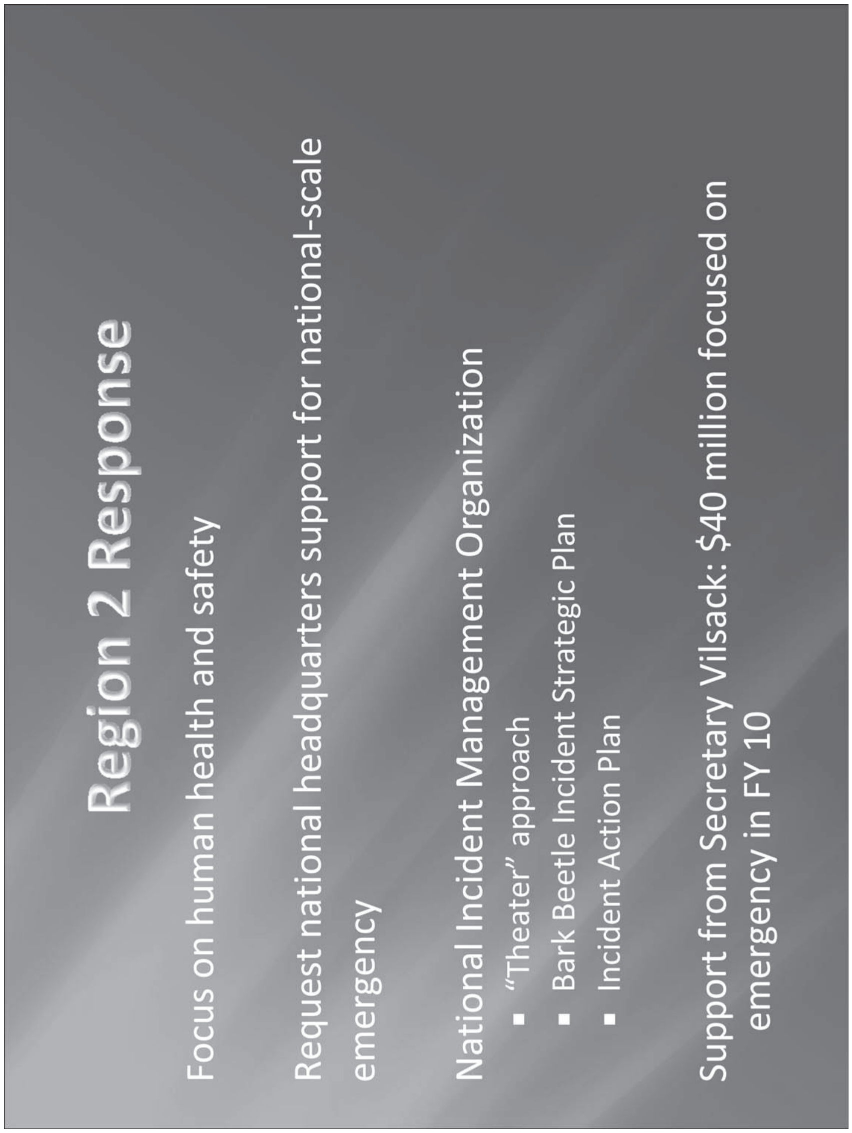


State	# Counties	Population
Arizona	7	4,546,700
California	7	19,329,800
Colorado	54	3,727,700
Kansas	16	756,600
Montana	11	196,400
Nebraska	27	1,017,600
Nevada	1	1,375,800
New Mexico	11	1,251,400
North Dakota	1	5,700
Oklahoma	6	751,200
South Dakota	9	175,600
Utah	8	92,700
Wyoming	19	403,600
TOTAL	**177**	**33,630,800**

2010 Incident Size-up

Emergency work needed on *Medicine Bow NF (alone)*

- 20,344 acres fuel treatment in the wildland urban interface
- 334 miles of trails
- 1,396 miles of Forest System roads
- 41 developed recreation sites
- 45 outfitter guide businesses
- Additional infrastructure: powerlines, electronic sites, water delivery, fences, oil/gas facilities.


Region 2 Response
Focus on human health and safety
Request national headquarters support for national-scale emergency
National Incident Management Organization
"Theater" approach
Bark Beetle Incident Strategic Plan
Incident Action Plan
Support from Secretary Vilsack: $40 million focused on emergency in FY 10


Opportunities
• Jobs
• Sustainable supply for traditional timber industry
• Biomass utilization
• Emerging technologies
• Research

The CHAIRMAN. Thank you very much. That was a very good presentation.

Ms. Fishering, have you got a PowerPoint for us too?

STATEMENT OF NANCY M. FISHERING, FOREST PRODUCTS PRODUCER, MONTROSE, CO

Ms. FISHERING. Good morning, and thank you for letting industry be part of this panel. I represent Intermountain Resources which is the large, commercial-size sawmill remaining in Montrose, Colorado. However, we also own a mothballed sawmill in Saratoga, Wyoming, which we've been diligently looking at getting that open. But at this point, we're just happy to be a survivor.

Our company has hundreds of employees in the mill, but we also support an industry that has to work in the woods. We hire the loggers; we hire truck drivers; we get the wood out of the woods. This is the kind of equipment we use. It's highly mechanized; it's very expensive. We no longer have people with chainsaws on the ground. We tend to be in equipment above the ground. It's safer.

This is a piece of equipment working in a bark beetle forest. These are the type of saw logs we get. Here is one of the sawmills that closed this past year. See that ring? It's called blue stain. Some sawmills can use blue stain wood. Some need very clear, bright wood. We can use anything in the mill that we've got going in Montrose, Colorado. We create premium studs from the bark beetle. We've purchased 90 percent of the timber sales that were done as a result of the bark beetles, and they went to a mill in Montrose, Colorado. So we were commuting over 230 miles from the bark beetle heart of the area from where the epicenter was in Colorado. But, it's now extremely strong in Wyoming, as you saw in the pictures.

So that's kind of a little history of our little company. But what I would like to do is talk about the context that we're operating in, and this is the economics that we've been dealing with. You watch that progression of the insects. If you looked at the height, the height of that map, of this chart, the fact that the height of the building boom in 2005 and 2006, and now we are in a declining market, dropping in terms of prices since, well, 2006. At the bottom of this chart was 2009. So at the same time you have this huge increase in need to get wood out of the woods, we also had the worst lumber markets. The prices went down to 1960's levels. This became an extreme challenge for the whole industry, not just in Colorado or Wyoming. The entire country was feeling this dynamic.

At the same time we had issues such as those Rick already explained; we have this same bark beetle issue. This is a map of the entire West. The bark beetles aren't just attacking within this region. It's a whole western United States issue.

And so what I am here to educate you about is what the timber program has done over time. This is a map from 1905. It's a history of the industry working with the Forest Service. This isn't private because we're so much dominated by public lands in the West. And it went to the height in about the mid 1960s, and it's been declining every since.

And I think it's the contention as I work with my counterparts locally, regionally, nationally that the program isn't large enough anymore. And the way that we're spending budget dollars, it goes through the USDA to the Forest Service. The budget doesn't sustain an industry anymore. And we're down here obviously at the lower point at this point in time.

One of the things industry as a whole has come together across the country to say is you need to grow the program. The timber management budget has gotten so small, it's hard to sustain an industry. I would like to put a series of letters into the record that we've sent to the Interior Appropriations. I know it's not USDA, but it's Interior Appropriations. But we're trying to get a critical mass of people to understand the issue, and part of that issue is for $57 million, whether it's reprogrammed or new dollars, you could grow the program from a 2.2 billion board foot program up to a 3 billion board foot program which would give the Forest Service across the West the money needed to deal with a huge issue like this.

You saw an increase in pressure in the forest; you see what the public health and safety issues are. Believe it or not, we've been seeing budget cuts coming to our region in timber management dollars. Every year I'm astounded that we get another cut.

This year Mr. Cables was very heroic and went back to D.C., and said this is an emergency; it's unacceptable; and we kind of brought it to a head this year. But we're getting emergency dollars, not timber management dollars.

We believe strongly in accountability. If you have a sawmill, you need saw logs. If you don't have saw logs, you can't create 2x4s to pay for the money to go in the woods, get the trees, get the downfall out, and get it to a higher-end product, which for us would be selling it as 2x4s.

The other issues that they've got on the forest, is when we're finished with a traditional logging job, we'll end up with a lot of different biomass on the landscape. What we would do traditionally would be burn it, the slash. We have air quality issues, huge ones, inversions in Colorado and in Wyoming; and you can't burn the amount of biomass that's left at the end of this kind of massive event of 3.6 million acres of dead trees.

So the bottom line is we can do additional investments. Our business plan, if we were to reopen Saratoga, would include burning woody biomass residues, turning it into renewal energy by cogeneration and selling onto the grid. We have projects all over the State of Colorado specifically, some in Wyoming, to take some of this extra biomass for co-fire/co-burning electric generation.

It is private enterprise that has stepped up to the plate to purchase most of this timber, and timber sale contracts, and it's been very unsettling. Our banks don't particularly like us now. We haven't been making money for a year. The economy has improved. The markets are coming back up right now, as we speak, in the past couple of months. Will they stay up? It's an uncertain time.

So bottom line is we really appreciate some of the things you have done in your Committee. We would appreciate any letters of support to the Interior Appropriations to say this isn't working for the folks that we are responsible for in our program, which is forestry. So any assistance you can give us on helping to retool how they look at funding through Interior Appropriations would be very helpful, we believe.

BCAP is something that was in a former farm bill, and that gives subsidies to get the wood out of the woods to a renewable energy type end-certified plant. That's helpful. But, the *biomass* definition, there are 14 different definitions of *biomass* floating around in different pieces of legislation. The farm bill is our favorite because it does allow biomass from Federal lands. We thought that was huge.

And that's just a mere summary of what we deal with, but we appreciate the chance to give testimony today. Thank you very much.

[The prepared statement of Ms. Fishering follows:]

PREPARED STATEMENT OF NANCY M. FISHERING, FOREST PRODUCTS PRODUCER, MONTROSE, CO

Good morning, Mr. Chairman, and Subcommittee Members. My name is Nancy Fishering and I represent Intermountain Resources, LLC a company that has a operating sawmill in Colorado and a closed sawmill in Saratoga Wyoming.

I very much appreciate this opportunity to join this panel to relate their testimony to the small business perspective and to the families and towns that depend upon public land policy for their livelihoods and quality of life. Our company investments are in the heart of the vast forest health issues that face our national forests. According to a 2009 Forest Service Decision Notice, of the total amount of standing dead timber that has been removed from the bark beetle affected forests in southern Wyoming and northern Colorado, almost 90% was processed by Intermountain Resources and our 150+ loggers and log truck drivers. We know that it is important to the local Forest Service Ranger Districts and the folks who live in Southern Wyoming that Intermountain continue their investment by opening the sawmill in Saratoga, Wyoming. Oddly, although Saratoga is centrally located in the 3.6 million acres of dead lodgepole, a big obstacle to opening the Saratoga mill is securing sufficient log supplies.

Let me explain. The company business plan adopted in fall of 2008 was to continue to operate the mill in Montrose and to invest capital to retrofit and re-open the mill in Saratoga. That decision would entail hiring 90 employees in Saratoga and hiring another 150+ loggers and truckers to bring logs in from the woods for processing into lumber and generating electricity by burning sawmill residues and slash from the forest.

This was a win-win fit for the Forest Service that need additional capacity to remove the dead timber from the landscape while benefiting the town of Saratoga which would very much like to see new jobs in their community.

Unfortunately, this investment decision was interrupted by the horrific financial events following the collapse of the housing markets and the crisis on Wall Street. The company focus turned to simply surviving the economics of 2009. Due to plummeting lumber demand and lumber prices, analysts tracked a significant shrinkage in sawmill capacity in the U.S. and Canada. A June 2009 article noted that "over the last 3 years, 127 sawmills representing 8.9 billion board feet of production capacity have closed permanently in the U.S. and Canada." [1]

At this time we are happy to be a survivor, but we look at the economic aftermath and the issues facing a healthy timber industry continue to loom largely in the future. A recent forecast by Western Wood Products Association calls for "modest gains in housing, lumber consumption and U.S. production this year after setting modern lows during 2009," and they conclude that there will be a slow, steady recovery for mills like ours.

We are juxtaposed between a recovering lumber market, and a huge demand for our abilities to work in the woods and remove standing dead timber that poses risks to public health and safety. Our ability to perform depends on overcoming several challenges facing our company and our industry.

Both issues relate to the work that is done by our Members of Congress.

First, in Western states containing significant acres of National Forests or Bureau of Land Management forest the log supply is largely determined by Forest Service or BLM budgets. We were pleased to see the President's 2011 budget recognized the

[1] RANDOM LENGTHS, "*Through a Knothole*", June 12, 2009, Vol. 65, Issue 24.

importance of the Forest Service with an increase in funding. We are concerned, however, about policies embedded within this budget that merged important line items, including the primary line item historically tied to timber management. The net effect of the creation of a new "Integrated Resource Restoration" account may be to change the predictability and accountability for these funds. If adopted as proposed, the outputs will become 'acres treated' rather than targets for saw timber. This 'acres treated' number is difficult to plug in a business plan and take to the bank. The only language related to targets in the 2011 budget *reduced* outputs from 2.5 billion board feet nationally to 2.4 billion. The uncertainty in hard numbers results in reticent bankers and bonding agents which ultimately stymies investment and job creation.

According to the Forest Service, the Medicine Bow-Routt National Forests FY 2010 timber target is less than 25% of their desired targets to aggressively respond to the mountain pine beetle epidemic, due solely to reductions in funding. Similarly, other National Forests in our region will be experiencing similar funding cuts which threaten the log supplies for both the mill at Saratoga *and* the operational mill in Colorado. This dilemma results from shifting priorities between emergency funding and management funding and poses untenable positions for the investors and land managers in the middle.

We believe that the Forest Service budget would better serve rural communities if they would recognize the connection between the timber program and jobs. A conservative estimate of jobs created per 1 million board feet of timber harvested is 11.4 new direct and indirect jobs. Increasing the FY 2011 Forest Products line item by $57 million would increase the USFS timber harvest level to 3.0 billion board feet and thus create some 6,600 new jobs. This would be a modest, incremental budget increase that complements the slow and modest lumber market recovery forecasted for 2011.

In the case of Intermountain, our future will depend on (1) a steady increase in lumber prices and lumber consumption, (2) an adequate log supply to feed both the mill in Montrose and the mill in Saratoga, and (3) access to credit for the final retrofit investment and the upfront cash necessary for startup employment costs. The log supply and credit needs go hand-in-hand since a primary condition for any loan is an assurance that the business plan fits consistently to the life of the loan. That means simply that a 10 year loan requires a 10 year log supply to assure payment on that loan.

While struggling to survive the difficult small-business economics of 2010, we can least afford a cut in Forest Service timber budgets and timber outputs. The local national forests can least afford a cut in industry capacity since we are the most cost-effective tool for addressing the unprecedented forest health challenges. The local logging contractors can least afford a year or more delay until a new investor arrives to build new infrastructure that may or may not fit the needs of our forests and community.

Several pieces of proposed legislation would assist industry dependent on public lands for their economic sustainability.

(1) H.R. 4398 "The National Forest Insect and Disease Emergency Act of 2009" introduced by Congressman Salazar presents a strategy for forests to fund their needs to manage unprecedented challenges presented by events such as the mountain pine beetle epidemic in the Intermountain West.

(2) We have been working with Congresswoman Lummis on draft legislation to address the supply issue with a pilot stewardship approach combined with a modest, but very helpful attempt to assist in the credit needed by the timber industry partners (loggers and sawmillers) who have challenges accessing capital. We embrace stewardship, and in addition will continue to need timber sale contracts to assure a variety of treatments and volumes to profitably accomplish goals to reduce fuel loads and perform land management.

(3) Careful attention to the language, funding levels, and timber targets in the 2011 Budget to ensure long-term viability for the traditional infrastructure. A robust industry means a robust capacity to treat the land.

(4) The 2008 Farm Bill contained the new "Biomass Crop Assistance Program" (BCAP) which was designed to encourage biomass production. We are concerned that BCAP disrupts the vital relationship between existing infrastructure and national forest management. Using programs designed to encourage green jobs to create new companies has the unintended consequence of generating new competition against the primary infrastructure our forest managers depend on—for land management, hazardous fuel reduction, removal of beetle-killed timber, and other important forest health restoration goals. At a time when lumber prices are at historic lows and threaten the stability of what little indus-

try remains, these programs could hasten the decline of our most vital management tool.

(5) A similar issue is the continuing debate about the definition of 'renewable biomass'. Who would ever have guessed that such a small seven letter word could create such consternation and policy debate among so many? What we need in Wyoming is a definition that includes the national forests and other Federal lands, subject to NEPA and the direction in the forest plans.

(6) H.R. 4233, the Healthy Forest Restoration Amendments Act of 2009, introduced by Congresswoman Herseth Sandlin, which expands the Federal lands on which hazardous fuel reduction projects can be conducted, and adds protection of infrastructure in rural communities as an additional purpose of the Healthy Forest Restoration Act.

With careful implementation of projects, we can reduce the potential for catastrophic fires, begin the management of the 'the next forest' to reduce the potential for another cycle of bark beetle epidemics a hundred years from now, put local residents to work with good jobs, manufacture wood products, and increase the economic diversity and vitality of local economies.

Much of the solution is in the hands of private enterprise. Our entrepreneurs and investors assume the risks and challenges of operating in an uncertain economy. It is an essential component for our Federal partners to maintain an adequate log supply, and to be assured by the national leadership that budgets and strategies will be crafted to help industry survive in the near term and grow for the long term.

Thank you for your invitation to share our challenges and needs with you. You are a critical partner to our success. I would be happy to answer any questions.

The CHAIRMAN. Thank you very much.

We look forward to working with all of you to try to help find solutions. As we move to questions, I would recognize somebody who has been at the forefront of some of these issues and has worked very hard doing everything she can to bring this issue forward. I know that she has talked to me many times, the gentlelady from Colorado, Ms. Markey, for questions.

Ms. MARKEY. Thank you very much, Mr. Chairman. And thank you all for your excellent testimony.

My first question is to Mr. Cables. You gave a very sobering analysis of what's going on in the region: A hundred thousand trees falling a day. I mean, that is absolutely incredible.

What kind of an impact do you see this having on tourism in our state? Obviously we know it has impacted the ski industry, recreation in the summer. It's very dangerous when you're in a forest where trees are falling.

Also, I know you received the $40 million this year from USDA from Secretary Vilsack. How is that money being used right now? And I know you have done an excellent job in coordinating, not only a Federal response, but a state and local response, working closely with our state legislators, and with county commissioners in the affected areas to have a coordinated response. But if you could just give us a little bit of background on how that $40 million is being used right now.

Mr. CABLES. Thank you, Mr. Chairman, Representative Markey.

Quickly your first question on—relating to tourism. This event has a very significant potential to affect tourism in a negative way. Not only are there threats as I pointed out, we have outfitters—folks just wanting to enjoy the forest—who have access to the forest. So, in the developed recreation sites, we've had to cut the trees out which affects that experience. We have ski areas that have infrastructure threatened that we're working with. And so the long-term potential to affect those industries is significant.

And one of the things that we're concerned about is, if we aren't able to accelerate this work in terms of roadside clearing and trail clearing, we may need to think about the potential of forest closures. Allowing people into these areas with that amount of trees falling—even for our own crews and our own firefighters—because of the safety considerations. We've had several near misses already where falling trees have come very close to hurting people. So, if we get to that stage, then that will have an even more dramatic effect potentially on tourism.

The second part of your question on the $40 million: we've spent that money on roadside-clearing contracts, on fuels treatment next to communities. Believe me, it didn't take very long to spend that amount of money in terms of the scale of this event. So I think the Medicine Bow Forest let a contract for 170 miles. Phil?

Mr. CRUZ. It was for 160 miles.

Mr. CABLES. One hundred and sixty miles. So that sort of thing is how we've used the $40 million that we received in Fiscal Year 2010.

Ms. MARKEY. And so that money is being used now? What percentage of the problem do you think you were able to address, and what do you see as the long-term forecast in terms of how long it's going to take get the situation under control.

Mr. CABLES. Thank you, Representative Markey. Let me just give you a sense of the scale. The last contract we received for roadside clearing, clearing the trees back like a hundred feet either side of the centerline, so when they fell they didn't close the road, was in the neighborhood of $40,000 a mile. And if you do the math on over 3,000 miles, that gives you a sense of over $100 million, if we did every road and we had that kind of price in terms of our contract.

The WUI treatments, the Wildland Urban Interface is what WUI stands for. It's the stuff next to communities to protect them from fire—has been running in the neighborhood of $2,500 an acre. And we've got over 200,000 acres identified. If you do the math on that and we treated every one of those acres, that's a very, very large number too.

So we really appreciate the $40 million, and it enabled us to do that much more than we would have from our initial budget, but the scale of this problem is very large. And that's why it's so important for industry to be able to operate and utilize this material and reduce those costs in terms of the amount of appropriated funds we need.

Ms. MARKEY. And just one other question for Ms. Fishering about the timber management program. You said a $57 million increase is needed. What form would that take place? Are you also talking about grants or a guaranteed loan program? And would a guaranteed loan program, for instance, help jump-start the industry to get some private capital investment in.

Ms. FISHERING. Thank you, Representative Markey. Actually you're bound into line items when you get into the Federal budgets, and we were talking about a timber management forest products line item that would be designed to keep us alive. When you just put money in emergency or roadside clearing, that doesn't always provide the foundation that you need to keep the sawmill open before you can add the slash and some of this stuff that's less merchantable.

So it's $57 million to one line item. We said that that would increase a board foot, which is a hard target, something you can measure and see from 2.2 to 3 billion. We believe if you use a modest multiplier, that's 6,600 jobs. It would be money to the Forest Service, but it creates that private investment that you're speaking of.

We've been looking at USDA Rural Development. Every single one of your agencies have contacted our company to say that there is a program that can help open Saratoga. What we find is they are not at the table with us and the banks. They are risk averse. When you see that falling price to 1960s prices for lumber, they're not real excited to back that bond. And until you've got that private guarantee from a bank, you can't even access private activity bonds or pure revenue bonds, or SBA loans. So that's where we're stuck. It's the banks not wanting to get involved with an industry that has such a volatile pricing stint in the lumber market.

We know we're going to survive. We are actually upbeat, believe it or not. We're like a lot of the commodity programs. We know we will get through these years, and we'll make it to that profitable point. The banks aren't quite as encouraged as we are. So actually right now it takes either grants to jump-start us, or loans, which are very important. Don't get me wrong. We just need enough investors willing to sign on the dotted line, giving personal guarantees to be able to be eligible for the other tools in the Rural Development toolbox. Thank you.

Ms. MARKEY. Thank you. Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentlelady for the good questioning. I recognize the gentlelady from Wyoming, Mrs. Lummis.

Mrs. LUMMIS. Thank you, Mr. Chairman.

My first question is for our State Forester, Bill Crapser. The farm bill requires every state forestry agency to develop a forest resource assessment. Wyoming recently completed its assessment and ranked the lack of private industry infrastructure among its top concerns for the health of Wyoming's forests. Do you believe the Forest Service could produce a predictable supply under the current laws, regulations, appeals and litigation affecting the Forest Service?

Mr. CRAPSER. Mr. Chairman, Congresswoman Lummis, I do believe the Forest Service has shown over the last 5 or 6 years that they have kind of stabilized the program, if you will. I don't want to put words in my Federal colleagues' mouth, and I would have them answer exactly where they think their program will go. But I think we've seen some good things, as far as forest management. I think the importance of having the infrastructure—when Mr. Cables talked about just the vast amounts of money it would take to clear the hazard trees along the roads. We look at everything that you all deal with every day, there's not enough money in the U.S. Treasury to pay for the work that needs to be done. So without some type of private forestry infrastructure being able to utilize that material, we really can't make headway into it.

Mrs. LUMMIS. Ms. Fishering, you're the only sawmill in Colorado. There's only one in Wyoming that's open, and that's up in Black

Hills National Forest. Could you explain what challenges are presented when you're the only game in town. And then could you also talk a little bit about how the Forest Service could help facilitate the reopening of the Saratoga mill?

Ms. FISHERING. Thank you very much for the question. In my view, we face challenges. When I speak to my counterparts across the country, I find we have unique challenges when you are the only large commercial mills, it's not the only sawmill because we have smaller mom and pops. We have sawmills that just devote their end-products to Aspen; it's not bark beetle trees.

For us, one of the things that we found out when we went to try to get an industrial revenue bond, they said, "Well, what's your supply?" We purchase 90 percent of the timber sales that have been put up a percent in the bark beetle. It wasn't enough. It's a 3 year supply. It's a year and a half if we have two mills open. That is, a bank that's going to loan you maybe a 10 year loan isn't real encouraged when you only have a year and a half under contract. And the dilemma is two-fold. They need urgent removal. You can see we can't wait 10 years to get to some of these areas and clear the roadside. So you're in this dilemma of moving quickly.

We would appreciate more stewardship contracts. I think you might have heard of those. The bank feels much more comfortable if we were to have a 10 year stewardship contract, so that we can say here is a 10 year supply. Maybe not a hundred percent of a 10 year supply, but here is a mechanism that we can take to the bank.

Taking documents to the bank is just key for us. And so when we see topsy-turvy changes in Federal policy and priorities and where they put the funding, banks don't like that at all. It's the certainty question the Chairman mentioned for the other commodity groups. We need certainty.

Long-term contracts would be one key area. We actually received some ARRA money in the State of Colorado. They carved out an area called industry retention. I found that very unique in the country, to see them actually go to the foundation, the companies that are doing the processing. Most of those funds went to fuel reduction and projects on the ground. But they're cutting wood, they're decking it and leaving it because there's not enough processing. So you really have to start at the bottom if you're going to get that cost effective bang for the buck. And none of the money that we saw today, very, very little of it, went to industry that needed that foundation.

So if there's any other stimulus money out there, if they choose to spend it, I think that's where it goes. It goes to the processing level. You're helping private enterprise. They helped the auto industry. We could use help too.

Mrs. LUMMIS. Thank you. Another question for the Wyoming State Forester. Colorado has been operating a pilot Good Neighbor Program that allows state forests to undergo fuels reduction and other work on Federal land where state forests border national forests. I know that Senator Barrasso, our senator, has a bill to grant that authority more broadly, and we borrowed from his language in the bill we filed last week.

Could you tell the Committee how Good Neighbor Authority would work in Wyoming, how it could be helpful in this fight? And then for anyone: How long can a dead bark beetle-killed tree stand dead and still be good lumber?

Mr. CRAPSER. Congresswoman Lummis, I'll make a shot at the second question first. From talking to Intermountain, from other contacts I have in the industry, with today's sawmilling technology, you're probably looking at 5 to 9 years, as far as merchantability for a stud-type operation. If you're up in the Black Hills and Ponderosa Pine like Mr. Neiman's operation, you would probably be looking at only 2 or 3 years because of the type of products and the things you're trying to make.

As far as Good Neighbor Authority, we feel that it's been very successful in Colorado. We would love to see the Authority Westwide. To me where it makes sense is it's not a ploy by state foresters to take over the national forests or anything of the sort. That works really well, especially in WUI-type projects, clearing hazard trees along trails, roads, doing defensible space, if we have contractors working on the private side of the line on private land or on state land, and the Forest Service or the BLM have a project across the boundary, it makes no logical sense to me or efficiency sense to do totally separate contracts for us to do our little piece, and then to have the Forest Service do their piece and bring different contractors in.

So it's more an efficiency bang for our buck type thing that I see Good Neighbor Authority really helping us with. We do a little bit of it with our similar type projects, not with contractors but with our inmate crews now, and utilize them across the boundary on the Forest Service or BLM land. I just see it as a huge efficiency of utilizing the scarce resources to get work done.

Mrs. LUMMIS. Thank you, Mr. Chairman. My time has expired, and I yield back.

The CHAIRMAN. Thank you. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. In full and fair disclosure, I'm from west Texas, and I represent a community that's got the name of No Trees. So asking foresters questions is maybe a little out of my league. I would like to ask one kind of a group question; that is, the state-managed forests in Wyoming are reported to be healthier than the federally-managed properties. Is there a differential; and, if so, what's causing that? Is it something that's just a philosophy differential, or are there things at the Federal level that ties your hands, that won't allow you to manage them so that they're as healthy as their state counterparts? So just between you two guys, hash it out.

Mr. CRAPSER. Mr. Chairman, Congressman Conaway, we deal with different things with state lands. For one thing, statewide, our state lands are state trust lands commonly known as school sections. We have about 300,000 acres of forested land that are state lands statewide. So we're not dealing with the vast acreages that the Forest Service is. We also have a different mission. Our mission, because we are trust lands, are for the beneficiaries of the trust, which are the school kids. So our lands have been more intensively managed than Forest Service lands. I think right now in the bark beetle area, almost 30 percent of the state lands—30 to 35 percent of the state lands within the bark beetle area have been harvested over the last 20 years. So we have younger stands of

Lodgepole Pine that are too small to be impacted by the bark beetle.

So while, as state forester, I would like to say that our lands are healthier than the Forest Service, I don't have the impediments to management, and have a lot more flexibility in addressing the issues.

Mr. CRUZ. Representative Conaway, thank you for the question. I think some of the situation is that the Federal lands probably have a lot more Lodgepole Pine, and that's the species that's most at risk here in the Rocky Mountains.

Mr. CONAWAY. But are there things under your rules that you would have changed that would allow you to manage it better.

Mr. CRUZ. I believe we do have more complex rules. We have probably a lot more interest from groups, individuals, communities, folks of all sort in what happens on the Federal lands. So our process might be a little bit more intense in terms of planning and the implementation afterwards.

Mr. CABLES. In addition, I think Bill Crapser hit one of the seminal points is the objectives for the land. State trust lands often are managed for return to the state. National forests are managed for multiple uses, and they're managed for the long-term sustainability of those lands, including things like recreation, wildlife habitat. And the management objectives vary. So I think that's a significant element.

And, obviously, we have Federal laws like the National Environmental Policy Act that apply to the Federal lands which require us to do assessments, analyses and decisions. Those decisions are subject to appeal and litigation. So if you look at the history of timber management over the last couple of decades, or 3 decades really in the West, there have been a lot of challenges to some of our management protocols and what we're trying to do on the landscape. And obviously that has an effect, both in cost and time. So those are things that the state lands are not subject to.

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

The CHAIRMAN. I thank the gentleman. Anybody else.

Mr. FORTENBERRY. One quick question.

The CHAIRMAN. The gentleman from Nebraska.

Mr. FORTENBERRY. Well, good morning, and thank you all again for welcoming us. I'm your neighbor to the east in Nebraska. It's interesting. I noticed a road sign on the highway out here: Omaha 525 miles. It puts it in perspective how big the country is out here. I represent eastern Nebraska. Again, it's a pleasure to be with you.

Two questions: One is, of the nearly 4 million acres that have been impacted by the bark beetle, you talked about the impact on the watershed of 13 states, and clearly Nebraska is one of those states. My own community, Lincoln, draws its water from the Platte. We've got other water issues throughout the state.

Define that correlation a little bit better. Talk about how the impact on the forest actually is correlated to the diminishment or the—just how it correlates to that watershed, what are the direct effects, and over what amount of time.

Mr. CABLES. Thank you, Representative Fortenberry. Let me talk about it in two ways. One is the immediate threat on the water infrastructure, reservoirs and that sort of thing from fire. And we experienced this in Wyoming. And memorable to me was both 1996 and 2002 fires on the Front Range, the Buffalo Creek fire and the Hayman fire both down in Colorado where they burned. And then we had subsequent rain events, and the sediment filled in reservoirs or substantially filled them in. Denver Water has spent over $30 million dredging their storage reservoir, from the sediment that came after the fire. So there are very real remediation costs associated with post-fire activity, and that's a major threat, and someone has to pay that bill. So there's that threat.

Then second, we're doing research right now and looking at the relationship of how long does the snow stay on the landscape when the trees are all dead. So, when the snow falls, the canopy of a green forest intercepts some of the snow, and some of it evaporates back into the atmosphere. Some hits the forest floor. Then it benefits from the shade of the green trees, and it holds the snow longer. And then, particularly late in the summer, August and September, where you really need to have that water in the streams and downstream, if you don't have the shade to hold the snow, the snow melts off quicker.

And when you put that together with some of the issues around climate change and the way the temperatures have changed in the past decade or so in this part of the world, what is that relationship. And I don't think anyone can say quantitatively what it is. But there's a worry that the snow is going to melt off sooner and faster, and we're not going to be able to capture it with storage and then allow it to come down the rivers slowly and, particularly, late in the season.

So there are two effects. The second one, the relationship between green trees and a forest with dead trees, no canopy, and no shade. I don't think you can say definitively we have the science on that. But I think there is a lot of anecdotal evidence that we're going to see the snow melt off faster, sooner, and it's not going to be available during some of the more critical months late in the summer.

Mr. FORTENBERRY. Thank you. Let me turn quickly to the issue of defining biomass as appropriate for renewable energy. I have a bill in this regard. But what are some of the controversies? What is the resistance that perhaps you've seen, including what appears to me to be logical, including biomass in the broader definition of renewable energy opportunities.

Ms. FISHERING. A lot of it has been controversy over, believe it or not, over-cutting. It's like if we include Federal lands in our *biomass* definition, then they're afraid that they'll be inappropriate—they're going to come and slice off the entire forest. And that, indeed, doesn't happen. We get in these arguments all the time in Colorado as we try to explain that when we have a timber sale contract, no matter what it is, we have to leave a certain amount of debris, tons per acre or trees per acre when you're finished. You don't take every single tree. So some people have that vision. Maybe not in our part of the world, but maybe it's in the eastern United States. Because there's a mounted effort nationally against allowing biomass to include Federal lands within that definition.

Mr. FORTENBERRY. Frankly, I think it's helpful to talk about how some of this waste is simply burned off. It seems to me to be tragic or a real loss, or lack of appropriate environmental stewardship if you're simply burning it. There would be better, higher uses.

I think I'm out of time, so thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Fortenberry.

Mr. Smith?

Mr. SMITH. Thank you, Mr. Chairman.

I was wondering, Ms. Fishering, if you feel in terms of the regulatory framework if you have the flexibility to address the heightened challenges given the beetle infestation in the kill areas. Do you feel that maybe some regulatory efforts should be revisited to allow more flexibility?

Ms. FISHERING. Thank you for the question. We've worked on that very diligently because typically a timber sale contract can be held up. The operating season gets restricted by elk calving, deer fawning, snowmobile season, hunting season. It becomes so complicated. And in a traditional timber sale environment, that's fine, you can do that. But when it's urgent removal, or public health and safety on 3.6 million acres, you need to be able to relax some of those regulations that are typically part of multiple use of managing public lands.

We go through huge hurdles, but we're partners trying to figure out how we overcome that. In Colorado we've cut through a lot of those issues. We're actually closing roads and saying, I'm sorry, this road is closing. We're going to be using log trucks because we just need to get this area cleared out. So we're working on that all the time, and we're looking for flexibility.

But to me, number one, it's going to be budgets because they can't put up the next project unless they've got the budget to put it up and go through those regulatory hoops. We do use the Healthy Forest Restoration Act. That was key. If that hadn't passed back in the late 1990s or 2000s—I don't know. That was key because they're going through the projects, getting it up and out the door quick enough. That to me is always going to be key, is the budget. And the other regulatory stuff, we're working through that pretty well.

Mr. SMITH. Thank you.

Mr. Cruz, I know that some reports have uncovered some of the controversy relating to, and perhaps questioning, the need to reduce hazardous fuels in kill areas. I know that the controversy existed even before the beetle issue, and I'm guessing it's even compounded now. Could you speak to the science about the danger of catastrophic wildfire in these kill areas?

Mr. CRUZ. Representative Smith, thank you for the question. It's a complex question also. Over time it's evolved our relationships with neighbors and subdivisions, communities, *et cetera,* on treating the urban interface. It's taken a lot of education; it's taken a lot of sitting down at the table with city councils, homeowner associations and individuals to talk about fire behavior and the implications of protecting homes in the communities, not only on Federal lands but also on their own lands. And it's been a long journey. We have seen more and more folks understanding and seeing the realities.

The experience that I've had with wildfire approaching infrastructure and homes and things like that is, even in a thin forest, it can take as much as a ¼ mile to ½ mile to take a fire that's flaming through the crowns to drop to the ground. And that's kind of a scary reality, especially if one is out on the ground trying to protect the community.

Our ability to treat the vast amount of acreage, we are doing the best we can. We do appreciate the amount of support that we have. To us, it has become so much about working with folks and changing fire behavior. If we can change the fuel bed, we can have some influence over suppression or getting that fire down to the ground. And so the impacts just aren't the same then.

Another thing is folks have chosen to live in the forest environment because it's beautiful. There are a lot of other amenities: recreation, beauty, visuals, the solitude. If that fire burns right up to their home, a lot of that value is lost. So, that is part of the reason why it's very important for us to create buffers and to work with communities on their own lands. And then its also important to have defensible space for firefighters so there is enough time to stop those flames.

Mr. SMITH. Can you speak a little bit, either one of you, in terms of the likelihood of catastrophic fire and how we might address that? I know it's a big challenge.

Mr. CABLES. Thank you, Representative Smith. Let me take a shot at that, and particularly the last aspect of your question about science. It is a bit of a puzzlement, and I would like to separate advocacy from science. And I think there has been a lot of advocacy that some of the fuels work is not beneficial, but it just is not upheld by science.

I refer this to the Committee, and we can provide copies of this. This is a Rocky Mountain Research Station *General Technical Report 229* that was done in July of last year that talks about fuel treatments, fire suppression and their interactions with fire and its effects. It clearly demonstrates that managing the fuels changes fire behavior. When you change fire behavior, you're able to put crews in there, or aerial retardant on the ground, or have a fighting chance to suppress the wildfire. If you don't treat the fuels, we may not even put a crew in the country because it's not safe. So breaking up the fuels, the continuity of fuels is a critical element in our fire suppression strategies.

[The information referred to is located on p. 701.]

Mr. CABLES. And I would say in this area of the bark beetle kill where we're going to have these trees falling, you can just imagine one of those photographs of jack-strawed trees, a continuous fuel bed for miles of jack-strawed trees. If we don't break that fuel up in some way with fuels treatments, there's just a continuous fuel bed to carry fire if you get wind. And it's even compounded because the fuel is closer to the forest floor which means the fire is hotter closer to the soil which means you can actually ruin the soil, create what we call hydrophobic soils and sterilize the soil. So it's kind of a double whammy. So in my mind there's no question that the science supports fuels treatment, our own science. And if you talk to the practitioners, the firefighters themselves, they would vouch for that as well without a question.

Mr. SMITH. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. You guys have become almost as risk averse as the Corps of Engineers trying to get anything done because you're so afraid of being sued and so forth. The environmentalists that keep you from doing anything, they don't feel any culpability? What do they say when this stuff that's obvious? How do they keep having this position? It's ridiculous. What do they say in these hearings?

Mr. CABLES. Well, let me first say that I think we've actually made some progress. And I like to use the term "social license." I think the Forest Service has more social license, in other words, public support, to manage these lands than we've had in a long, long time. It's because of what people have seen, as Phil talked about. They've seen the results of wildfire and insect and disease——

The CHAIRMAN. It's changing?

Mr. CABLES. Yes. And they don't like that. However, there is still an element of a certain set of interests that really are, as Nancy said, are operating with a fear-based approach that somehow we, the agency, will go back to some huge, ugly timber program and create all these bad results on the landscape. I have never feared this, and I don't think it's a legitimate fear, personally.

The CHAIRMAN. Too bad we can't send them the bill.

Mr. CABLES. So we're making progress, I believe, Mr. Chairman. But here is the real crux of this for me. This is an urgent situation. We do not have time to have a lot of meetings and discuss this, at least in the area that I described today. The trees are falling now, and we've got infrastructure threatened and communities. And people are worried, and it's time do things, and we want to expedite this to the maximum extent we can to prevent further damage.

The CHAIRMAN. Thank you.

Ms. Fishering, this biomass situation, I was the one that came up with this BCAP Program. It morphed into something that I never intended at all. All this money was spent. Why didn't you guys get some of it? Because you're not close enough to any facility that can utilize this? Some of these areas went wild and, but I take it that you didn't use it as much?

Ms. FISHERING. As you know, it's under suspension right now because there's such a huge national demand for those dollars. And we could have used it for part of it if we were delivering it to our pellet mills in Colorado that were eligible for those funds, but they closed this year. The markets were hard on all of us, and those biomass companies as well. I do believe that's a long-term answer. It would be—for example, if we put cogeneration at the sawmill in Saratoga, then we could go and be certified and be eligible for BCAP funding.

The CHAIRMAN. But you would have to put in cogeneration for that to be valid.

Ms. FISHERING. What we have there—and we already have thermal because we have to use heat to dry the lumber, and that is a biomass boiler.

The CHAIRMAN. But the boilers don't exist now.

Ms. FISHERING. No, it does at Saratoga. But it's in this Montrose mill, and that would have taken an investment. We were needing $10 million.

The CHAIRMAN. Well, I'm not sure we want to have this, creating more investments that may not be sustainable. But, we want to work with you to try. When I accepted this *biomass* definition on adding wood, the idea was that it would hopefully help the situation out here. It was mostly used on the East Coast. That should have never happened. The rulemaking has made some of that more sensible, but we want to work with you to try to get the definition so we can utilize it here. And not have it be utilized places where it's driving up the price of particle board or other things that are going on which causes other kinds of problems. So we look forward to working with you.

Ms. FISHERING. Thank you, Mr. Chairman. We think that subsidy to get that biomass off the ground to the facility is a good idea.

The CHAIRMAN. I thought that too, but that isn't exactly how it worked.

Well, I want to thank the panelists. It's been very good, very educational for the Committee. We appreciate your testimony and being with us today and look forward to working with you.

The CHAIRMAN. We'll call the next panel to the witness table: Jerry Cooksey, wheat producer from Roggen, Colorado; Ogden Driskill, cattle and buffalo producer, Devils Tower, Wyoming; Les Hardesty, dairy producer, Greeley, Colorado; John Snyder, sugarbeet producer from Worland, Wyoming; and Dennis Sun, cattle producer from Casper, Wyoming.

We appreciate you being with us and look forward to your testimony.

STATEMENT OF JERRY COOKSEY, WHEAT PRODUCER, ROGGEN, CO

Mr. COOKSEY. Mr. Chairman, Members of the Committee, good morning. My name is Jerry Cooksey, President of the Colorado Association of Wheat Growers. Thank you for the opportunity to testify on behalf of Colorado wheat producers. Three generations of my family work together on a farm and ranch business located in northeast Colorado. Weld County where we live is consistently ranked in the top eight counties in agricultural commodity sales in the country. On our farm we produce wheat, corn, sunflowers, pumpkins, hay and have a small cow/calf operation.

Colorado wheat producers have been in a continuous drought since 1999 until last year. Production and prices have been very volatile. During the last 10 years, Colorado winter wheat production has ranged from a low of 36.3 million bushels in 2002 to a high of 98 million bushels in 2009, with a 10 year average production of 63.3 million bushels.

Statewide average yields have ranged from a low of 22 bushels per acre in 2002 to a high of 40 bushels per acre in 2009, with a 10 year average yield of 30 bushels per acre. At the same time, Colorado average price for wheat has ranged from a low of $2.70 per bushel in 2000 to a high of $6.47 per bushel in 2008, with a 10 year average of $4.06 per bushel.

CAWG has several goals related to farm policy:

A farm safety net that reflects realities of today's production system, protecting us from weather and market conditions, volatile weather and market conditions, and supports our stewardship and conservation of our agricultural land.

Components of that safety net should be reliable, provide meaningful coverage for producers throughout the country, and be flexible to respond to the worldwide commodities marketplace where we do business.

Conservation programs provide incentives for farmers to maintain existing conservation activities, adopt new activities, as well. They should be available nationwide on a continuous application basis and be properly funded.

Agricultural currently constitutes the one segment of our nation's trade portfolio that results in a trade surplus. Growers support continued funding for market development program that enables us to create, maintain and grow international markets for U.S. ag products.

CAWG and the National Association of Wheat Growers supported the passage of the 2008 Farm Bill due to the inclusion of a number of significant programs to wheat growers including direct payments, crop insurance, conservation, renewable fuels, market development programs and research. During the 2008 Farm Bill, CAWG and NAWG fought to maintain the direct payment, as it was the most reliable WTO-compliant safety net mechanism for wheat farmers.

CAWG supports a strong, properly funded crop insurance program that provides meaningful coverage for wheat producers in all regions growing all types of wheat. Crop revenue insurance protects producers from weather-related production problems and the volatility of the commodity markets. Higher revenue coverage at reduced rates would be very beneficial to producers.

Trade is vital to our marketplace since 50 percent of the United States wheat production, and 80 percent of Colorado's production, is typically exported. We support a robust trade agenda including immediate passage of pending bilateral free trade agreement with Colombia as a top priority and an eventual Doha deal that provides significant new market access for U.S. wheat producers.

Normalization of trade—U.S. trade—U.S. and Cuba trade relationship including the lifting of the travel ban, the full funding of both Market Access Program and Foreign Market Development.

We are in support of incentive-based, voluntary, cooperative conservation programs that help producers maintain and improve the quality of land and water resources. The Conservation Stewardship Program is a voluntary program that encourages agricultural producers to maintain existing conservation activities and adopt new ones such as the resource conserving crop rotation. CSP provides support for producers and landowners of working land, providing environmental benefits for everyone.

The Conservation Reserve Program takes marginal cropland out of production, which is then seeded to grass. This has been very beneficial to the environment, preventing water and wind erosion. In 2009, Colorado had 11,761,000 acres of cropland with 2.4 million acres in CRP. Unfortunately of the 743,000 acres that expired that year, approximately 335,000 acres were offered a 2 or 3 year extension. That's 45 percent. This had a negative economic impact in these areas. We encourage you to maintain the CRP.

Wheat growers are continuing to gather experience with the new programs such as ACRE, Average Crop Revenue Election, and SURE, Supplemental Revenue Assistance.

Twelve percent of the wheat-based acres nationwide were involved in ACRE while there was only one percent enrollment in Weld County where I live and farm. This is a very complex program. Farmers in eastern Colorado did not see the benefits of ACRE and chose the direct payments. There is a concern over the timeliness of the program sign-up for SURE. This is a program that would benefit a producer that has a loss in the one crop they grow, or losses in all the crops grown on a particular farm.

On our operation we had significant hail losses on two of the crops, and good production on the other two crops in 2008. The result was no SURE payment. A producer that spreads risk by diversifying into a number of different crops will see less benefits from SURE even when there are heavy crop losses.

We have concerns with the Standard Reinsurance Agreement, SRA, negotiation currently being conducted by the Department of Agriculture.

First, CAWG is concerned that the proposed level of cuts, nearly $7 billion to the companies and agents, could significantly jeopardize the service here in Colorado and Wyoming and other regions in the country.

Second, we are very concerned that the level of cuts will reduce the agriculture spending baseline, making the next farm bill even more difficult to write. Given tight budget forecasts, I urge the Members here today to work with the Administration to ensure that the negotiated agreement does not negatively impact the delivery of crop insurance programs in these areas, and to ensure that any savings that are achieved can be captured to maintain the farm bill baseline.

Farmers seek a safety net that reflects the realities of today's production system, protects agricultural producers from volatile weather and market conditions and supports the nation's foremost environmentalists: Farmers.

Thank you.

[The prepared statement of Mr. Cooksey follows:]

PREPARED STATEMENT OF JERRY COOKSEY, WHEAT PRODUCER, ROGGEN, CO

Mr. Chairman and Members of the Committee,

Good morning. My name is Jerry Cooksey, President of the Colorado Association of Wheat Growers (CAWG). Thank you for the opportunity to testify on behalf of Colorado wheat producers. Three generations of my family farms together on a farm and ranch business located in northeastern Colorado. Weld County where we live is consistently ranked in the top eight agricultural commodity sales in the country. On our farm, we produce wheat, corn, sunflower, pumpkins and have a small cow calf operation.

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CAWG has several goals related to farm policy:

- A farm safety net that reflects the realities of today's production system, protecting us from volatile weather and market conditions, and supports our stewardship and conservation of our agricultural land.
- Components of that safety net should be reliable, provide meaningful coverage for producers throughout the country and be flexible to respond to the worldwide commodities marketplace where we do business.
- Conservation programs provide incentives for farmers to maintain existing conservation activities and adopt new activities as well. They should be available nationwide on a continuous application basis and be properly funded.
- Agriculture currently constitutes the one segment of the nation's trade portfolio that results in a trade surplus. Growers support continued funding for market development programs that enable us to create, maintain and grow international markets for U.S. agricultural products.

CAWG and the National Association of Wheat Growers (NAWG) supported passage of the 2008 Farm Bill due to the inclusion of a number of significant programs to wheat growers including the direct payment, crop insurance, conservation, renewable fuels, market development programs and research. During the 2008 Farm Bill debate, CAWG and NAWG fought to maintain the direct payment, as it was the most reliable, WTO-compliant safety net mechanism for wheat farmers.

CAWG supports a strong, properly funded crop insurance program that provides meaningful coverage for wheat producers in all regions and growing all types of wheat. Crop Revenue insurance protects producers from weather related production problems and the volatility of the commodity markets. Higher revenue coverage at reduced rates would be very beneficial to producers.

We support a robust trade agenda including passage of pending bilateral free trade agreements, participation in WTO trade discussions and more open trade with Cuba. Trade is vital to our marketplace since 50 percent of U.S. wheat production and 80 percent of Colorado's production is typically exported. We also strongly support continued funding for market development programs including the Market Access Program and Foreign Market Development Program (FMD).

We are in support of incentive-based, voluntary, cooperative conservation programs that help producers maintain and improve the quality of land and water resources. The Conservation Stewardship Program (CSP) is a voluntary program that encourages agricultural producers to maintain existing conservation activities and adopt new ones, such as the adoption of resource conserving crop rotations. CSP provides support for producers and landowners of working lands providing environmental benefits for everyone.

The Conservation Reserve Program (CRP) takes marginal crop land out of production, which is then seeded to grass. This has been very beneficial to the environment, preventing water and wind erosion. In 2009 Colorado had 11,761,279 acres of cropland with 2,412,238 acres in CRP. Unfortunately, of the 743,795 acres that expired that year approximately 335,000 (or 45%) of those acres were offered a 2 or 3 year extension. This has had a negative economic impact in these areas. We encourage you to maintain CRP.

Wheat growers are continuing to gather experience with the new programs, such as, Average Crop Revenue Election (ACRE) and Supplemental Revenue Assistance (SURE).

Twelve percent of wheat base acres nationwide were enrolled in ACRE, while there was only one percent enrollment in Weld County, where I live and farm. This is a very complex program. Farmers in eastern Colorado did not see the benefits of ACRE, and chose direct payments.

There is concern over the timeliness of the program sign-up for SURE. This program would benefit a producer that has a loss in the one crop they grow or losses in all the crops grown on a particular farm. On our operation, we had significant hail losses on two crops and good production on the other two crops. The result was no SURE payment. A producer that spreads risk by diversifying into a number of different crops will see less benefits from SURE even when there are heavy crop losses.

It is very important to maintain the same baseline spending in farm bill programs going into the 2012 Farm Bill since producers and rural communities depend on it. Farmers seek a safety net that reflects the realities of today's production system, protects agriculture producers from volatile weather and market conditions, and supports the nation's foremost environmentalists—farmers.

Thank you again for this opportunity to testify. Are there any questions?

The CHAIRMAN. Thank you very much, Mr. Cooksey.

Mr. Driskill, welcome to the Committee.

STATEMENT OF OGDEN DRISKILL, CATTLE AND BUFFALO PRODUCER, DEVIL'S TOWER, WY

Mr. DRISKILL. Thank you, Chairman Peterson, all the Members of the Agriculture Committee. I'm pretty nervous. I don't talk so well.

The CHAIRMAN. You don't need to be nervous. We're ordinary folks like you are.

Mr. DRISKILL. I can't tell you how proud I am, first off, to have a pioneer ranching family, Cynthia Lummis, as our Representative from Wyoming. It is so neat to have working ranchers on the Agriculture Committee. That's been a huge point of pride of mine.

I'm a sixth-generation rancher from Devil's Tower, Wyoming. Our family came out of Texas in the 1850s and kind of fled people and trailed the cattle north to Cheyenne in 1871, and followed buffalo trails up to Crook County where we live, as the first settlers.

I spent a lot of my life watching family ranches getting broken up and divided, disappear. Our families use lots of your grants and programs. They're phenomenal programs. One thing I see out of them is very often they're recurring expenses. They come in. You know, I get money from the different programs, and they keep coming back year after year after year.

The last farm bill, you guys enhanced the FRPP program. That's really what I'm going to talk about here. That's a phenomenal program for working ranches. And it's working, it's working well. They're one-time expenses. You guys put the money up on them. I happen to be part of an agricultural land trust that's part of a big number of ag land trusts that come out and work to put in conservation easements that are permanent. When you guys spend that money, a lot of times it seems pretty pricey up front, but it's a one-time spend. That money is forever. I'm here to encourage you to continue to fund FRPP and GRP, preferably at an increased pace.

You know, coming in here yesterday, you can see all through the West what's happening to our intact ranchlands. If we don't have tools to work with into the next centuries, we don't have anything to fund farm programs for because we won't have farms left. These ranches that you guys are funding easements on are going to be here not 100 years, not 200 years but 500 years from now. We don't come back and ask for more money. Once you've done the easements and put them on, these ag land trusts are entrusted to ranches and farms. They have really done a fine job of administering them. The organization has high integrity, and they have done just a nice job of it.

I would encourage you to make the rules really flexible when you look at the length of the programs on any of your ag programs. The longer the programs go, the more flexibility you need to have for these programs to really work well. Envision a hundred years ago and looking a hundred years into the future. It gets really hard to write in-depth rules that work for the long term. So I would encourage you to really look at good flexibility, keeping in mind the value of intact ranchlands, what they do for the scenic, watershed, wildlife lands. I mean, every value is there. And it's intact units; it's not just pieces. These are working units that are going to be able to work forever.

Also, through the West, they encompass some of the very prime best land that the feds didn't manage to get ahold of. When they homesteaded, they got in on the root grounds. These are the grounds that are at the highest risk very often. Our ranch is similar to that. Cynthia's ranch is one of them. The best ranches have the highest threats to them. They're also the toughest to protect, often because they're hard to get it done.

The conservation dollars you guys spend—I don't know. I'm rambling a little. I can't follow the script version.

For every dollar you spend on conservation—the one figure that really sticks with me is on private land conservation—you get $6 back in public benefits. That $6 is kind of an interesting figure because it's a one-time deal. The permanence to me is just so important in your programs. We're all scrambling for money between the different programs. I would encourage you to really look strongly at spending money for this all through the United States. I would like to see my family ranching for another six generations.

Good farm programs that ensure permanence are of extreme importance. Thank you.

[The prepared statement of Mr. Driskill follows:]

PREPARED STATEMENT OF OGDEN DRISKILL, CATTLE AND BUFFALO PRODUCER, DEVIL'S TOWER, WY

Chairman Peterson, Ranking Member and Members of the Committee, thank you for the opportunity to appear here today to discuss conservation and the new farm bill.

I am a working, 6th generation rancher. Our family began ranching in Texas in the 1850s and trailed cattle into Wyoming by 1871. Love for the land and livestock has kept our family with a keen sense of the values of intact ranchland. I am a member of the WY Stock Growers Agricultural Land Trust Board of Directors. I also serve on the Board of the Land Trust Alliance, a national trade organization dedicated to establishing guidelines for quality conservation as well as ethical transactions and organizational oversight. From these perspectives, I cannot emphasize strongly enough the importance of voluntary, conservation incentives on private lands, particularly those that protect our working ranch lands, permanently.

Thank you for some of the positive changes gained in the 2008 Farm Bill which provided:

a. Generous funding of the Farm and Ranchland Protection Program.

b. Reauthorization of the Grasslands Reserve Program.

d. Elimination of the need for the Federal Government to be a co-holder of conservation easements but rightfully acknowledges the United States as funder.

e. Recognition of the importance of land trusts as third party entities that can hold, manage and enforce easements on private working landscapes.

f. The ability to count a landowner donation of a portion of the conservation value as match.

Why is the conservation of private ranchland in Wyoming important?

- 43% of the land in Wyoming is privately owned. 93% of the private land is in agricultural production. We rank first in the nation for the average size of ranches and farms: the av. size is 3,600 acres with 80% of farms/ranches operating on 5,000 acres or more). These lands are the most productive in the state, agriculturally as well as from a broader biological perspective. They encompass much of our riparian lands, often buffer national parks and forests, and tend to be in the transition areas linking mountains and plains. They are highly sought after by developers and trophy landowners.
- Nationally, about 40 million acres of land were newly developed between 1982 and 2007, bringing the national total to about 111 million acres. The American Farmland Trust describes the current rate as 1 acre every 2 minutes.

- Population growth in the Intermountain West has stimulated competition between exurban developers and agricultural producers for the allocation of land and other natural resources.
- The average price of a ranch in Wyoming increased by more than three times on a production-unit basis from 1993–1995 and 2002–2004, and the average price for irrigated meadowland in Wyoming nearly doubled.
- 8.7 million acres of agricultural land in Wyoming are managed by operators 65 years of age and older. What happens when they retire? These funds can help enable a new generation of producers by providing much needed capital and helping to keep ranches at ag value.

Why are the Farm and Ranchland Protection Program and Grasslands Reserve Program Critical to Conserving Wyoming Ranchlands?

- Wyoming's wide open spaces and working ranchlands define the Cowboy State. There is a culture here which is clearly separate from the more urban areas of our country. The land use patterns of our state preserve this uniquely western culture, and also provide wildlife habitat—particularly winter range, breeding grounds and uninterrupted migration routes. They enable our second-largest industry, tourism, and co-exist with our first—the production of energy.
- WY ranchers are hit hard with regulatory programs—this voluntary, incentive program has the potential to do far more good in the long run, at less cost.
- FRPP dollars leverage millions of dollars—from private individuals and foundations as well as state investment. The Trust for Public Land has determined that for every dollar spent on private land conservation, $6 is returned in natural resource benefit, including forage for both livestock and wildlife and other ecosystem services.

How can we build and improve these programs?

- This year, $6 million will be allocated to WY projects. There is at a minimum, a $50 million backlog according to our state NRCS office—but just submitted projects. Every land trust in this state has even more projects in the pipeline, without any advertising whatsoever. Please keep FRPP and GRP fully funded. Take the long view. The benefit of conservation easements does not produce instant gratification. They are an investment in our future. Keep these important tools in the 2012 Farm Bill. They provide the most efficient bang for our buck.
- Private land trusts are community based! And, they provide conservation benefit through the protection of private lands far more efficiently than the Federal Government! Enable private land trusts with the right tools:
    - Reduce or eliminate the required cash match with FRPP. Allow third-party easements the same benefit of no cash match required as the Federal Government receives with GRP. Match dollars are difficult to raise and the need exponentially increases each year.
    - Consider funding the transactions costs for donated easements.
    - These two suggestions would make our Federal investment go many times further.
- Stay clear of using these funds for the benefit single species management. The best thing we can for species like the sage grouse, for example, is to keep large open lands unfragmented, sparsely populated, and available for the production of natural resources.

What is working the best?

- Private land conservation groups that are geared specifically to working farms and ranches are making huge strides at protecting large critically important lands from development or conversion. They have the trust of the agricultural community as well as the expertise to write, document and enforce easements.
- PORT (Partnership of Rangeland Trusts), consisting of agricultural land trusts in Wyoming, California, Colorado, Montana, Oregon, Nevada, Kansas and our newest Texas has conserved over 1.7 million acres of ranchlands in the last 15 years, making it the fastest growing conservation segment in the country today. As of 2008 PORT members held one in six privately held easements in the United States.
- FRPP and are great programs—all they are lacking is slight refinement and increased funding.

Thank you for the opportunity to be a part in helping agriculture remain viable into the next century.

OGDEN DRISKILL.

The CHAIRMAN. Thank you very much. You were right on the money. I don't know how you figured out to end right at the 5 minutes, but you did a good job.

Mr. Hardesty, welcome to the Committee.

STATEMENT OF LES HARDESTY, DAIRY PRODUCER, GREELEY, CO

Mr. HARDESTY. Well, thank you, Mr. Chairman, distinguished Members of the Committee. I really appreciate the opportunity to be here today and testify before you today on the future of dairy policy.

I'm Les Hardesty. My wife and I milk about 650 cows about an hour south of here and farm about 300 acres of forage grounds. I would like to begin by thanking the Members of the Committee for acknowledging the severe distress that dairy producers have been weathering, and express my appreciation for all of your support over this last year. With your help we succeeded in securing action from the USDA and passage of the ag appropriations measure which contained $350 million of direct support for the dairy industry. On behalf of the nearly 18,000 Dairy Farmers of America members, I want to thank you.

Mr. Chairman, as the Committee considers future dairy policy, it is important the Committee identifies and develops policy that addresses the real concern of our nation's dairymen and dairywomen: Price volatility. In the last decade, we have seen dramatic volatility in dairy prices. The upward spikes are higher, depressed prices have been lower and the time in between has been shortened with little allowance for recovery.

Current Federal dairy policy fails to provide an adequate safety net, is inflexible and provides few tools for producers to access in times of low prices or extreme volatility. We must identify the tools necessary to decrease and mitigate such extreme swings if we are to sustain a vibrant, domestic dairy industry.

In May of 2009, Dairy Farmers of America began evaluating current dairy policies and considering future options. For future policy development, DFA supports proposals which adhere to the following five guidelines: Be market oriented to allow for growth both domestically and globally; be responsive to quick-changing market conditions; have 100 percent financial participation by producers; be global in nature to consider the impact of imports as well as exports; and finally, be national in scope with the ability to implement regionally.

Following much consideration and with these principles in mind, the DFA's board of directors adopted a growth management concept called Dairy Growth Management Initiative, DGMI, as I will refer to it. DFA's primary goal with DGMI has been to identify policy that would reduce price volatility, provide additional tools to assist producers in times of low prices, including the ability to spur demand and enhance exports.

DGMI was meant to bring new ideas to the table that could be used to build consensus within the industry. DFA, other dairy cooperatives and industry organizations like National Milk Producers Federation then began working together in an effort to build that consensus for future national dairy policy, a policy that allows for growth in the industry while addressing price volatility. These efforts at collaboration are proving to be successful, and I am pleased to see that several of our DGMI concepts for addressing volatility are now being integrated in the proposal NMPF is presenting.

NMPF's policy proposal recommends changes to national dairy policy in an effort to assist dairy producers in times of low prices by four points here: Revamping the Dairy Price Product Support Program and the MILC, Milk Income Loss Contract; creating a program that sends a direct economic signal to each individual producer to manage their own production in a manner that allows the producer to remain in business, while addressing supply and demand imbalances; creating a new dairy producer gross margin insurance program that responds to milk price and feed costs; and, finally, reforming Federal Milk Marketing Orders.

DFA is supportive of NMPF's policy direction and is pleased to see a focus on policy proposals that address volatility, as well as provides numerous other tools. We look forward to working towards a unified proposal with NMPF as member cooperatives and other organizations interested in the success and longevity of the U.S. dairy sector.

Mr. Chairman, on a personal note, as I conclude and wrap up here, while I understand and appreciate the timeline you have outlined for farm policy—farm bill policy development, I want to stress that the idea of waiting until 2012 to reform dairy policy leaves many of us concerned. Two thousand and nine was a disaster, 2010, the recovery is expected but is coming much slower than we had hoped or thought, and is likely not to be enough in 2010.

Many of my neighbors are wondering if they will make it to 2011. Keep that in mind as you continue your discussions. Dairy leaders are working hard to develop a consensus within the industry this year. Dairy producers will be anxious for its implementation.

Again, thank you for allowing me to provide testimony before you today. I appreciate all of your efforts and look forward to working with you all in the coming weeks. Thank you.

[The prepared statement of Mr. Hardesty follows:]

PREPARED STATEMENT OF LES HARDESTY, DAIRY PRODUCER, GREELEY, CO

Mr. Chairman, distinguished Members of the Committee, I appreciate the opportunity to testify before you today on the future of dairy policy. My name is Les Hardesty. My wife and I milk 650 cows and farm 300 acres of forage crops in Greeley, CO. Besides my duties on the farm, I also serve on the Executive Committee of Dairy Farmers of America's (DFA) Board of Directors, as well as several other DFA committees. I also am Chairman of the National Dairy Board and a member of the board of the National Milk Producers Federation (NMPF). In addition, I am a member of the U.S. Meat Export Federation, the National Cattlemen's Beef Association and the Future Farmers of America Agriculture Advisory Council.

The past eighteen months have been very difficult for dairy producers across the nation. The depressed milk prices, brought on by a supply/demand imbalance, coupled with high input costs, a collapse of our financial structure and an international recession has led to an economic situation not witnessed for generations within the dairy industry.

I want to thank Members of the Committee for acknowledging the severe distress dairy producers have been weathering and express appreciation for all your support over the last year. With your help, we succeeded in securing action from the United States Department of Agriculture (USDA). We asked them to use the tools available to them to bring some relief to dairy producers. Working together, we succeeded in securing a temporary increase the Dairy Product Price Support Program (DPPSP) which resulted in increased purchase prices for cheese and nonfat dry milk (NFDM), while boosting farm level income for dairy farmers. Together we succeeded in securing the reactivate of the Dairy Export Incentive Program (DEIP) for the 2009–2010 year which resulted in the transfer of significant volumes of NFDM, butter, and cheese to international customers. Additionally, we reminded USDA of the needs of those struggling to afford nutritious food for their families and USDA transferred 200 million pounds of NFDM to Food and Nutrition Services (FNS) for use in domestic feeding programs. Last, Congress passed an appropriations measure which contained $350 million and direct support to the dairy industry. On behalf of the nearly 18,000 member-owners of DFA, I thank you.

Mr. Chairman, as you know, extreme volatility in the industry during the past 18 months has resulted in drastic swings in the price dairy farmers are paid for their milk and their costs of production. Recovery has come much slower than expected, and producers are low on equity and heavy with debt. While, in general, lenders have been patient—waiting for the rebound in prices, the starts and fits we have witnessed in price recovery this year has many of them in a state of increased concern and with a decreased appetite for lending. The situation, for many dairy producers, will surely get worse before it gets better because of this additional pressure.

Mr. Chairman, as the Committee considers future dairy policy, it is important the Committee identifies and develops policy that addresses the real concern of this nation's dairymen and women—extreme volatility. In the last decade, we have seen dramatic volatility in dairy prices. The upward spikes have been higher, the depressed prices have been lower and the time in between has been shortened with little allowance for recovery. Current Federal dairy policy fails to provide an adequate safety net, is inflexible and provides few tools for producers to access in times of low prices or extreme volatility. We must identify the tools necessary to decrease and mitigate such extreme swings if we are to sustain a vibrant domestic dairy industry.

In May of 2009, DFA began evaluating current dairy policy and considering future options when the Board of Directors established a Price Stabilization Study Committee. The purpose of this Committee was to provide guidance in the development of, and support for, a future dairy policy that met the following principles:

- Be market oriented to allow for growth both domestically and globally.
- Be responsive to quickly changing market conditions.
- Have 100 percent financial participation by producers.
- Be global in nature to consider the impact of imports and exports.
- Be national in scope with the ability to implement regionally.

Following much consideration and with these principles in mind, DFA's Board of Directors adopted a growth management concept called the Dairy Growth Management Initiative (DGMI). DFA's primary goal with DGMI has been to identify policy that would reduce price volatility and provide additional tools to assist producers in times of low prices, including the ability to spur demand and enhance exports. DGMI was meant to bring new ideas to the table that could be used to build consensus in the industry.

DFA, other dairy cooperatives and industry organizations like NMPF then began working together in an effort to build that consensus for future national dairy policy—a policy that allows for growth in the industry while addressing price volatility. These efforts at collaboration are proving successful, and I am pleased to see that several of the DGMI concepts for addressing volatility are now being integrated in the proposal NMPF is developing.

NMPF's policy proposal is being developed by the organization's Strategic Planning Task Force, of which DFA is an active participant. The proposal recommends changes to national dairy policy in an effort to assist dairy producers in times of low prices by:

- ○ Revamping the DPPSP and Milk Income Loss Contract programs.
- ○ Creating a program that sends a direct economic signal to each individual producer to manage production in a manner that allows the producer to remain in business while addressing supply/demand imbalances.
- ○ Creating a new dairy producer income insurance program.
- ○ Reforming Federal Milk Marketing Orders.

DFA is supportive of NMPF's policy direction and is pleased to see a focus on policy proposals that address volatility as well as provides other tools. We look forward to working in a collaborative fashion with NMPF, its member cooperatives and other organizations interested in the success and longevity of the U.S. dairy sector.

Mr. Chairman, just a personal note as I conclude. While I understand and appreciate the timeline you have outlined for farm bill policy development, I want to stress that the idea of waiting until 2012 to reform dairy policy leaves many of us concerned. Two thousand and nine was a disaster. The expected recovery of 2010 is slow in coming and likely will not be enough. Many of my neighbors are wondering if they will make it to 2011. Keep that in mind as you continue your discussions. Dairy leaders are working hard to develop consensus within the industry yet this year. Dairy producers will be anxious for its implementation.

Again, thank you for allowing me to provide testimony before you today. I appreciate all your efforts and look forward to working with you in the months to come.

The CHAIRMAN. Thank you, Mr. Hardesty.

And I want to commend DFA and the other folks, National Milk Producers Federation, for the work they have been doing. You guys have been ahead of the program here. I was in California yesterday talking to some folks. We've got some work to do to get those guys in the tent. But we're making good progress, and we appreciate you guys and the effort you're making. We look forward to working with you.

Mr. HARDESTY. Thank you.

The CHAIRMAN. Mr. Snyder, as the representative of the largest sugar-producing district in America, I am pleased to see you here today as one our good friends, and also doing a great job with the sugar industry. Welcome to the Committee.

STATEMENT OF JOHN W. SNYDER, JR., SUGARBEET PRODUCER, WORLAND, WY

Mr. SNYDER. Thank you, Mr. Chairman and Members of the Committee, for convening this hearing. On behalf of beet growers in the mountain states, I want to express my deep appreciation for your leadership and bipartisanship, and the successful passage of the 2008 Farm Bill. We look forward to working with you on the 2012 Farm Bill. I especially want to express my gratitude to Congresswoman Lummis for her excellent work and strong voice on the Committee for farming and agriculture.

My name is John Snyder. I'm President of the Washakie Beet Growers. My family has farmed in Wyoming for over 70 years. My wife and I have been farming for over 20 years and raise sugarbeets, malt barley, corn, alfalfa and alfalfa seed. My youngest son, Steven, recently graduated from the University of Wyoming with a degree in agricultural economics and has bought into our farm. I hope the farming legacy will continue with his involvement.

For over a century, the beet sugar industry has played an important economic role in the mountain region of Wyoming, Colorado, Nebraska and Montana. Today there are two companies operating six beet sugar factories in our region. In 2002 the growers I represent purchased our factory, the Wyoming Sugar Company, which is based in my hometown in Worland. At the same time, a thousand producers in Colorado, Montana, Nebraska and Montana purchased their company and formed Western Sugar Cooperative. Western Sugar is based in Denver and owns and operates five factories in the four-state area. Our two companies produce 13 percent of the U.S. sugarbeet production on 135,800 acres, and support 1,500 full-time factory and seasonal jobs.

Since the 2002 Farm Bill, the entire U.S. sugar industry has become a hundred percent grower owned. The sugar provisions in that bill, and in the 2008 Farm Bill, have given producers confidence in the stability of domestic sugar industry.

The United States is the fifth-largest sugar producer. We're also the fifth-largest sugar consumer and the second largest net importer. We're good at what we do. Our sugar producers are among the lowest-cost producers in the world. We're doubly proud of this distinction because we have achieved it by being fair to our workers and responsible stewards of the land. The U.S. is one of the most open sugar markets and provides guaranteed access for 41 countries as it is required to do under trade laws. Trade agreements such as WTO and NAFTA force the U.S. to provide duty-free access for 1.4 million short tons of sugar each year whether the country needs the sugar or not. In addition, under NAFTA, Mexico now enjoys unlimited access to the U.S. market. The Doha Round of WTO could result in additional market access concessions, and the recently launched Trans-Pacific Partnership, or TPP, trade negotiations could result in even more concessions. These important concessions could reduce U.S. sugar producers' access to their own market even further, reduce prices and make it impossible for many of us to survive.

Congress in its wisdom designed a sugar policy in the 2008 Farm Bill that is working to the considerable benefit of consumers at zero cost to taxpayers, and is giving sugar farmers a chance to survive, plus it fully complies with the rules of WTO. Under this market balancing approach, the USDA has retained its authority to limit domestic sales of sugar. Producers who exceed their allotments must store the excess at their own expense, not the government's. If imports exceed the difference between domestic sugar allotments and consumption, the USDA will divert surplus sugar to fuel ethanol production and restore balance to the sugar market for food. This provision has not been needed yet and government forecasters expect it not to be over the course of this farm bill.

The current farm bill's benefits to American sugar consumers and American taxpayers are clear. American food manufacturers and consumers can count on reliable supplies of sugar that has been responsibly produced and is reasonably priced, high-end quality and safe to consume. U.S. wholesale and retail prices are below the average of the rest of the developed world and, in real terms corrected for inflation, have declined substantially over the past 3 decades.

Sugar producers receive no government payments. Sugar is the only major commodity program that operates at no cost to taxpayers, and government projections through 2020 say it will remain no-cost over all of these years.

American sugar farmers are grateful to Congress for crafting the sugar policy that balances supply and demand, ensures consumers a dependable, high-quality supply, and is improving market prospects for sugar producers. The policy achieves all of these goals at zero cost to American taxpayers.

We strongly urge the continuation of this successful no-cost policy in the next farm bill. Thank you, Mr. Chairman for holding this important meeting and for all of you on the Committee for what you do for American agriculture. We look forward to working with you in the future. Thank you.

[The prepared statement of Mr. Snyder follows:]

PREPARED STATEMENT OF JOHN W. SNYDER, JR., SUGARBEET PRODUCER, WORLAND, WY

Thank you, Mr. Chairman and Members of the Committee, for convening this hearing. On behalf of the beet growers in the mountain states, I want to express my deep appreciation for your leadership and bipartisanship in the successful passage of the 2008 Farm Bill, and we look forward to working with you on the 2012 Farm Bill. I especially want to express our gratitude to Congresswoman Lummis for her excellent work and strong voice on the Committee on behalf of Wyoming agriculture.

My name is John Snyder, and I am President of the Washakie Beet Growers. My family has farmed in Wyoming for the past 70 years. My wife and I have been farming for 20 years, and raise sugarbeets, malt barley, corn, alfalfa and alfalfa seed. My youngest son, Steven, recently graduated from college with a degree in agriculture economics, and has bought into our farm. I hope the family farming legacy will continue through his involvement.

For over a century, the beet sugar industry has played an important economic role in the mountain region of Wyoming, Colorado, Nebraska and Montana. Today, there are two companies operating six beet sugar factories in our region. In 2002, the growers I represent purchased our factory, The Wyoming Sugar Company, which is based in my home town of Worland. At the same time, 1,000 producers in Colorado, Montana, Nebraska and Wyoming purchased their company and formed the Western Sugar Cooperative. Western Sugar, based in Denver, owns and operates five factories in the four-state area.

Our two companies produce 13% of the U.S. sugarbeet production on 135,800 acres, and support 1,500 full-time factory and seasonal jobs.

Since the 2002 Farm Bill, the entire U.S. sugarbeet industry has become 100% grower-owned. The sugar provisions in that bill, and in the 2008 Farm Bill, have given producers confidence in the stability of a domestic sugar industry.

Food Security

Sugar is an essential ingredient in our nation's food supply. As an all-natural sweetener, bulking agent and preservative, it plays an important role in about 70% of processed food products and is called for in a multitude of favorite home recipes. Dependence on unreliable and unstable foreign suppliers is a threat to our food security, which is why a strong, diversified and reliable domestic industry has long been recognized as important to the nation.

U.S. sugar producers are globally competitive, but for decades we have been threatened by unfair competition. Roughly 120 countries produce sugar and all their governments intervene in their sugar markets in some way. Many countries subsidize their producers and dump their surpluses on the world market for whatever price it will bring. This depressed, so-called "world price" has averaged below actual global costs of producing sugar for many years. American producers are competitive, but cannot be expected to compete against these foreign treasuries and unfair predatory trade practices.

Importance, Size, Efficiency

In addition to the critical role it plays in local economies, sugar is a significant job producer and revenue-generator nationally. The U.S. sugar producing industry, with sugarbeets and sugarcane grown or processed in 18 states, generates over 146,000 jobs and more than $10 billion per year in economic activity. These jobs range from the cane fields of Hawaii and the beet fields of Wyoming to the cane sugar refineries in New Orleans, New York City, and other cities.

The United States is the world's fifth-largest sugar producer. We are also the fifth-largest sugar consumer and the world's second-largest net importer. And, we are good at what we do. Our sugar farmers are among the lowest cost producers in the world. We are doubly proud of this distinction because we have achieved it while being fair to our workers and responsible stewards of the land. Farmers in the developing world, who dominate the world sugar market, generally operate with little or no enforced requirements for worker safety and benefits, or for air, water, and soil protection. Our standards, and compliance costs, are among the highest in the world.

Restructuring

Despite our efficiency, we are an industry that has been under enormous stress. From 1985 until 2009, we did not receive any increase in our price support level. Over this long period of essentially flat nominal prices, the real price we received for our sugar dropped sharply because of inflation. (*Figures 1–2*)

Only the producers who could match the declining real price with efficiency gains and lower production costs were able to survive. More than half could not. From 1985 to 2009, 54 of America's 102 cane mills, beet factories, and cane sugar refineries shut down, with terrible consequences for the local families and communities. Just since 1996, 35 mills, factories, and refineries have closed. (*Figures 3–4*)

Trade Challenges

The U.S. is one of the most open sugar markets and one of the world's largest sugar importers. The U.S. provides access to its market to 41 countries, as it is required to do under trade laws. Virtually all are developing countries, and most are highly supportive of U.S. sugar policy because it provides an import price at which many can recover their costs of production.

In addition to coping with the problems of rising costs, pests, disease, and natural disasters, American sugar farmers have had to deal with another threat: trade agreements that have ceded more and more of the American sugar market to foreign producers—even if the foreign producers are subsidized and inefficient. And more such concessions are being contemplated.

Trade agreements force the U.S. to provide duty-free access for 1.4 million short tons of sugar each year, whether the country needs the sugar or not. This amounts to about 15% of domestic sugar consumption.

In addition, under the NAFTA, Mexico now enjoys unlimited access to the U.S. sugar market. It is difficult to predict how much sugar Mexico might send north each year. Key variables include Mexican sugar production, government decisions (¼ of the sugar mills are owned and operated by the Mexican Government), and the pace at which corn sweetener, mostly from the U.S., replaces sugar in the massive Mexican beverage industry. Mexican sugar exports to the U.S. have varied widely in the past, and could in the future—over 1.4 million short tons last year, but only about 0.5 million forecast for this year. (*Figure 5*)

Furthermore, the U.S. is negotiating a Doha Round of the WTO that would result in additional market access concessions. The TPP (Trans-Pacific Partnership) trade negotiations, recently launched by the Obama Administration, could also eventually result in substantial market commitments for sugar to the many countries lining the Pacific Rim. Such trade concessions threaten to reduce U.S. sugar producers' access to our own market even further, and reduce prices as well, making it impossible for those of us who are struggling to survive. (*Figure 6*)

Previous Farm Bill

In the 2002 Farm Bill, USDA had only two tools to balance U.S. sugar supplies with consumer demand.

1. It could limit foreign supplies to minimum import levels required by the World Trade Organization (WTO) and other trade agreements.

2. It could limit domestic sugar sales through marketing allotments. Each year, USDA would forecast domestic sugar consumption, subtract required imports, and allow U.S. producers to supply the balance.

- If U.S. production was insufficient to fill demand, USDA could increase imports by expanding the tariff-rate quota (TRQ).
- If U.S. production exceeded the allotment quantity, American producers had to store the excess at their own expense, not the government's.

This market-balancing system worked reasonably well until 2008, although misjudgments in setting the TRQ in 2006 seriously depressed the U.S. sugar market. That's when Mexico gained unlimited access to our market under the NAFTA, and USDA effectively lost control of the market.

The 2008 Farm Bill

Congress, in its wisdom, designed a sugar policy that is working to the considerable benefit of consumers and at zero cost to taxpayers, and is giving the remaining American sugar farmers a chance to survive. And, it fully complies with the rules of the WTO.

While retaining the basic-market-balancing tools described above, Congress made a number of important improvements in 2008. The farm bill minimizes the erosion of American sugar farmers' share of their own market by limiting reductions in their marketing allotments to not less than 85% of consumption. It's worth noting that in many years, imports amount to much more than 15% of the U.S. market.

If imports exceed the difference between domestic market allotments and consumption, USDA will divert surplus sugar into fuel ethanol production and restore balance to the sugar market for food. The added ethanol production would be consistent with national goals to reduce American dependence on foreign oil and improve air quality.

In addition to the use of ethanol as a market balancing mechanism, two other farm bill measures are helping to stabilize the market and improve producer prospects:

1. The first increase in the sugar support price since 1985. The raw cane sugar loan rate rose by ¼¢ per pound this year, and will rise the same amount in Fiscal Years 2011 and 2012. Refined beet sugar rates will rise by a commensurate amount. In Fiscal Year 2012, the raw cane loan rate will be 18.75¢ per pound and the refined beet sugar rate will be 24.09¢.

2. USDA may not announce a TRQ above the minimum required by trade agreements until halfway through the crop year (April 1), unless there is a supply emergency. By April, much more is known about actual U.S. sugar production and consumption and the volume of imports from Mexico. This will prevent a recurrence of situations such as that in the summer of 2006, when USDA announced an excessive TRQ for the coming year, the market was badly oversupplied, and producer prices languished for almost 2 years.

Consumer Benefits

American food manufacturers and consumers continue to benefit from reliable supplies of sugar that has been produced responsibly and is reasonably priced, high in quality, and safe to consume. In real terms, corrected for inflation, U.S. wholesale and retail prices have declined substantially over the past 3 decades. Food manufactures and consumers in the rest of the developed world pay about 10% more for sugar than Americans do. Taking per capita income levels into account, sugar is more affordable in America than in virtually every other country in the world—rich or poor. (*Figures 7–12*)

Taxpayer Benefits

Sugar is the only major commodity program that operates at no cost to taxpayers, and government projections through 2020 say it will remain no cost over all these years. Projections prior to the enactment of the 2008 Farm Bill suggested significant costs because of excessive imports from Mexico, low prices, and government loan forfeitures.

But thanks to steady consumption growth, stable domestic production, manageable import levels from Mexico, and sound program management by USDA, costly surpluses have not occurred. (*Figures 13–14*)

The 2012 Farm Bill

The U.S. sugar industry has endured a wrenching restructuring over the past 2 decades. American sugar farmers remain are grateful to the Congress for crafting a sugar policy that is balancing supply and demand, ensures consumers of dependable, high-quality supplies, and is improving market prospects for sugar producers. The policy achieves all these goals at zero cost to American taxpayers.

With some prospect of continued market stability, producers should be able to reinvest in their operations, further reduce their costs of production, and survive. We strongly urge the continuation of this successful, no-cost policy in the next farm bill.

Thank you again, Mr. Chairman, for holding this important hearing and for all that you and the Committee do for American agriculture. We look forward to working with you in the future.

FIGURES

Figure 1

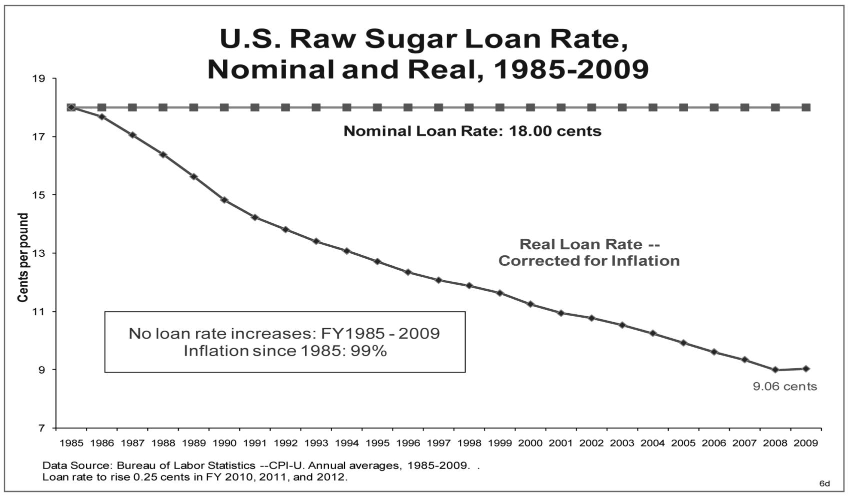


Figure 2

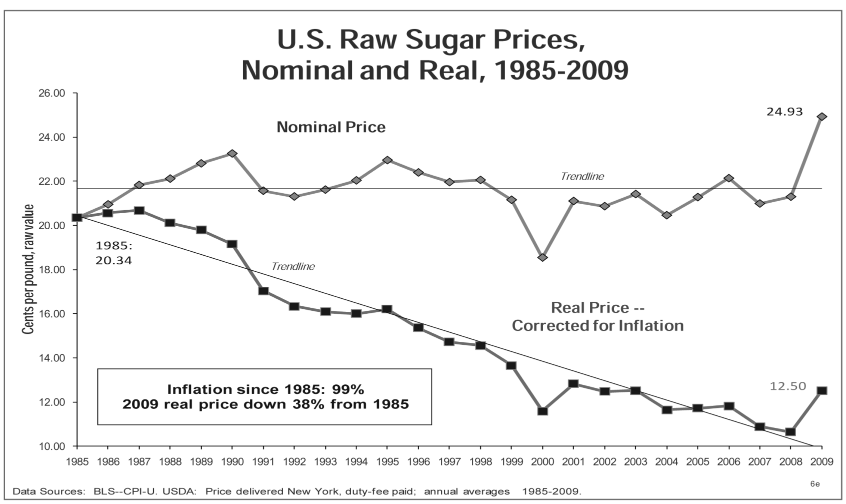


Figure 3

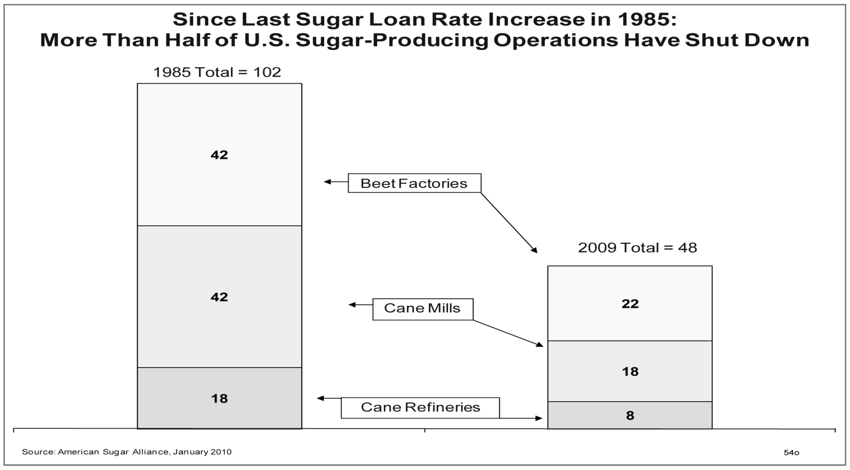


Figure 4

35 Sugar Mill and Refinery Closures, 1996 - 2009

BEET CLOSURES

Spreckels Sugar, Manteca
California, 1996

Holly Sugar, Hamilton City
California, 1996

Western Sugar, Mitchell
Nebraska, 1996

Great Lakes Sugar, Fremont
Ohio, 1996

Holly Sugar, Hereford
Texas, 1998

Holly Sugar, Tracy
California, 2000

Holly Sugar, Woodland
California, 2000

Western Sugar, Bayard
Nebraska, 2002

Pacific Northwest, Moses Lake
Washington, 2003

Western Sugar, Greeley
Colorado, 2003

Amalgamated Sugar, Nyssa
Oregon, 2005

Michigan Sugar, Carrollton
Michigan, 2005

Spreckels Sugar, Mendota
California, 2008

CANE CLOSURES

Ka'u Agribusiness
Hawaii, 1996

Waialua Sugar
Hawaii, 1996

McBryde Sugar
Hawaii, 1996

Breaux Bridge Sugar
Louisiana, 1998

Pioneer Mill Company
Hawaii, 1999

Talisman Sugar Company
Florida, 1999

Amfac Sugar, Kekaha
Hawaii, 2000

Amfac Sugar, Lihue
Hawaii, 2000

Hawaiian Commercial & Sugar, Paia
Hawaii, 2000

Evan Hall Sugar Cooperative
Louisiana, 2001

Caldwell Sugar Cooperative
Louisiana, 2001

Glenwood Sugar Cooperative
Lousiana, 2003

New Iberia Sugar Cooperative
Louisiana, 2005

Jeanerette Sugar Company
Louisiana, 2005

Cinclare Central Facility
Louisiana, 2005

Atlantic Sugar, Belle Glade
Florida, 2005

U.S. Sugar, Bryant
Florida, 2007

South Louisiana Sugar Cooperative
Louisiana, 2007

Gay & Robinson, Kaumakani
Hawaii, 2009

CANE REFINERY CLOSURES

Aiea, C & H
Hawaii, 1996

Everglades, Imperial
Florida, 1999

Sugarland, Imperial
Texas, 2003

Brooklyn, Domino
New York, 2004

Note: In 2010, 22 beet factories, 18 raw cane mills, and 8 cane refineries remain in continuous operation, a 41% drop since 1996.
U.S. Sugar, FL, has announced plans to close after 2015.

ASA 2010

54k

Figure 5

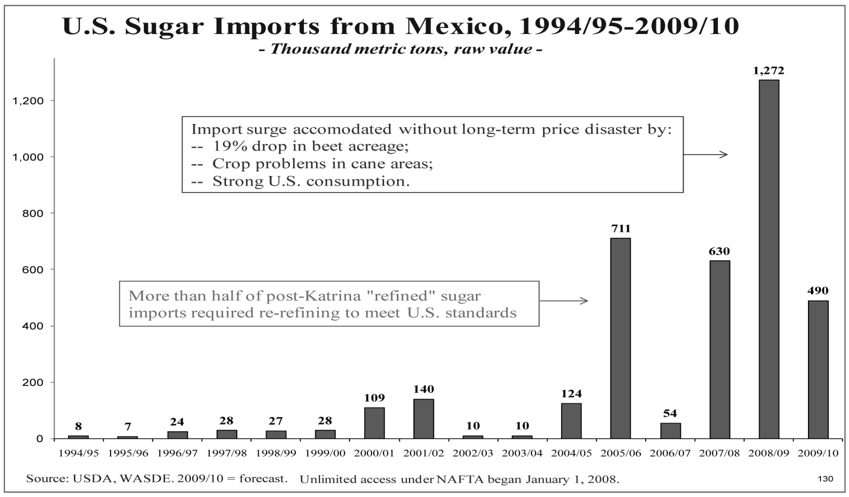


Figure 6

U.S. Sugar Import Concessions:
In Place, Proposed, or Being Negotiated

	Minimum Import Amount WTO	FTAs	Total	Comment
	-Metric tons, raw value-			
In Place				
WTO (40 countries)	1,139,175	--	1,139,175	Uruguay Round commitment
NAFTA - Mexico[1]	10,212	Unlimited	Unlimited	Unlimited access began January 1, 2008
CAFTA/DR[2]	311,700	119,060	430,760	Grows, on average, by 3,153 mt/yr years 2-15; by 2,640 mt/yr thereafter
Peru[3]	43,175	11,000	54,175	Grows by 180 mt/yr forever
Negotiated, not yet approved				
Colombia	25,273	50,000	75,273	Grows by 750 mt/yr forever
Panama	30,538	7,000	37,538	Grows by 60mt/yr for 10 years
Being negotiated				
WTO:	If and when completed by Congress, the Doha Round of WTO trade negotiations would result in a substantially increased tariff-rate quota (TRQ) for sugar and a reduced tariff.			
TPP (Trans-Pacific Partnership):	These negotiations could result in substantial, additional concessions to sugar-producing countries throughout the Asia-Pacific region (including Western Hemisphere countries) through renegotiation of existing FTA's or negotiation of new FTA arrangements.			

[1] Canada excluded from the sugar provisions of the NAFTA.
[2] CAFTA/DR access for CY 2009; includes 2,000 tons of specialty sugars for Costa Rica. CAFTA countries' WTO access included in WTO total.
[3] Peru FTA includes 2,000 tons of specialty sugars not subject to net exporter status.
Note: CAFTA/DR and Peru FTA net-exporter provisions (exports to world market minus imports from world market) could limit the access of the Dominican Republic some years and Peru in most years.

73ff

Figure 7

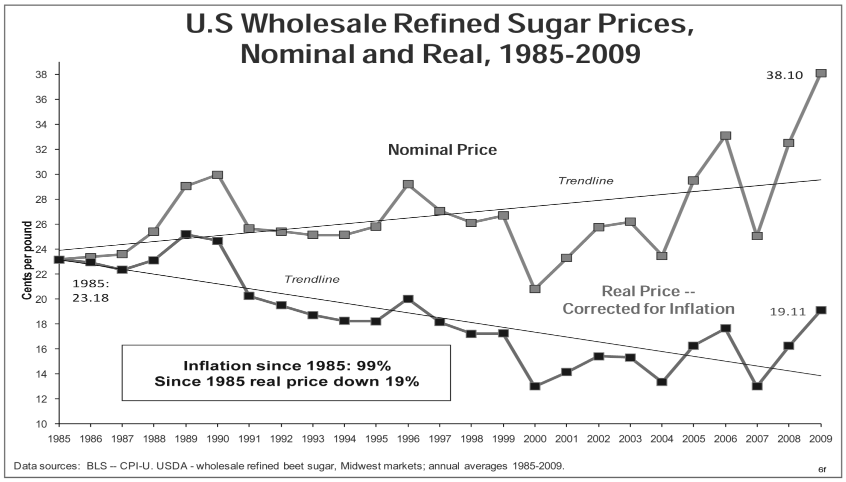


Figure 8

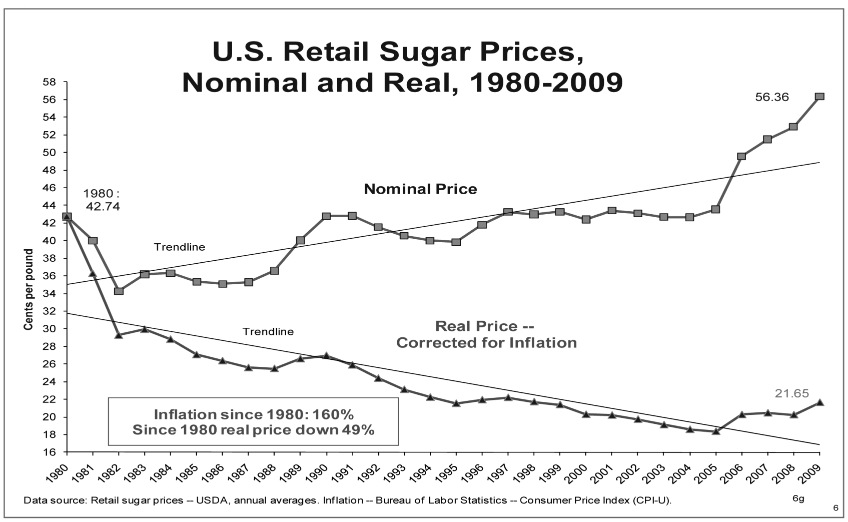


Figure 9

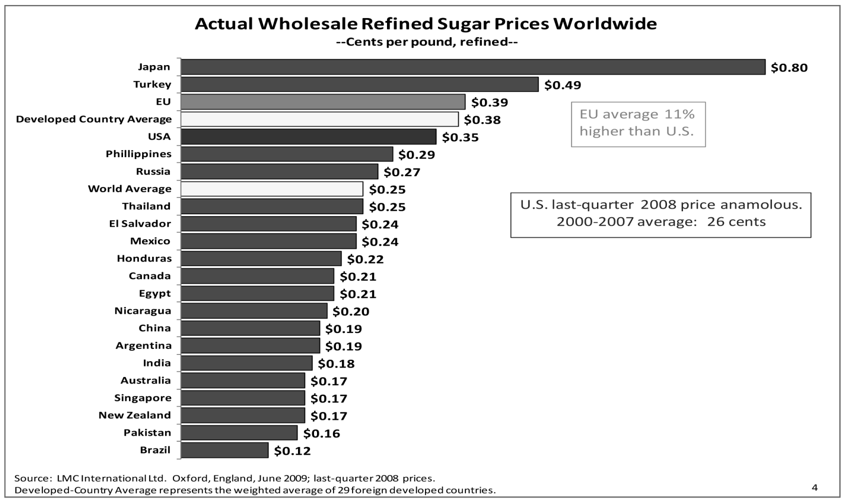
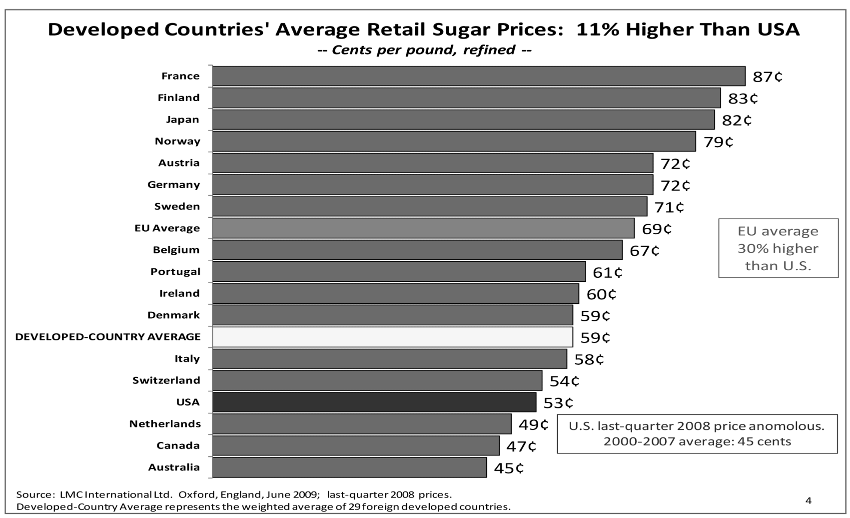


Figure 10



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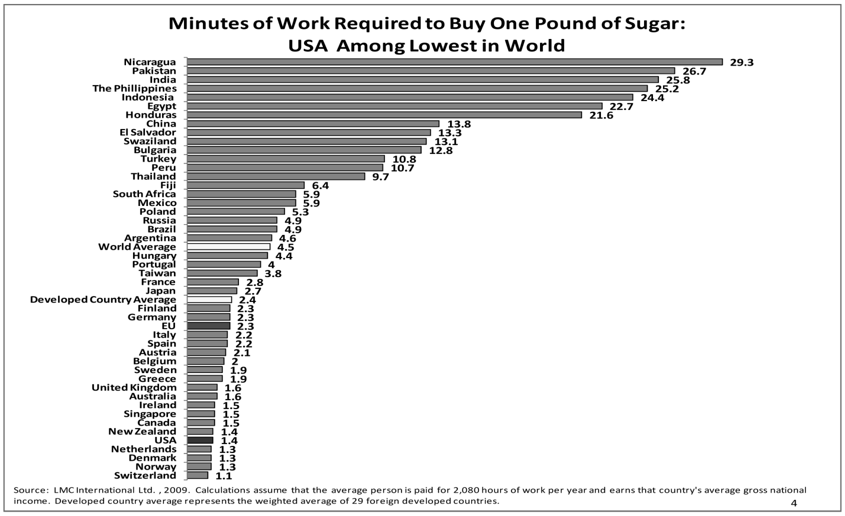


Figure 12

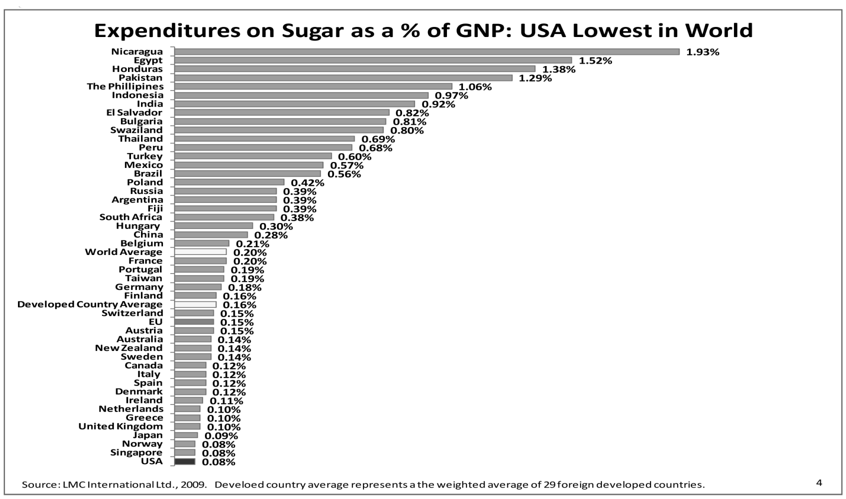


Figure 13

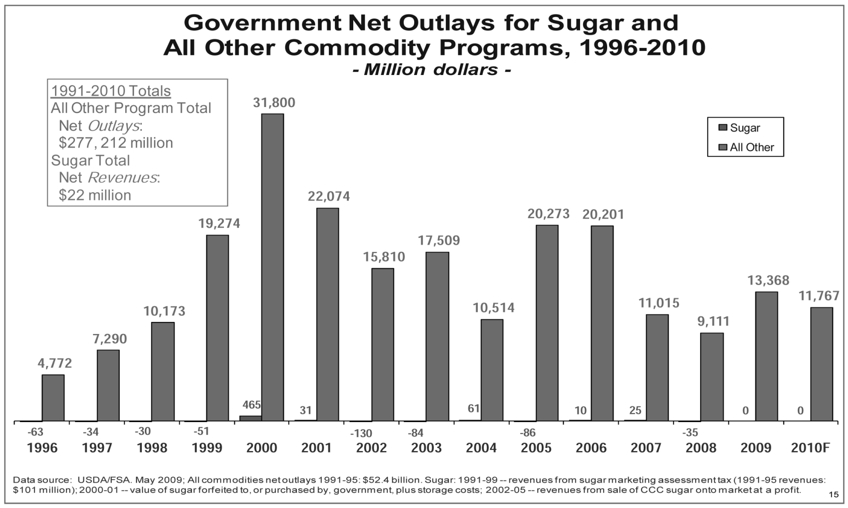
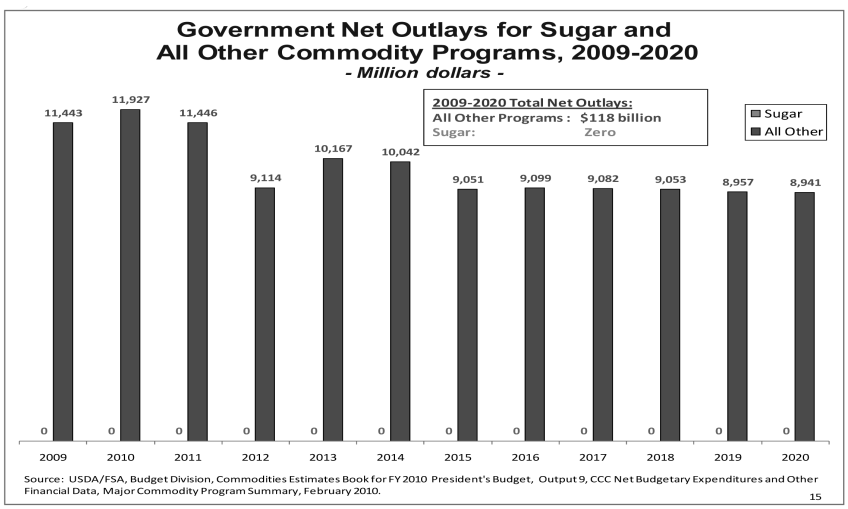


Figure 14



The CHAIRMAN. Thank you, Mr. Snyder.

Mr. Sun, welcome to the Committee.

STATEMENT OF DENNIS SUN, CATTLE PRODUCER, CASPER, WY

Mr. SUN. Good morning, Mr. Chairman, Committee Members. My name is Dennis Sun. Again, welcome to Wyoming, and thanks for the opportunity to speak with you.

I have ranched in central Wyoming all my life and now publish a weekly agricultural newspaper based out of Casper. I'm speaking to you this morning about the Natural Resources Conservation Service, NRCS, an agency that's been a friend and partner to Wyoming for many years. We've been very fortunate in Wyoming to have some very dedicated people associated with NRCS and conservation. All across the state, NRCS staff and administration have always been in the front assisting private landowners with their conservation practices by providing both technical and financial assistance.

As most of you realize, here in Wyoming, our private and state lands only amount to about 58 percent of the state's total landmass. Most of the private lands are in the eastern part of the state. And in the western part, most of the private lands are along the rivers and the creeks, in the valleys or irrigated lands. Water, next to our people, is our most valuable resource and something we both manage and conserve. We are the headwaters for major rivers leaving all sides of our state. That water is vital to other parts of the West and America, and we hear about it every day from those states. So our water and our soil management in Wyoming is of great importance for those of us who live in Wyoming, and also across the western region.

Like all government agencies, NRCS has changed in recent years. Some changes are good; some not so good. Our late Senator, Craig Thomas, through his work helped create conservation programs to use on range lands, programs that would work on our ranges intermingled with Federal lands. We have utilized these programs very well and hope that they will continue as our range lands and their conditions are a very important resource to all of us.

We value the technical assistance we have received from our local and state NRCS staff. That technical assistance has diminished lately as the local NRCS found themselves tied down to their offices with the focus on writing contracts. While this does get money out on the ground, it may not be the best planned use of those dollars. With the current evaluation for both offices and personnel tied to the number of contracts signed, there is no incentive for those resource professionals to leave the office. As a producer, our one-on-one technical assistance spent on the ground with NRCS has really gone down. Technical assistance is the most critical element to the selection and adoption of conservation practices enhanced by participation in farm bill conservation programs.

Wyoming is a very diverse state. One size doesn't fit all. We utilize the Environmental Quality Incentives Program, EQIP, as our priority program. One could combine EQIP along with the Wildlife Habitat Incentives Program, Forest Land Enhancement Program and the Grasslands Reserve Program. With tight dollars these days, we need incentives, matching dollars and technical assistance to get the job done. We feel the focus should be on maintaining and enhancing working lands programs.

We would also like you to review and support the flexibility of the use of the Technical Service Providers or third-party vendors to aid in the technical assistance of the farm bill programming.

One could also restructure the easement programs into one program. The more one simplifies, provides flexibility and combines programs, helps ensure quality decisions are made and meaningful resource projects are carried out.

In summary, one should consolidate working lands programs, consolidate easement and rental programs, consolidate stewardship/entitlement programs, and clarify all program terms and policies and purposes earlier in the application process so landowners have a greater knowledge of the program right at the start.

There's also a need to utilize local working groups to keep flexibility and decisions with improved communication and coordination among local, state and Federal agencies. There has been continued diminishment of the local working groups' role in identifying priorities, having input on program implementation, *et cetera*. The recent Sage Grouse initiative is an example. We do appreciate the additional resources to our state to address this issue, but I feel there has not been enough input or involvement from local working groups from people on the ground.

Wyoming has a great partnership with NRCS and success in utilizing the farm bill conservation programs to maintain and enhance the natural resources. We hope that will continue through the improved programs and opportunities for on-the-ground partnerships and discussions.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Sun follows:]

PREPARED STATEMENT OF DENNIS SUN, CATTLE PRODUCER, CASPER, WY

Good morning. My name is Dennis Sun. Again, welcome to Wyoming and thanks for the opportunity to speak with you. I have ranched in central Wyoming all my life and also publish a weekly agriculture newspaper based in Casper, Wyo. and serving all of Wyoming.

I am speaking to you about the Natural Resources Conservation Service (NRCS), an agency that has been a friend and partner to Wyoming for many years. We have been very fortunate in Wyoming to have some very dedicated people associated with NRCS and conservation. All across the state, NRCS staff and Administration have always been in the front, assisting private landowners with their conservation practices by providing both technical and financial assistance.

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Like all government programs, NRCS has changed in recent years. Some changes are good, some not so good. Our late Senator Craig Thomas through his work helped create conservation programs to use on rangelands, programs that would work on our ranges intermingled with Federal lands. We have utilized these programs very well and hope that they will continue as our rangelands and their condition are a very important resource to us.

We value the technical assistance we have received from our local and state NRCS staff. That technical assistance has diminished lately as the local NRCS found themselves tied down in their offices with a focus on writing contracts. While this does get money out on the ground, it may not be the best planned use of those dollars. With the current evaluations for both local offices and personnel tied to the number of contracts signed, there is no incentive for those resource professionals to leave the office. As a producer, our one-on-one technical assistance spent on the ground with NRCS has really gone down. Technical assistance is the most critical element to the selection and adoption of conservation practices enhanced by participation in farm bill conservation programs.

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We would like you to review and support the flexibility of the use of Technical Service Providers (TSP) or third party vendors to aid in the technical assistance and farm bill program implementation.

One could also restructure the easement programs into one program. The more one simplifies, provides flexibility and combines programs, helps ensure quality decisions are made and meaningful resource projects are carried out.

In summary, one should consolidate working land programs, consolidate easement and rental programs, consolidate stewardship/entitlement programs and clarify all program terms, policies and purposes earlier in the application process so landowners have a greater knowledge of the program right at the start of the process.

There is also the need to utilize local working groups to keep flexibility in decisions with improved communication and coordination among local, state and Federal agencies. There has been a continued diminishment of the local working group's role in identifying priorities, having input on program implementation, *etc.* The recent Sage Grouse initiative is an example. We do appreciate the additional resources to our state to address this issue, but I feel there has not been enough input or involvement from local working groups or people on the ground.

Wyoming has a great partnership with NRCS and success in utilizing the farm bill conservation programs to maintain and enhance our natural resources. We hope that will continue through improved programs and opportunities for on-the-ground partnerships and discussions. Thank you.

The CHAIRMAN. Thank you, Mr. Sun. We appreciate your testimony.

We appreciate all the panelists for their great testimony and being with us today, taking their time.

The gentlelady from Colorado, Ms. Markey.

Ms. MARKEY. Thank you very much, Mr. Chairman. I want to address my first question to Mr. Cooksey. Thank you for being here. And you mentioned with regard to the ACRE program that only one percent of producers in Weld County in our district actually participate in that program, and it's 12 percent nationwide. So can you tell me why do you think that is? What could be done to make that program more appealing to the farmers in our area? Is it a matter of just streamlining the administrative processes, or are there other substantive changes that you think need to be made to the ACRE program?

Mr. COOKSEY. Congresswoman Markey, in Colorado farmers like the sure thing of that grant payment, and that's worked well in past years. I understand that in ACRE it's taken from a state average, and it may be better to localize it to a county average if there's a loss on ACRE. So I would look at possibly localizing the losses to smaller areas.

Ms. MARKEY. And then also you talked a little bit about the Conservation Reserve Program. And we have had 45 percent now being able to reenroll. Can you talk a little bit about Conservation Reserve? How large do you think it should be? What should be the focus? Do you think that we should concentrate on continuous practices or general sign-up enrollments with CRP?

Mr. COOKSEY. That's a good question. When I traveled around the state in January, the Conservation Reserve Program seemed to be one of the largest issues in Colorado. And we talked about, 45 percent of those acres were renewed. That leaves 55 percent that are not being renewed. So there are farmers out there that have this marginal ground, and they're trying to decide whether to take it and put it back into crop production or use it for pasture.

And I think you should look at the existing contracts. The problem that we see is, it's kind of dependant on how they were signed up initially. But some of the marginal acres are the acres that are actually coming out and not being renewed. So I would first look at the existing contracts and try to move forward with those. And I know that funding is tight, but after that point I would look at additional contracts. But it's very critical that we maintain conservation in this—in Colorado and Wyoming and in neighboring states. So with water and soil erosion we need to watch those.

Ms. MARKEY. It's an important program. I just have one additional question for Mr. Hardesty. Thank you for being here today. You had talked about volatility being the biggest problem right now in the dairy industry and current policy being number one, inflexible and, number two, with too few tools available for producers.

With what's gone on with USDA this year to help dairy farmers, can you talk about what programs or policies have worked, what hasn't worked; and how do you develop a policy that is more flexible for producers, if you can just elaborate on that a little bit.

Mr. HARDESTY. Absolutely. Thank you, Congresswoman Markey.

Two thousand and nine, being such a disaster for the dairy farmers, absolutely horrendous, generations of equity were lost during 2009, and the recovery is not by any means complete yet. So the programs that were implemented in 2009 that were of significant importance to dairy farmers across the United States included Dairy Export Incentive Program. The reenactment of the DEIP program certainly helped us move some of our surplus product offshore without displacing our normal exports. So that was a tremendous help. The other opportunity that we had through the $350 million program that you all helped us approve was the $60 million that was spent for food aid and feeding the under privileged, if you will. And again, you're taking a product off of surplus shelves, putting it into either school lunch programs and/or feeding programs that not only help agriculture in general, because dairy does have a trickle-down effect, buying feed from my neighbors here at the table, but also a humanitarian effect in providing help for the needy.

So those were the two programs that I think helped in an impactful way in 2009. Going forward, price volatility, the extreme highs and the extreme lows, have to be minimized. And we as dairy farmers have to work off of a margin. It doesn't matter if milk is $16 or $12 if we can manage a margin, a profitable margin, in between. So any tools that we can develop such as those that are presented by NMPF will be helpful, going forward.

Ms. MARKEY. Thank you very much. We look forward to continuing to work with you to make sure that dairy remains strong here in this country. So thank you again for being here.

Mr. Chairman, I yield back.

The CHAIRMAN. Mrs. Lummis.

Mrs. LUMMIS. Thank you, Mr. Chairman.

First question for Mr. Sun. You mentioned, Dennis, that technical assistance as a role of the NRCS has kind of diminished. What types of projects are affected when the NRCS role is diminished as it applies to the technical assistance role?

Mr. SUN. Thank you, Congresswoman. I think they're all affected. Here, in a sense, a lot of the NRCS people now are kind of regulated as a salesman sitting in the office. If you're selling a car, you have to get out and look at the car to sell it. In this case, you've got to get out on that person's ranch or farm, because each one is different, and see what the goals and objectives of that ranch or farm or that piece of land are. It can also bring in that big knowledge of having worked with others that this may work here and it may not; this has been tried and didn't work; here is a way to save you some money. So I think they all fall within that.

Mrs. LUMMIS. Could you talk a little bit about how on your ranch water conservation projects have been assisted by the NRCS.

Mr. SUN. Congresswoman, thank you. I had one riparian area that I wanted to improve. We started with baseline data, and it came up to about 800 pounds of forage per acre. I had gotten some dollars, through matching funds, and we worked with a lot of people, different agencies on it. In the end we put in some small stream structures. And in the end we're over 4,000 pounds of forage per acre, large enough so that all the elk winter on it now.

Mrs. LUMMIS. Thank you. My next question is for Ogden Driskill about the FRPP. And before I ask the question, for Mr. Conaway's benefit, the Driskill Hotel in Austin, Texas, is the grand, historic hotel in downtown Austin. And this is the Driskill family that founded that fabulous Driskill Hotel and then trailed cattle out of Texas, north.

Mr. CONAWAY. And they're still responsible for the ghost on the sixth or seventh floor.

Mr. DRISKILL. Family is there.

Mrs. LUMMIS. The Driskill Ranch is right at the base of Devil's Tower, which is the nation's first national monument. It is drop-dead gorgeous, and this family maintains that ranch as open land and open space even though the highest and best use for that land is probably high-end housing that would fragment that landscape and diminish the experience at Devils Tower. And so it is properties like that and the ranchers that are managing them that provide a public benefit that the public doesn't pay for. And yet the ranchers are scratching out a living in many cases on those properties. And the fact that Mr. Driskill was one of the founders of our Wyoming Stock Growers Agricultural Land Trust is because of his love for that land and recognizing what ranchers do to provide benefits to the public in terms of open space and the beautiful landscapes we have, while not getting compensated for it.

So the FRPP program does provide opportunities for ranchers like that to keep those lands open and not develop them into high-end housing, so all Americans can benefit.

And with that, Mr. Driskill, can you elaborate on how the connection between the land owner, a land trust and the Federal Government plays out with programs like FRPP?

Mr. DRISKILL. I can, and I will do it. It's great fun to sit down and look Representatives in the eye and say it's great to work with the Federal Government. You know, the last farm bill they granted us some new flexibility to deal directly with ag land trusts. The ag community really had been hesitant to deal directly with the Federal Government. Through some real stages, they allowed ag land trusts and other land trusts, but specifically ag land in our case, to deal directly with the ag community. You know, we've created a great amount of trust.

In a period of 15 years, there are now seven western ag land trusts that hold one in six easement acres on private ground in the United States. Absolutely incredible. These partnership ranchland trust areas have gone absolutely crazy. In short, it needs better funding and a little better flexibility. Like I say, it's just been outstanding for me to see this three-way partnership emerge and emerge with strength.

You know, the farm agencies have been great to deal with as a whole. There was some frustration early on. We got some yardage. We would like to see you guys help us get some more flexibility, and also increase the funding long term. These ranches are going to be here hundreds of years from now without any more expense to the Federal Government. Our organizations are happy to administer and help keep these ranches in ag forever. Thank you.

Mrs. LUMMIS. Thank you, Mr. Chairman. I see that my time has expired, but if we get to a second round, I have other questions as well. I yield back.

The CHAIRMAN. Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman, and let's run and gun on some topics here, my friends.

Mr. Cooksey, you commented on the direct payment program, about how it was nice to have something consistent you could count on, that with all the uncertainties of SURE and ACRE and CSP and all these other programs that your folks can count on direct payments. I would add one other *caveat* to that, and that is, of the WTO issues we deal with, the direct payments are the most WTO compliant. In a world where we watch the CRP people be taken limb from limb over their program, being WTO compliant is critically important. So I appreciate your comments to that point.

To my cattleman friends here, being the father of GRP in the 2002 Farm Bill, I must tell you this has been an arduous little adventure. This program was created as a combination way to allow certain acres of CRP that should just not be constantly rolled over and rolled over, to be returned on the range side to a practical use. The other half of the original concept, in 2002, was to provide ranchers with the ability to sign up for a decade, to be able then to use those dollars to meet all of those cost share programs to fully develop and enhance their property. We slammed into a little thing called administrative rules. And while I love the previous President of the United States very much, some of his folks at USDA in D.C. were a bit frustrating for me as we tried to create the rules. And that still is an ongoing process.

But I am pleased with your comments about your ability to work with CRP. But given the chance, there's a lot more good and wondrous things that could come out of it if we're able to pursue the direction that the program was created.

Mr. Driskill, talking about the long-term conservation needs of easements to preserve ranches in place, that's a one-time payment basically, correct, and then you commit the land for generations to come?

Mr. DRISKILL. Yes, sir. To me that was the beauty of it. It felt kind of like you said. It was interesting as it worked around. But the one-time payment, interestingly enough, originally the Federal Government was going to take the cost of administering those easements, would have made us keep coming back to you for more money to continue to have the administration. By you allowing third parties to come in and administer those easements, it not only allowed that cost to be transferred away, which helps. It also made it as a one-time program, which I think it's the only permanent conservation in the United States. It will never be housing.

Mr. LUCAS. Would you say typically, Mr. Driskill—and I'm speaking typically because there's never such a thing as average or overwhelming percentage—typically this one-time money by most ranchers have been used for conservation purposes or to expand the properties? Typically where do you think those funds have gone, because it's just a one-time thing.

Mr. DRISKILL. A vast majority of the FRPP has gone to working ranches. It's gone to enhance ranch operations, sometimes to buy a family out, sometimes to buy others out. It doesn't guarantee profitability; it guarantees an operation is going to be there in the future.

Mr. LUCAS. Which takes me to my next point. It's important, I would believe, that those resources be used wisely because the next generation or two or five or ten are going to be working under that easement given. And making sure those funds are wisely used shows good stewardship, and I don't doubt for a moment you're a good steward.

Let me address both you and Mr. Sun for just a moment. The issue—and this is something that we worked diligently on in the 1960s and 1970s and finally eradicated in the great State of Oklahoma. Talk to me about brucellosis in the greater Yellowstone area, the tri-state area.

Mr. DRISKILL. You want to start, Dennis, or me.

Mr. LUCAS. You can mention APHIS or anyone else in the Federal Government you want to talk about.

Mr. SUN. Congressman and Members, with brucellosis, it's turned into a wildlife problem. It used to be a human health problem. It's evolved into a wildlife problem. But, one of the problems is that the rules and the laws governing it haven't. They've stayed where it was. Somehow we've got to clean up the problem with brucellosis. The major factor is, here at the University of Wyoming and other universities, we're developing a vaccine.

Now we've got to find out, once we get the vaccine developed, what's the delivery system for the wildlife and how to get the wildlife to it? Once that happens—we don't know if the problem will ever be corrected. But the greater Yellowstone area is just waiting to erupt.

In the livestock business, we have solved the brucellosis problem time and time again and always will. But as long as the wildlife are there, it's going to be a problem, and it will come up again. APHIS says they want Wyoming and the other surrounding states to come up with a way to fix it. Having said that, they've not moved to help us out. So we're kind of sitting here confused. They want to do a split state. We're saying that's not right. If you happen to have your ranch in that area, you're at a severe disadvantage. But Wyoming can set up a surveillance area, and we can manage for it. We're optimistic, but kind of guardedly optimistic.

Mr. LUCAS. That's why I asked the question as your fellow cattleman from down South.

Mr. Driskill, any thoughts?

Mr. DRISKILL. I think Dennis covered it really well. I feel like the issue is so complicated because you're dealing with national parks, national forest, state lands, private producers, game and fish and wildlife. When you put all those together in a room and they're all competing over what goes, it leaves it incredibly difficult. Back to Dennis talking about a split state. I live in the east, and the brucellosis hasn't gotten there. The bad news is it's going to. We're watching this spread through the elk. It was confined to the Yellowstone area through all my youth. It is no longer. It's moving out of the Yellowstone area. We're going to deal with this throughout Wyoming and ultimately, like Chronic Wasting Disease. We are going to deal with it through a lot of western states, I believe, if we don't deal with holding it in that greater Yellowstone area. That's going to require decisions that are——

Mr. LUCAS. Tough.

Mr. DRISKILL.—fairly impossible to do on a producer level. It's going to have be dealt with on your level.

Mr. LUCAS. Well, clearly there is wildlife or public good, then there is a public obligation to address the problem.

Mr. DRISKILL. Thank you.

The CHAIRMAN. Thank you. The gentleman from Texas.

Mr. CONAWAY. Thank you, Mr. Chairman. I would like to ask Mr. Driskill, Mr. Sun: Animal ID efforts at USDA have modified or morphed into a state-based model. What's your thought on complying or building a model that will allow traceability at the state level, and what's going on within your producer groups, as well as the folks at the state.

Mr. DRISKILL. I'll take a little bit of the first shot at that.

I applaud whoever the powers were that got it back to a state level. State is the place that ought to handle that. I hate rules and regulations. We need flexibility rather than volumes of rules to deal with it.

Ag industry recognizes the need for traceability. It's the delivery system that does it. On a state level, I believe that if it's turned loose with good flexibility, you'll see that a good program will be implemented statewide.

Mr. SUN. Congressman, I agree with Mr. Driskill. At the state level, I think we can find some type of process that will work. That's where it needs to be.

Mr. CONAWAY. Well, are the efforts far enough along at this stage here in Wyoming to see a program that most producers can buy into and afford.

Mr. SUN. We're working on it, Congressman.

Mr. CONAWAY. Mr. Chairman, I would like to yield the balance of my time back to Mrs. Lummis. She had a couple other questions.

Mrs. LUMMIS. Thank you, Mr. Conaway, thank you, Mr. Chairman.

I have a question about the Clean Water Act for Mr. Snyder. As you know, there's a revamped version of Clean Water Restoration Act going through Congress now. If the new effort to expand the authority of the Federal Government over all U.S. waters passes, what would it mean to your growers?

Mr. SNYDER. Congresswoman Lummis, I appreciate your question. The good Lord chose a different conveyance of water for Wyoming than the Chairman's district, and so irrigation obviously is very important to us. We do a lot of things—our growers do a lot of things to improve water quality. The EQIP program has been very important to that with our irrigation districts and our conveyance of irrigation water.

Water quantity is something very important. Where I live, we have annual precipitation of 7 to 9 inches. So it's very limited, and so irrigation is very important. Water quantity is very important.

I believe that the water situation should be more of a state issue than a Federal issue. I think the state feels that way. Those EPA regulations are some of our top five concerns for all of our growers throughout the nation, and so we are monitoring that very closely.

But water quantity is very important to the producers of this region throughout Colorado, Nebraska, Wyoming, Montana and even into Idaho. So it's something we'll keep a very close look on. Thank you.

Mrs. LUMMIS. Mr. Sun, what are the top three or four challenges facing the livestock production industry in Wyoming.

Mr. SUN. Thank you, Congresswoman. I failed to talk about the issues as Mr. Snyder said: The Clean Water Act revision, air quality, endangered species; the wolf and the sage grouse nowadays are hammering us; the uncertainty of the estate tax and then just the challenges of maintaining economically viable public land on our ranches. Without those public lands, for most of us, while they're not the heart of the ranch, we really depend on them.

Mrs. LUMMIS. And I might add, I saw a presentation the other night, Mr. Chairman, that elk numbers have decreased by 90 percent in the Lolo Unit in Montana; and moose numbers in the Grovant area in Teton County, Wyoming, have decreased over 90 percent due to wolf deprivation. At those numbers, those herds are absolutely unsustainable. And we now have a problem of too many wolves and a potential loss, catastrophic loss, of our moose population, and certainly in some areas our elk population as well.

Thank you, Mr. Conaway, for yielding me your time, and I yield back.

The CHAIRMAN. I thank the gentlelady.

The gentleman from Nebraska, Mr. Fortenberry.

Mr. FORTENBERRY. Thank you. Mr. Chairman, I think we need to let the record show or at least be emphasized that this is a very historic day. Mr. Driskill was quoted as saying it's been great to work with the Federal Government. I'm not sure those words have ever been uttered in the history of the farm program. I'm, of course, joking. My own family has members who are USDA employees, and there are a lot of good civil servants and public servants who are trying very hard to be good stewards and good partners with the private agriculture interests.

But let me ask this. Let me break out of the framework for just a moment. We have a tendency to talk about, in our ag hearings, either trying to strengthen or adjust current programs or expand exports. I put on my Facebook page this morning a statistic that the average age of the farmer in Nebraska is now 58 years old, and that keeps ticking upward every year. I assume it perhaps is similar in Wyoming. So let's talk about that perspective. What are the emerging new opportunities in agriculture that are going to attract a younger—perhaps younger or entrepreneurs into this most important sector that again in Washington may be de-emphasized, but it is about 15 percent of the overall economy. It is essential not only to the well being of our nation, but we help feed the world as well. From your perspective, where are those opportunities emerging?

Whoever would like to take it.

Mr. SUN. Congressman, I think that ranchers and farmers are always optimistic, otherwise we wouldn't be around. I think that nowadays we're hearing about what the world population is going to be. Somebody has to provide that protein source. Farmers and ranchers do provide the safest food in the world, and we're happy to do it. I take examples of Congresswoman Lummis on her Equal Justice Act revision. If that takes place, that would stop some of the legal problems that we faced in the West with environmentalists suing the government agencies and then making money at it.

In a sense there's government money put inside a business making our life harder. It's those little things that count out there. And I think people realize that while it's a business, other people characterize it as a way of life. And if you ever notice, if somebody's always successful in life, they head to Montana, Colorado or Wyoming and buy a ranch. So in essence we've got what they want.

Mr. FORTENBERRY. Are you saying you first have to make your money elsewhere to make it in farming and ranching.

Mr. SUN. Well, it helps. In Wyoming we're an energy state also, and that also helps. But, with the sage grouse and the wolf and other things hitting us, I don't mean to sound negative, but it's a tough go. But we are optimistic or we wouldn't be here and our children wouldn't be with us.

Mr. DRISKILL. I've got to agree with Dennis. You know, this is a dynamic time for youth in agriculture. For one of the first times, I'm getting where I still kind of consider myself a kid. I'm one of the ones not so young anymore at this point. But for my children, which they're of age now, just coming home, I hear that excitement. They see a future in ag. That light wasn't so bright a few years ago. It was really a tough time we've been through. They've grown up, particularly the kids who have grown up in the ag world, understand the challenges, a good deal of it. Part of it is public opinion of ag has gotten so much better. It's not a dishonorable occupation at this point. I think the next decades are going to be an absolutely dynamic time for the youth. We're going to see a lot more young kids want to come into ag. The profitability is going to come back. The population, we're going to have that end of it. The realizations of the value of ag to the environment, not just in general but all the way around, is there. Like I say, I think it's going to be a great time for the youth.

Mr. SNYDER. Mr. Chairman and Congressman Fortenberry, with a son just recently coming back to our farm, we have three generations on our farm now. His 83 year old grandfather is still active every day on the farm and, of course, myself and my son who is 23. It was very interesting. He had a dire love for the farm. Not seeking other opportunities outside of the farm, he had several job opportunities because of the work ethic that was instilled upon him during his youth and different things, but he chose to come back. I think it's because a lot of the new technologies, biotechnology, things like GPS systems.

There's a lot of change in agriculture, but it all comes back to being able to sustain that farm. Good sugar policy, for us, allows us to bring another partner back to that farm. Without a good sugar policy, without a good farm bill, it wouldn't have been sustainable for us. So I think that's important. But they do see opportunity. They have a love for the land. And so I think that's there. But we all see it. As farmers and ranchers are getting older, we have to feed more and more people throughout the world. And so all of this, new technologies, are important to all of us. Thank you.

Mr. FORTENBERRY. Thank you. Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Fortenberry.

Mr. Smith, do you have any questions?

Mr. SMITH. Yes. Just real briefly. Mr. Hardesty, could you elaborate on the factors in dairy demand, the demand of milk? I know you spoke of the variables there, if you could elaborate.

Mr. HARDESTY. Absolutely. I assume you're referring to the collapse of prices in 2009 and what happened in that whole regime there: 300 million people in the United States, six billion people in the world; 95 percent of the population lives someplace other than the United States. You all know these statistics.

With a run-up in dairy exports over the last 5 years topping out at 10.8 percent of our U.S. production on milk solids basis being exported offshore or to some other country other than the United States, we had a demand signal within our industry to continue to grow production and grow cow numbers over that period of time. We peaked at about 9.3 million milking dairy cows in the United States at the height of dairy exports in the dairy economy. The signals weren't there, and many of us even in other businesses didn't realize that the economy was going to suffer as severely as it did.

So the signals were there for us to increase production and demand, and so we reached this peak of production when the global economy crashed.

Here locally in the United States, we can achieve about a 1½ percent growth per annum in consumption of dairy products. So if we want to do any growing other than about 1½ percent per year within the dairy industry, we need to continue to look offshore for those opportunities.

I hope that answered your question.

Mr. SMITH. Thank you. I yield back.

The CHAIRMAN. I thank the gentleman. I thank the panel for the excellent testimony and answers to the questions. We very much appreciate it. I recognize the gentleman from Oklahoma for our closing statement.

Mr. LUCAS. Thank you, Mr. Chairman. It has been a productive series of four hearings as we now head back East. I promise you it's more fun here than it will be when we get there this evening.

The CHAIRMAN. I thank the gentleman. We thank the Members for being here today. We thank the people from the agriculture community and other communities around the area for being with us. The Committee has learned a lot on this trip. We have another trip scheduled in a couple of weeks to go through the South, Texas and so forth. We're on the road to get an early start and figure out if what we're doing is the right thing, or whether we should be doing something different. This is complicated stuff and it takes a long time to get everybody on the same page. That's why we're doing this early. I am determined to get this bill done before September of 2012 when it expires—for the first time in I don't know how many farm bills—so you guys that are growing winter wheat can know what the program is when you plant. That's our goal. Thank you all very much.

I have to say the magic words here. Under the rules of the Committee, the record of today's hearing will remain open for 30 calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member on this hearing on the Committee of Agriculture. The meeting is adjourned.

[Whereupon, at 10:21 a.m. (MDT), the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT FROM DICK COOSE, RETIRED FOREST SERVICE EMPLOYEE, KETCHIKAN, AK

May 2, 2010

Hon. CYNTHIA M. LUMMIS,
Member,
Committee on Agriculture,
Washington, D.C.

RE: House Agriculture Committee Hearing Cheyenne, Wyo. May 4, 2010

Please accept the attached as a comment and possible questions for the panel relating to forest health and bark beetle epidemic.

Thank you,

DICK COOSE.

I have received a copy of your message concerning a hearing panel that will discuss forest health and the bark beetle epidemic.

I would like to provide this comment to Representative Lummis and the Committee.

I am a retired Forest Service employee who worked as a forester on the old Encampment and Snake River District (Medicine Bow NF) for 11 years (1961–1973). I prepared, harvested, and completed the silviculture treatment several thousand acres of lodgepole pine. Those stands are now 40–50 years old and about 5 inches in diameter.

I visited the area last fall to view the pine bark beetle disaster the Forest Service has allowed to occur. The beetle has likely killed every mature lodgepole pine in southern Wyoming and northern Colorado. The beetle is also attacking the young stands. I observed this and I know the Forest Service also knows it.

To keep this brief, I believe the Committee deserves answers to at least two questions from the Regional Forester Cables.

First

The Forest Service has issued a *Federal Register* notice (April 16, 2010) stating the intent is to prepare a environmental impact statement (EIS) concerning the restoration (they should define this term) of the beetle killed areas. I have attached a copy of the *Federal Register* notice. Considering the time it normally takes the FS to complete all EIS plus the legal aftermath, there will very likely be no trees salvaged until at least 2011. Considering that these trees have already been dead for several years and are rapidly loosing value, these trees need to be harvested starting right now. **The Committee should ask the FS to justify an EIS now that should have been done years ago and when trees are loosing value daily and the lands need treatment now.**

If the Regional Forester Cables insists they have to do a EIS on this salvage then they should consider making it an amendment to the forest plan (and keep the same time frame) concerning beetle kill salvage and eliminate the need for any future EIS's on beetle kill salvage sales—restoration—stewardship or what ever they want to call it.

If they ever want these beetle killed stands to regenerate, they have two choices; get the cones on the ground by salvaging the trees or let it burn.

This destruction of National Forest lands should never have be allowed to happen.

Second

Considering the beetles are now in the 40 year second growth (about 5″ diameter trees). **The Committee should ask what plans the FS have to treat these young stands to attempt to prevent more loss.** The FS clearly knows the beetles are attacking the young growth.

If I can ever provide more information on this issue please contact me.

I wish Representative Lummis good luck in holding the Forest Service officials accountable for gross lack of professional management of our National Forests.

DICK COOSE.

19936

Federal Register
Vol. 75, No. 73
Friday, April 16, 2010

Notices

This section of the FEDERAL REGISTER contains documents other than rules or proposed rules that are applicable to the public. Notices of hearings and investigations, committee meetings, agency decisions and rulings, delegations of authority, filing of petitions and applications and agency statements of organization and functions are examples of documents appearing in this section.

DEPARTMENT OF AGRICULTURE

Forest Service

Medicine Bow-Routt National Forests, Brush Creek/Hayden Ranger District Saratoga, WY

Title: Savery.

AGENCY: Forest Service, USDA.

ACTION: Notice of intent to prepare an environmental impact statement.

SUMMARY: Epidemic levels of mountain pine beetle continue to spread across National Forest System lands in northern Colorado and southern Wyoming. It is a priority to restore forest and watershed health to these affected areas. In areas managed to produce commercial wood products, it is necessary to salvage merchantable timber and regenerate these forests. At this large scale, deadfall in beetle-kill areas has the potential to slow or prevent forest regeneration; negatively impact grazing and recreation; increase fuel loading, fire hazard, and the potential for large, high-intensity fires, and create public safety hazards.

The Forest Service will prepare an Environmental Impact Statement (EIS) to analyze and disclose the environmental effects of implementing a variety of proposed actions within the Savery Analysis Area of the Brush Creek/Hayden Ranger District of the Medicine Bow-Routt National Forests within Carbon County, Wyoming. Proposed actions include prescribed burning to create conditions that promote regenerating forests and rangelands, and commercial timber sales to salvage merchantable timber, decrease potential fire hazards, and remove dead and dying trees that are posing a public safety hazard in high priority areas. The proposal also includes habitat improvement projects, recreation improvement proposals, and travel management.

DATES: The draft environmental impact statement is expected to be filed with the Environmental Protection Agency (EPA) and available for public review during July 2010. At that time, the EPA will publish a Notice of Availability (NOA) of the draft EIS in the **Federal Register**. The comment period on the draft EIS will be for a period of not less than 45 days from the date the EPA publishes the NOA in the **Federal Register**. It is important that those interested in the management of this area comment at that time.

The final EIS is expected to be available in September 2010. In the final EIS, the Forest Service will respond to any comments received during the public comment period that pertain to the environmental analysis. Those comments and the Forest Service responses will be disclosed and discussed in the final ElS and will be considered when the final decision about this proposal is made.

ADDRESSES: Send written comments to Brian Waugh, Brush Creek/Hayden Ranger District, PO Box 249, Saratoga, WY 82331. Comments may also be sent via electronic mail (e-mail) to *comments-rocky-mountain-medicine-bow-routt-brush-creek-haydenfs.fed.us* and FAX may be sent to (307) 326–5250. Please reference the Savery Analysis on the subject line. It is important that reviewers provide their comments at such times and in such a way that they are useful to the Agency's preparation of the EIS. Therefore, comments should be provided prior to the close of the comment period and should clearly articulate the reviewer's concerns and contentions.

Comments received in response to this solicitation, including names and addresses of those who comment, will be part of the public record for this proposed action. Comments submitted anonymously will be accepted and considered, however.

FOR FURTHER INFORMATION CONTACT: Brian Waugh, Environmental Coordinator, (307) 326–2518, or M. Stephen Best, District Ranger, (307) 326–5250, Brush Creek/Hayden Ranger District, PO Box 249, Saratoga, WY 82331.

Individuals who use telecommunication devices for the deaf (TDD) may call the Federal Information Relay Service (FIRS) at 1–800–877–8339 between 8 a.m. and 8 p.m., Eastern Time, Monday through Friday.

SUPPLEMENTARY INFORMATION:

Purpose and Need for Action

The purpose of the Savery Project is to restore forest health and productivity to the area to meet the needs of present and future generations by implementing forest management techniques that will salvage (beetle-killed) dead and dying trees; reduce hazardous fuels; provide forest products; promote forest regeneration; reduce hazard trees from high priority areas affecting public safety; improve recreational facilities and opportunities; improve wildlife habitat diversity; repair soil and water resource damaged areas; and decommission, relocate and/or maintain portions of the existing road and trail systems that are detrimentally contributing to watershed health.

There is a need to:

- Provide merchantable timber products for sale and to salvage and remove dead and dying trees from forested lands classified as being suitable in order to keep them in production and positively contributing to the Forest's future Allowable Sale Quantity.
- Remove dead and dying trees to promote and enhance regeneration opportunities.
- Treat overstocked timber stands to improve growth and vigor.
- Reduce the development of large continuous high hazard fuel conditions in high timber production areas.
- Maintain and improve aspen stand health and plant diversity to enhance wildlife habitat.
- Maintain or enhance Colorado River cutthroat trout.
- Decommission, relocate, maintain, and improve drainage along road segments within the analysis area that are contributing to degraded resource conditions.
- Restore hillslope hydrology and subsurface flow along roads.
- Reduce connected disturbed areas and channel network extensions throughout the analysis area to minimize increases in peak streamflow.
- Upgrade recreational facilities and improve recreation opportunities within the analysis area to meet increasing demand.

Proposed Action

The proposed action would salvage approximately 11,755 acres of dead and dying beetle-killed lodgepole pine and precommercial thinning would occur on approximately 2,528 acres of young overstocked lodgepole pine. Prescribed burning would occur on approximately 2,232 acres to improve age class diversity and reduce fuel hazards. Fuel breaks are planned on approximately 359 acres and are generally located along roads and in proposed cutting units. Treatments to improve Colorado River cutthroat trout habitat is proposed on approximately 116 acres to enhance aspen regeneration and enhance development of pooling habitat. Approximately 102 acres of this proposed treatment would occur in the Singer Peak Inventoried Roadless Area. The travel management proposal would identify the minimal road system needed to meet Forest management and recreation needs while addressing ongoing resource damage associated with roads and trails by decommissioning approximately 38 miles of road, constructing approximately one mile, reconstructing approximately 1.5 miles, rerouting approximately .75 miles, and converting approximately 4.5 miles of existing roads to All Terrain Vehicle (ATV) trails. Approximately 12 miles of user created roads are proposed to be added to the road system. Recreation proposals include development of approximately seven miles of nonmotorized trails along with a trailhead facility for the two trail loops near or adjacent to the Jack Creek Campground. Reconstruction or enlargement of the Jack Creek Campground is proposed to more readily accommodate RV's and provide additional campsites. Development of ATV loop trails on existing designated routes along with 3.4 miles of new trail construction with an emphasis on loops tying back into the Jack Creek campground/dispersed camping areas, the Hart Creek trailhead, and onto the existing ATV route on National Forest System Road 412 along the continental divide. This would add approximately 32.8 miles of designated trails to the Wyoming Off Highway Vehicle Trail System and would include a combination of open roads, newly proposed ATV trail segments, and road to trail conversions. Decommissioning of the Haskins Creek Campground would also be implemented with this project.

Responsible Official

M. Stephen Best, District Ranger, USDA Forest Service, Medicine Bow-Routt National Forests, Brush Creek/Hayden Ranger District, PO Box 249, Saratoga, Wyoming 82331, is the official responsible for making the decision on this action.

Nature of Decision To Be Made

The Responsible Official will consider the results of the analysis and its findings and then document one or more final decision(s) for each proposed action. More than one Record of Decision (ROD) will be issued based on this analysis. The decisions will include a determination whether or not to implement the proposed action or another alternative.

Preliminary Issues

Natural disturbances (fire, beetle) has resulted in a high percentage of many project area watersheds with dead or young trees. Measurable increases in water yield are expected in these watersheds, with either no action or implementation of the proposed action.

Scoping Process

This notice of intent initiates the scoping process, which guides the development of the Environmental Impact Statement (EIS). The Forest Service has listed the project in the Schedule of Proposed Actions that is posted on the Web. One meeting will be planned after the draft EIS is available. The Forest Service will also respond to information requests about the project and add additional public meetings and field trips as interest dictates. Comments from scoping efforts will be reviewed to identify potential issues for this analysis. While comments are welcome at any time, comments received within 30 days of the publication of this notice in the **Federal Register** will be most useful for the identification of issues and the analysis of alternatives.

It is important that reviewers provide their comments at such times and in such manner that they are useful to the agency's preparation of the environmental impact statement. Therefore, comments should be provided prior to the close of the comment period and should clearly articulate the reviewer's concerns and contentions.

Dated: April 2, 2010.

Mary H. Peterson,

Forest Supervisor, Medicine Bow-Routt National Forests.

[FR Doc. 2010–8618 Filed 4–15–10; 8:45 am]

BILLING CODE 3410–11–M

SUBMITTED STATEMENT FROM LARRY CUNDALL, RANCHER, PLATTE COUNTY, WY

Hon. CYNTHIA M. LUMMIS,
Member,
Committee on Agriculture,
Washington, D.C.

Rep. Loomis,

Thank you for doing this good work on behalf of Wyoming and the Agriculture Community.

I am a long time rancher in Platte County, Wyoming. A 45 year volunteer rural firefighter experiencing "beetle kill" forest fires, a 20 year FSA County Committee member, RC&D Committee member and user of NRCS programs, thank you for discussing these topics.

I am on the Administrative Council for **Western SARE** hosted by Utah State University. Until very recently I was the only rancher on the council in this very large Western states region. As I'm sure you know SARE (**Sustainable Agriculture Research & Education**) is the only USDA competitive grants program that **requires** farmers and ranchers to be involved in all of its grants. An idea that I believe keeps this program grounded in reality that is not always found in today's institutions of higher learning or other grant programs. Grant proposals undergo a rigorous and competitive review, and are based on merit.

I am proud to be a part of this little known program that serves a wide ranging group of agriculture producers, from organic to production agriculture. I have reviewed grants from Guam to Alaska and Wyoming to California. For example Farmer/Rancher Grants is one area that shows that with relatively few dollars we can help real world people with real world problems in an integrated approach that also educates others with the same problems. Honey Bees to High Tunnels, Riparian protection to Beetle banks, all unique but important to sustainable agriculture.

Sustaining the economic viability of farmers and ranchers, make the most **efficient** use of nonrenewable and on-ranch resources and where appropriate, integrate natural biological cycles and controls. **Enhance** environmental quality and the natural resource base upon which the agricultural community depends and **Improve** the quality of life for farmers, ranchers and society as a whole.

Although these are SARE's guidelines I believe they have always been part of agriculture's code so I am proud to be a part of and glad to support this great program. I hope to be in Cheyenne May 4th with some short handouts to better explain the program and in support of SARE and I hope to get a chance to get a minute or two with you and some of the other Members hoping to strengthen your support.

Sincerely,

LARRY CUNDALL.

SUBMITTED LETTER FROM FRANK GALEY, PH.D., DEAN, UW COLLEGE OF AGRICULTURE AND NATURAL RESOURCES; AND CHAIR, CONSORTIUM FOR THE ADVANCEMENT OF BRUCELLOSIS SCIENCE

April 29, 2010

Hon. COLLIN C. PETERSON,
Chairman,
House Committee on Agriculture,
Washington, D.C.;

Hon. FRANK D. LUCAS,
Ranking Minority Member,
House Committee on Agriculture,
Washington, D.C.

Re: The Consortium for the Advancement of Brucellosis Science (CABS)

Dear Committee Members:

The last remaining reservoir for *Brucella abortus* in the United States is in the wild bison and elk in the Greater Yellowstone Area (GYA). In the last few years, the disease has spilled over from those affected wildlife to cattle populations in the states surrounding the GYA, thus threatening the ultimate success of the Brucellosis Eradication Program nationwide.

The Consortium for the Advancement of Brucellosis Science, called CABS, consists of a science team, with members from around the United States (including California, Texas, Louisiana, Virginia, Iowa, Wyoming, and Montana), and stakeholder advisory team comprised of leaders from the Federal Government as well as from the three states in the GYA. This consortium is designed according to the model provided by the USDA–NIFA CAP grant programs. The mission of CABS is to evaluate current research, identify gaps, secure funding, award research grants on a competitive and transparent basis, and conduct outreach for the advancement of brucellosis science for domestic and wild animals. Research will focus on development of vaccines, and diagnostic tests.

The goal of the CABS is to work toward successful disease control and prevention. In-depth research projects under CABS will be conducted at veterinary disease labs in the United States, including the $25 million University of Wyoming (UW) BSL3 laboratory currently in construction. This is a collaborative research effort, with stakeholder consensus, and an adaptive research approach with results to be widely disseminated to policy makers, scientists, and stakeholders.

The CABS project has been designed to further the efforts of the Laramie Agenda, a major meeting with the leading scientists from around the world, which took place in Laramie, Wyoming in 2005. This CABS consortium was proposed at that meeting. Development of improved vaccines and tests for elk, bison, and cattle was estimated to cost $40 million or more and take up to 20 years to undertake.

Approximately $1.8 million per year for the next 5 to 10 years is required to initiate the research projects and operations. Brucellosis has cost the USA and producers billions of dollars since eradication efforts began. Despite the fact that this disease remains a national issue for industry and Federal agencies, including USDA–NIFA; Federal agencies increasingly view this as only a regional issue and thus are reluctant to provide research funding. Therefore, please consider every avenue within this current and next farm bill's research provisions to support efforts to eradicate brucellosis by leading researchers around the country.

Thank you for considering this issue.

Sincerely,

FRANK GALEY, PH.D.,
Dean, UW College of Agriculture and Natural Resources; and *Chair,* Consortium for the Advancement of Brucellosis Science

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SUBMITTED LETTER FROM KEN HAMILTON, EXECUTIVE VICE PRESIDENT, WYOMING FARM BUREAU FEDERATION

May 12, 2010

Members,
House Committee on Agriculture,
Washington, D.C.

Dear Sirs and Madame:

Recently you held a hearing in Wyoming on the upcoming "farm bill" reauthorization. As a representative of over 2,600 agricultural producers in the state I certainly appreciate the Committee taking the time and effort to come to a state which has not been traditionally associated with U.S. farm bill issues. When you are talking about agriculture in Wyoming you would be talking about livestock production generally. According to the 2009 Wyoming Agriculture Statistics livestock production account for $748.7 million in cash receipts out of a total of $974.2 million cash receipts. Of the $748.7 million in livestock cash receipts, $598.5 million was from cattle and calves. This type of production means that Wyoming ranks first in the nation in the average size of agricultural operation. However, the farming aspect of agriculture in Wyoming cannot be overlooked and we certainly have many important cash crops raised in the state.

Perhaps the most utilized USDA program the majority of our members avail themselves of would be the Federal insurance programs to mitigate against weather related impacts. However, many of the current USDA insurance programs are not structured to take into account Wyoming conditions.

You heard testimony in Cheyenne regarding the Natural Resources Conservation Service. The programs offered through this agency are also utilized by producers in this state. NRCS has been an important partner with many of our producers. The focus of programs away from enhancing production agriculture and more towards environmental programs is of concern to our organization. The U.S. Department of Agriculture should focus their efforts on programs which help to produce food for this nation and the world.

You also heard testimony regarding the need to continue funding conservation easement programs. While conservation easements have been popular the Committee needs to recognize that the current structure is at best a crude tool to achieve conservation needs and has several significant defects which should be addressed.

The first is that most conservation easements are written in perpetuity. Most citizens recognize that drafting a management plan today to meet the needs of landowners 25, 50 or 100 years from now would be a challenge. Locking land up in perpetuity is not, in our members view, a wise public policy decision. Our organization has had a policy against perpetuities for over a decade. In those years we continue to have concerns that perpetual conservation easements will have a significant impact on future generations. As one of our members asked when our policy was debated, "What would have happened to our nation if our founding fathers would have locked up everything outside of the original 13 states in perpetuity?"

Many agricultural producers face the "Hobson's choice" of passing an agricultural operation on to their heirs with a substantial tax liability, or passing their agricultural operation on with a conservation easement in perpetuity. Neither is a good choice! We realize, the scope of these hearings is to take comments on farm bill related issues, but allow us to put a plug in here for the extreme need for the larger body to address the "death tax issue" to help eliminate the "Hobson's Choice" dilemma facing many of our producers.

The average size of a Wyoming agricultural operation is 2,745 acres and the average farm value per acre is a little over $550, so the average agricultural operation in Wyoming has $1.5 million just in the real estate. The 2007 Census of Agriculture for Wyoming shows that over half of the principal operators of agriculture are 55 years or older and a significant percentage of that number is over 70. So you can see how important legislation that can limit the cost of the inheritance tax burden on agricultural operations is needed.

Utilizing conservation easements for this purpose is not good public policy. A better policy would be to place a limit on the term of the easement which can then be renegotiated by the landowner based on conditions that exist in the future.

The current CRP contracts for farm ground recognize this, but ranching operations do not have such options. A term easement would still allow for retention of agricultural properties while allowing payment for those uncompensated functions that these operations perform.

We also believe that all government programs must be considered in the context of increasing budget deficits. Our members have always felt that a more proper role for Congress to help out agricultural producers is to eliminate those programs which add costs to those goods purchased by producers or those rules and regulations which add costs to doing business. We have to recognize that costs added to producers come out of their bottom line. Too many of those costs result in more producers going out of business regardless of how many programs are provided to help those same producers.

The Committee also heard testimony about the critical need for additional funding to work on the beetle killed trees. Many of our members depend on USFS land for seasonal grazing. With an estimated 100,000 trees falling each day, several areas may need to have roads closed due to danger factors. If our members cannot utilize roads to access grazing allotments, they could lose aspects of sustainability of private land resources, caused by a reduction in productivity.

Again, thank you for coming to Wyoming.

Sincerely,

KEN HAMILTON,
Executive Vice President.

CC:
Board, SGA Chairmen.

SUBMITTED LETTER FROM TAYLOR H. HAYNES M.D., PRESIDENT, INDEPENDENT CATTLEMEN OF WYOMING; BOARD MEMBER AND DIRECTOR REGION II R–CALF—USA

May 14, 2010

Hon. CYNTHIA M. LUMMIS,
Member,
Committee on Agriculture,
Washington, D.C.

Dear Congresswoman,

Thank you for this forum in our Great State. While the farm bill represents a great deal of excellent work, Independent Cattlemen of Wyoming and R–CALF—USA will take this opportunity to apprise you of the crisis in which the United States domestic cattle producer is found.

The Cattle cycle and the domestic market are broken by monopsony. The Multinationals by both owning and packing cattle have unfair and devastating control of the cattle market.

We urge you to work to remedy this situation before we are all fully vertically integrated and mostly gone.

Since the 1990s we have averaged losing 12,000 ranches and cattle farms annually. This is devastating to rural America and ultimately the country.

We request and welcome any opportunity to meet with you and your staff to discuss the situation in detail and present solutions in equal detail. The attached provides some insights.

Again, many thanks for your excellent service to our Great state and our Republic.

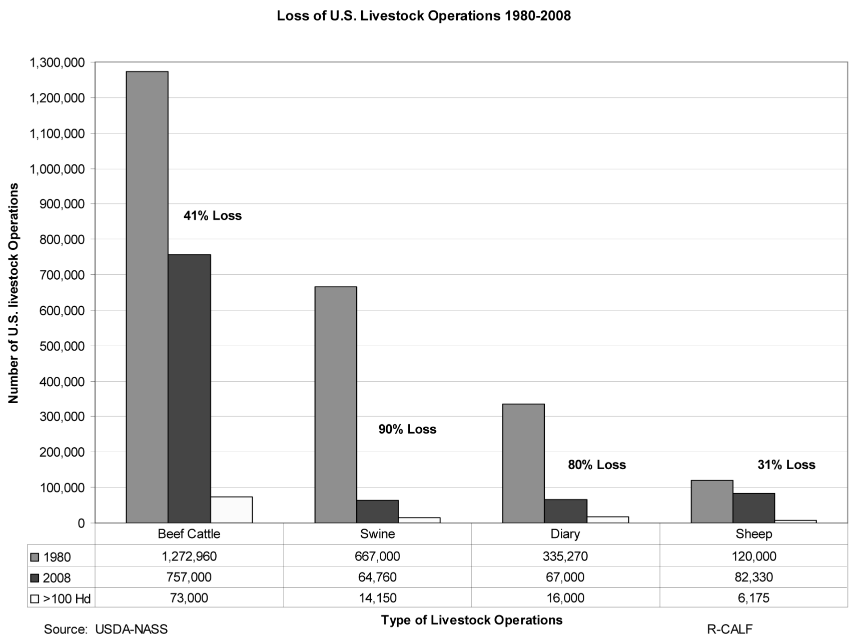
Sincerely,

TAYLOR H. HAYNES M.D.,
President, Independent Cattlemen of Wyoming;
Board Member and Director, Region II, R–CALF—USA.

ATTACHMENT 1

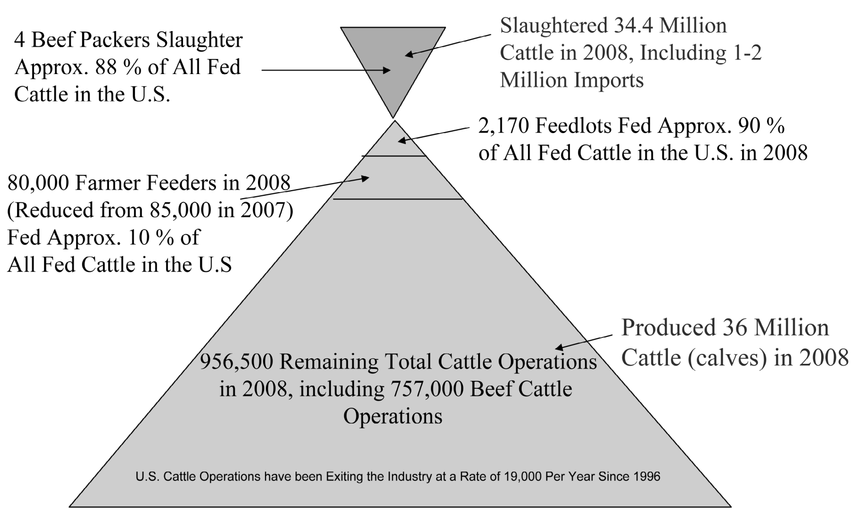
Thirteen Indications that the Cattle Industry is in a Serious State of Crisis

The Entire U.S. Livestock Industry Is in a Severe State of Crisis!

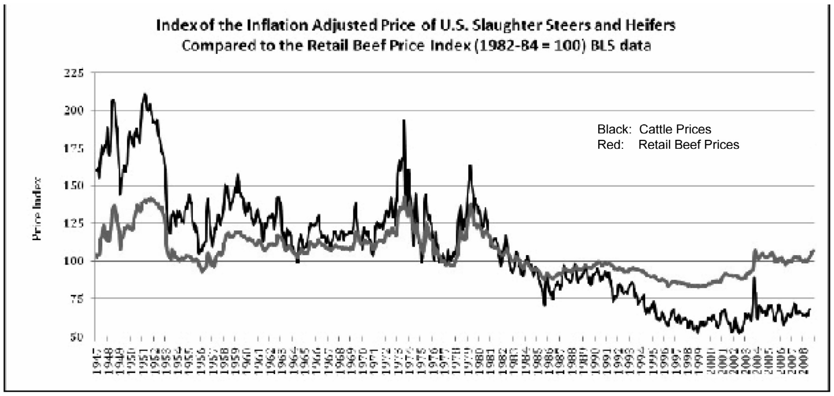


	Beef Cattle	Swine	Diary	Sheep
1980	1,272,960	667,000	335,270	120,000
2008	757,000	64,760	67,000	82,330
>100 Hd	73,000	14,150	16,000	6,175

Today's U.S. Cattle Industry

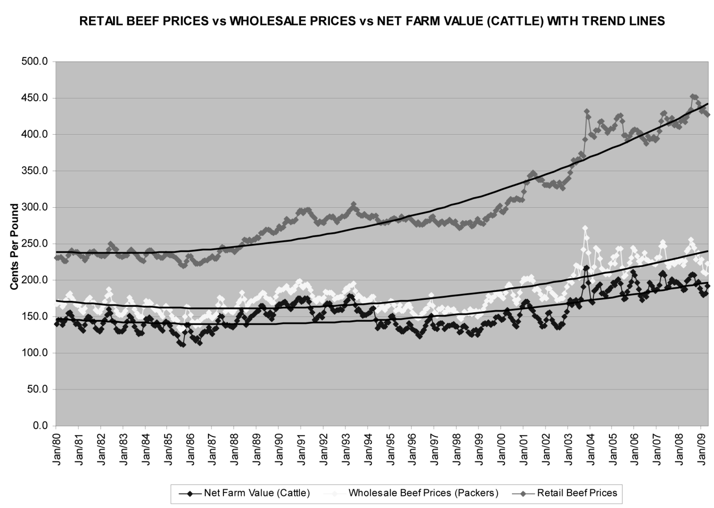


No. 1: Disconnect Between Cattle Prices and Beef Prices



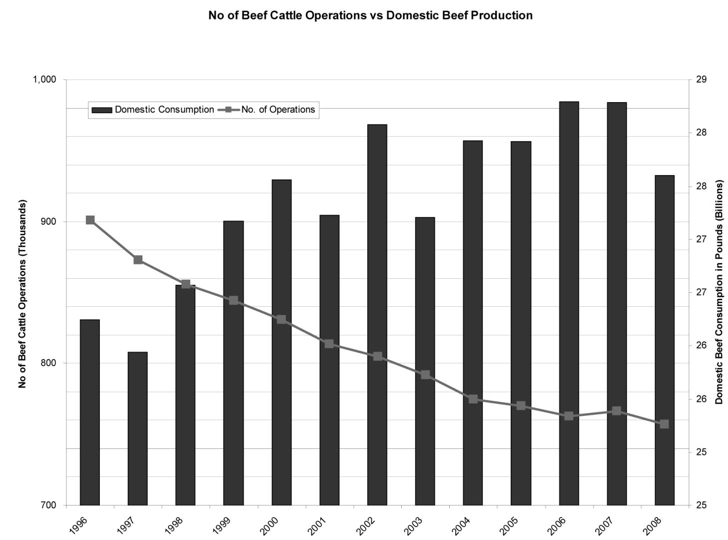
Source: Dr. Robert Taylor, Auburn University R-CALF USA

No. 2: Increasing Price Spreads Between Ranch Gate and Wholesale, and Ranch Gate and Retail



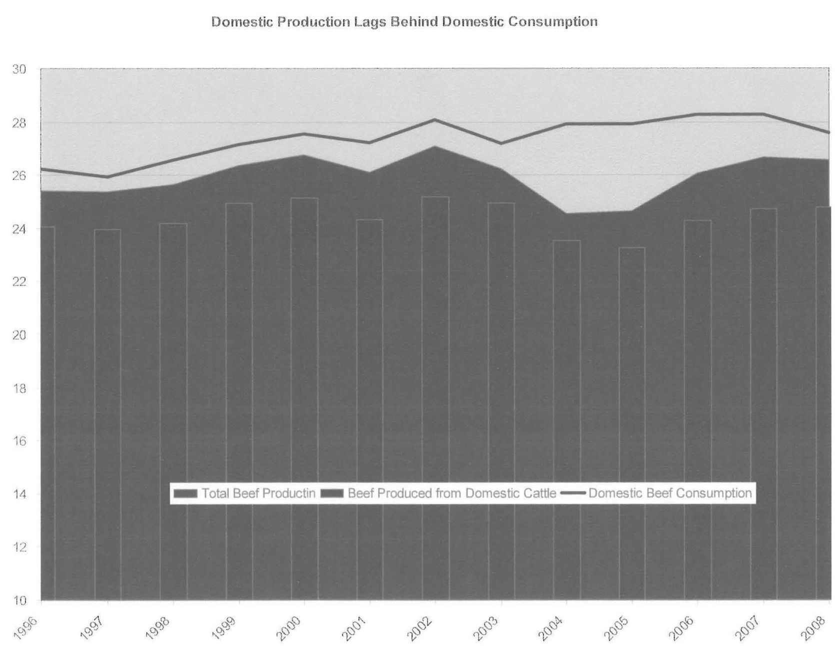
Source: USDA-ERS R-CALF USA

No. 3: Industry Shrinks as Consumption Increases



Source: USDA FAS, NASS R-CALF USA

No. 4: Domestic Beef Production Lags Behind Domestic Beef Consumption



Source: USDA ERS, FAS R-CALF USA

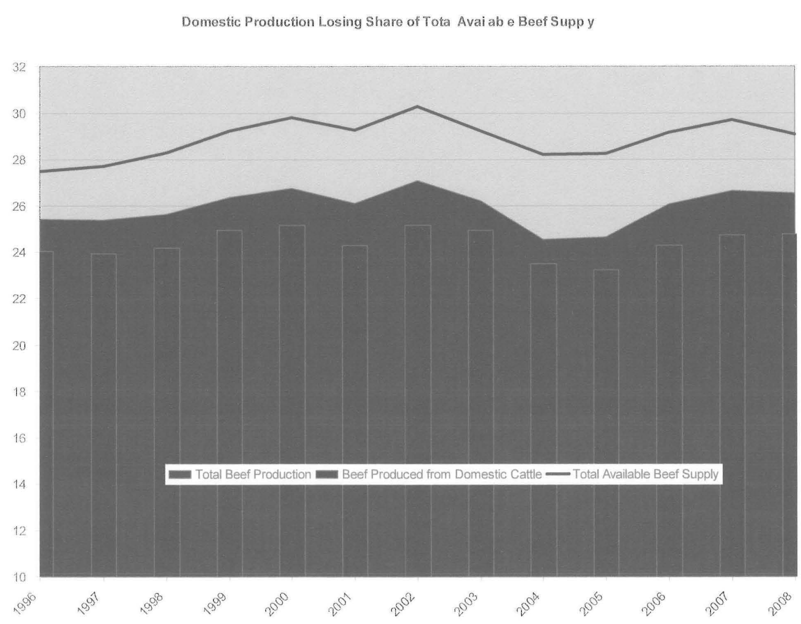
Domestic Beef Production v. Total U.S. Beef Production Explained

- USDA currently includes all beef produced at U.S.-based packing plants as domestic beef production.

- However, this is inaccurate because millions of imported cattle are slaughtered in U.S. packing plants each year, including animals imported for immediate slaughter.

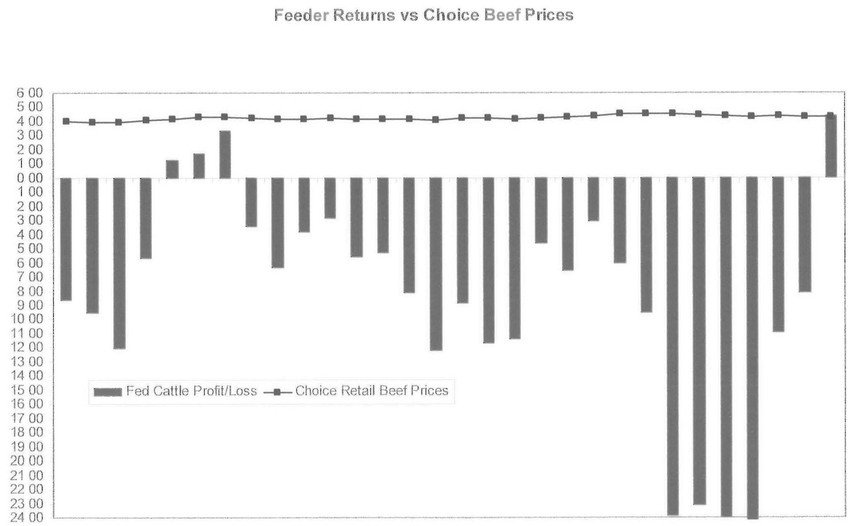
- R-CALF USA subtracted the annual production of beef derived from imported cattle from USDA's annual production estimates to arrive at a more accurate estimate of "domestic beef production," i.e., beef produced from animals exclusively born, raised, and slaughtered in the USA. (R-CALF USA multiplied the number of annual cattle imports by the average annual carcass weight to determine the volume of beef produced annually from imported cattle, and then subtracted this amount from USDA's annual production estimates.)

No. 5: Domestic Beef Production Losing Share of Total Available Beef Supply



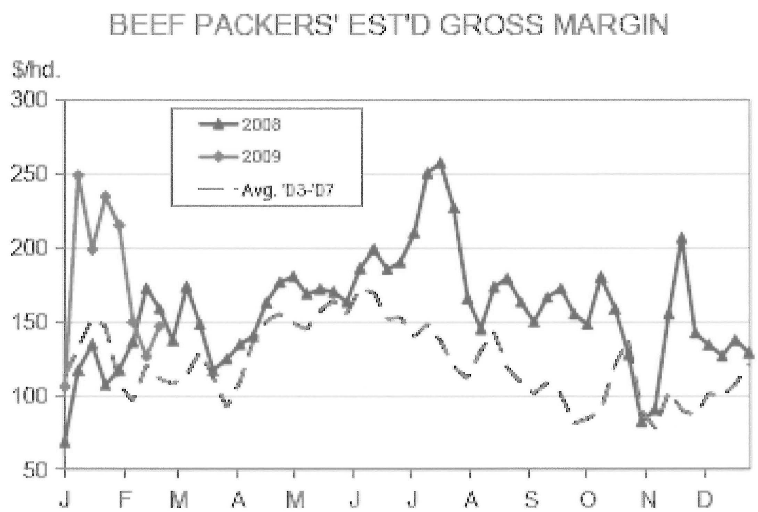
Source: USDA ERS R CALF USA

No. 6: Cattle Feeders Suffer Long-Run Losses While Beef Prices Steadily Climb to Record Levels



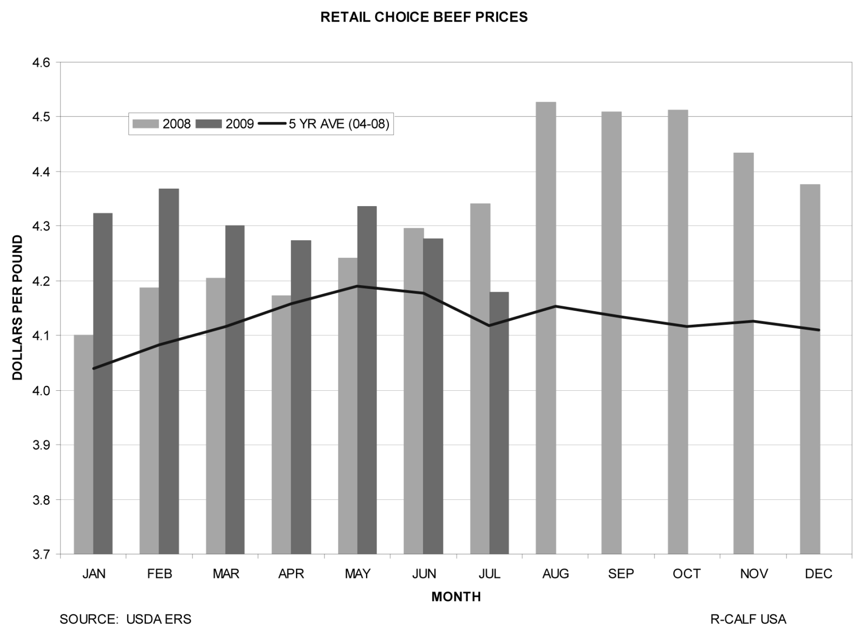
Source: USDA ERS High P ains Catt e Feeding Simu ator and Beef Price Spreads R CALF USA

No. 7: Packer Margins Rise as Cattle Feeders Suffer Losses

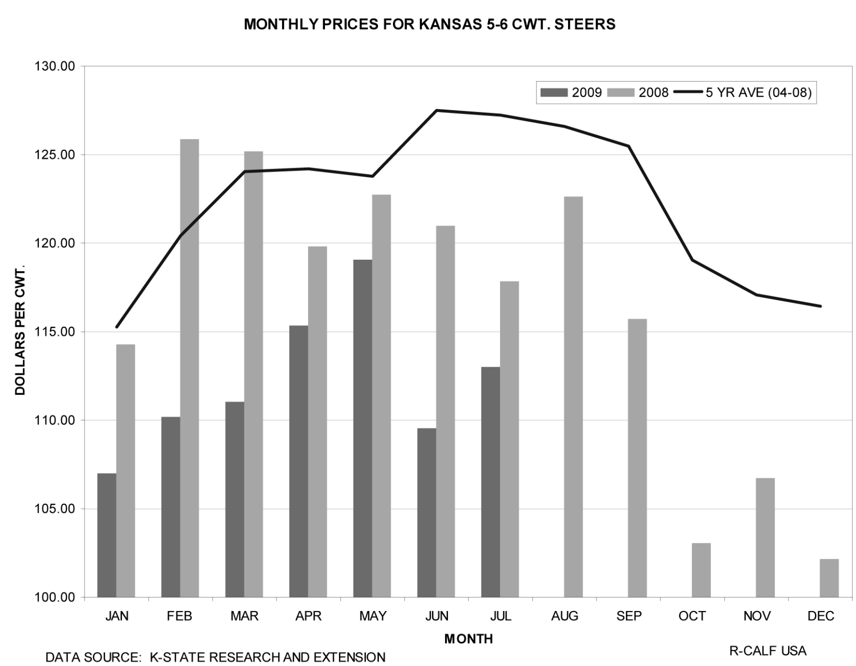


Source: CME Group Dai y Livestock Report, March 10, 2009 R CALF USA

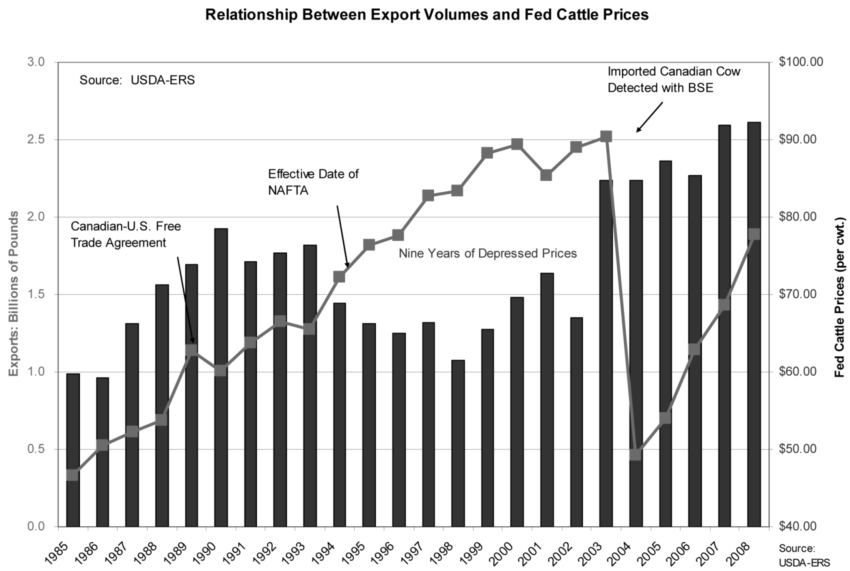
No. 8: Consumers Paying Record Beef Prices While . . .



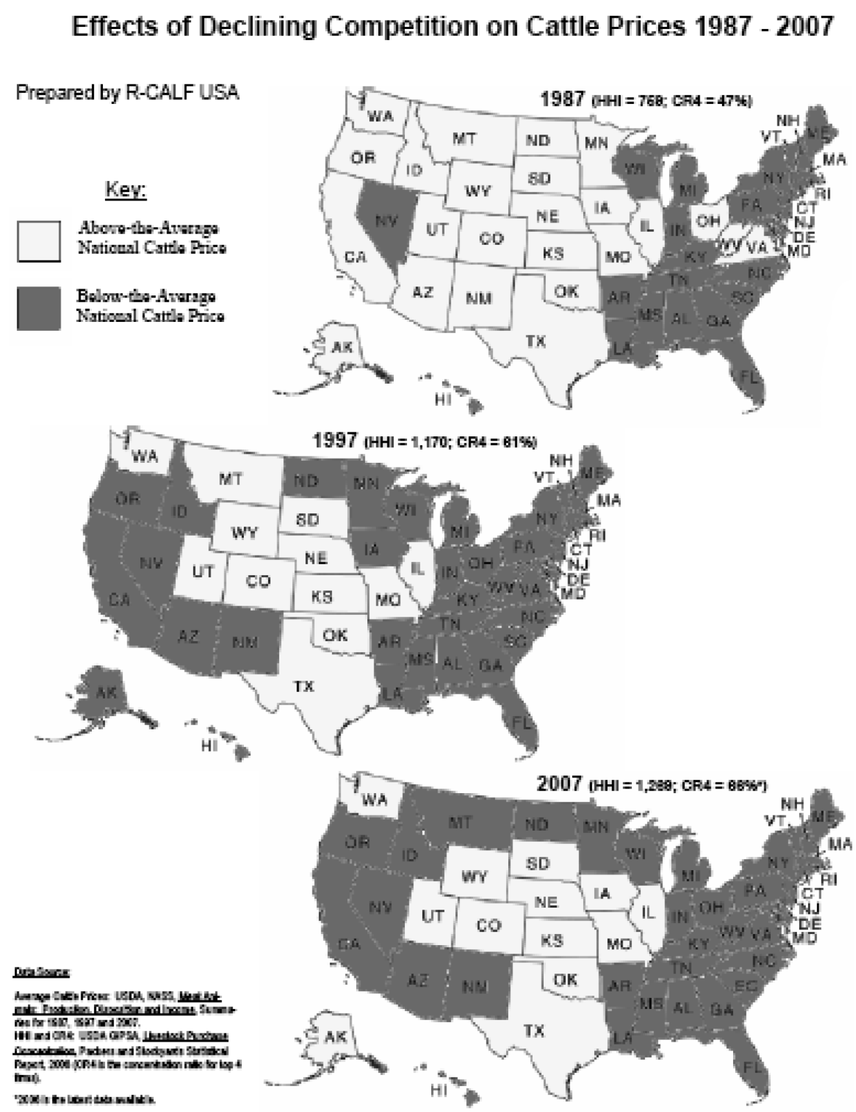
. . . Cow/Calf Producers Receive Depressed Prices



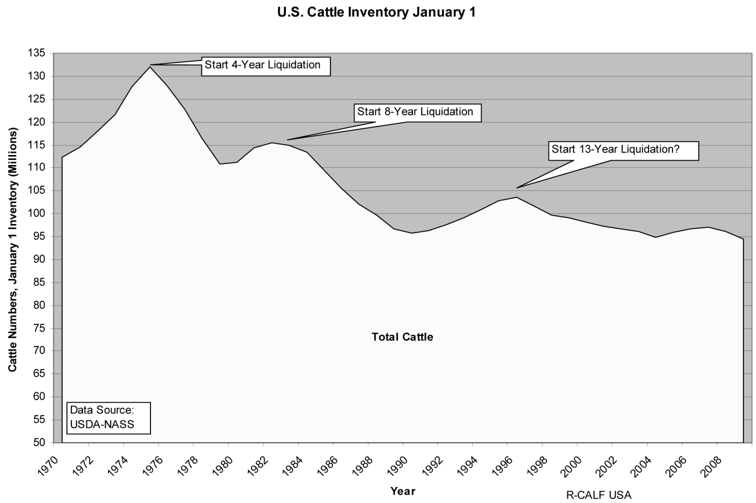
No. 9: Cattle Prices Fell When Exports Peaked



No. 10: Shrinking Number of States Receiving Above-The-Average Cattle Prices



No. 11: The U.S. Cattle Cycle Has Been Disrupted



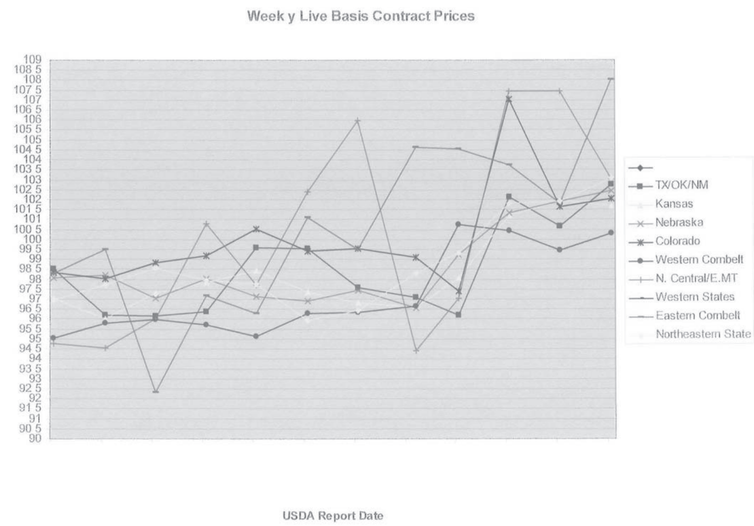
USDA NASS, Agricultural Statistics Board

Description of Historical Cattle Cycle

- The U.S. cattle cycle historically occurred every 10-12 years. USDA reported it consists of about 6 to 7 years of expanding cattle numbers, followed by 1 to 2 years in which cattle numbers are consolidated, leading to 3 to 4 years of declining numbers before the next expansion cycle begins again. In 2002 USDA acknowledged that "the present cycle is in its thirteenth year, with two more liquidations likely." In early 2004 the USDA stated that 2003 marked the eighth year of herd liquidation in the current cattle cycle. In late 2007, the USDA began cautioning the industry, stating that "[s]ome analysts suggest the cattle cycle has gone the way of the hog and dairy cow cycles."

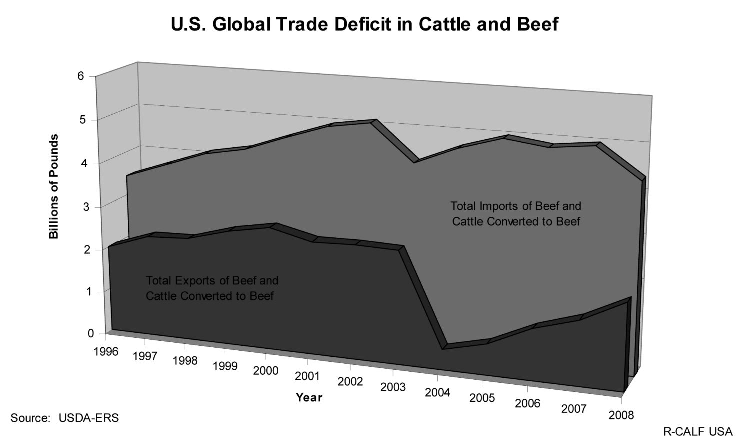
See R-CALF USA's April 9, 2008 Submission to the Dept. of Justice for a more complete discussion on the disrupted cattle cycle.

No. 12: Huge Disparity in Regional Weekly Cattle Prices



Data Source: USDA AMS (See R CALF USA Sept. 29, 2008 submission to Dept. of Justice.)

No. 13: Tremendous Volume Deficit in Cattle and Beef Trade



Conversion of imported cattle to beef accomplished by multiplying the number of imported cattle by each year's average slaughter carcass weight.

How to Address this Crisis

- USDA/Congress must restore the integrity of the U.S. cattle industry by restoring the health of our domestic cattle herd and the safety of the beef produced from our cattle:
  - reverse the agency's over-30-month rule (OTM Rule) that allows older cattle from Canada – where outbreaks of mad cow disease *continue* to be reported – to freely enter the United States;
  - Strengthen recently relaxed import standards for other foreign diseases and pests such as bovine tuberculosis, foot-and-mouth disease, and fever ticks;
  - Strengthen country-of-origin labeling requirements;
  - Increase enforcement of food safety laws at major meatpacking plants where food-born illnesses originate.
- USDA/Congress must restore the competitiveness of our industry by enforcing antitrust laws, prohibiting anticompetitive practices and including protections in trade policy that recognize the supply sensitive nature of the U.S. cattle industry
  - prohibit the anticompetitive use of captive supply cattle by the major meatpackers
  - abandon the misguided plan to require cattle producers to register their property and livestock under a National Animal Identification System (NAIS), which would grant even more industry control to the major meatpackers.

ATTACHMENT 2

In 1999, economists at Utah State University found it “surprising in the face of greatly increased feeding stage – where meatpackers have focused their vertical integration efforts, and it is here that the Justice Department and USDA must focus its attention to identify the various forms of market power exercised by the concentrated beef packers.

The long biological cycle also makes the cattle industry highly susceptible to exploitation by firms that control the production and output of other competing protein sources, i.e., hogs and poultry, which each have much shorter biological cycles that enable their respective industry's to respond quickly to changes in price by quickly adjusting production and output. In addition, because the meats from these competing protein sources are a market substitute for beef, multiple-protein firms can relatively quickly manipulate the output and price of the competing proteins in order to manipulate the demand and price for cattle, while the cattle industry remains constrained from responding due to cattle's prolonged biological cycle.

The inelasticity of supply in the cattle industry compared to the elasticity of supply in the poultry industry[51] gives multiple-protein meatpackers a tremendous, anticompetitive advantage over U.S. farmers and ranchers who sell live cattle. If, e.g., a multiple-protein meatpacker were dissatisfied with the level of profits earned in its beef packing operation, it could increase its poultry production and/or reduce its poultry prices in order to reduce consumption of beef, which would reduce both the demand and price for live cattle. The response by the cattle industry would be limited to liquidation, which likely would accelerate the ongoing liquidation of the U.S. cattle herd and the exodus of U.S. cattle producers from the industry. When the price of cattle falls to the meatpacker's preferred level, the firm can quickly restore higher poultry prices and reduce the volume of poultry production, enabling it to maximize its profits from the sales of both competing proteins until dissatisfaction returns once again and the cycle can be unilaterally restarted. Given the long biological cycle of cattle, the firm could enjoy several years' worth of maximized profits – a period when both cattle producers and beef consumers likely would be exploited.

2. Slaughter-Ready Cattle are Highly Perishable

Unlike many agricultural commodities that are storable, fed cattle that have reached their optimal slaughter weight must be marketed within a narrow window of time (generally within about a two-week period); otherwise, the animals would degrade in quality and value.[52] This characteristic makes the value of cattle extremely susceptible to manipulation, which beef packers can accomplish simply by restricting timely access to the market.

3. Transportation Costs Limit Marketing Options for Slaughter-Ready Cattle

The feasibility of transporting cattle long distances decreases as cattle approach slaughter weight. Researchers have found that the distance of the seller from the slaughtering plant affects the

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[51] *See* Economic Models of Cattle Prices, How USDA Can Act to Improve Models to Explain Cattle Prices, U.S. Government Accountability Office (formally the General Accounting Office), GAO-020246, March 2002, at 30.
[52] *See* GIPSA Livestock and Meat Marketing Study, January 2007, Volume 3, at 5-4, available at http://archive.gipsa.usda.gov/psp/issues/livemarketstudy/LMMS_Vol_3.pdf.

choice of cattle procurement methods[53] and "most cattle are purchased for a specific plant from within a 100-mile radius of that facility, whether the owning firm had one or several slaughtering plants."[54] The researchers found that the cost of transporting cattle long distances creates a limited procurement area for meat packing plants, resulting in higher packer concentration within certain states than nationally.[55]

These researchers identified nine cattle procurement regions that were based on the geographic proximity of packing plants and the procurement area for those packing plants.[56] They defined the general procurement area around a 300-mile radius of packing plants based on a finding that some cattle are regularly purchased from between 100 to 300 miles away from a packing plant.[57] Included as a single region are California and Arizona.[58]

While researchers have found that the wholesale beef market is national in scope, the discussion above suggests that transportation costs combined with the concentration of beef packers function to limit the national purview of the slaughter-ready cattle market. According to a study by John R. Schroeter, "The wholesale beef market . . . is essentially national in scope and insulated, to some extent, from the vagaries of the terms and volume of trade in a single regional fed cattle market."[59]

C. The U.S. Cattle Market Is Highly Susceptible to Monopsony Power and Exploitation

Corresponding to the unique nature of cattle that makes their value vulnerable to manipulation, the marketplace for cattle likewise is unique when compared to other agricultural commodities and highly susceptible to antitrust activities and anticompetitive practices. The following are key characteristics of the U.S. cattle market that make it uniquely prone to such deplorable behavior.

1. The Beef Packing Industry Is Exceedingly Concentrated

As stated previously, Oklahoma State University Economist Clement Ward asserts that concentration levels in the U.S. meatpacking industry are already among the highest of any industry in the United States, "and well above levels generally considered to elicit non-competitive behavior and result in adverse economic performance."[60]

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[53] *See* Examining Packer Choice of Slaughter Cattle Procurement and Pricing Methods, Oral Capps, Jr., et al., Agricultural and Resource Economics Review, April 1999, at 21.
[54] *Id*. at 15.
[55] *See id*. at 16.
[56] *Ibid*.
[57] *See* Examining Packer Choice of Slaughter Cattle Procurement and Pricing Methods, Oral Capps, Jr., et al., Agricultural and Resource Economics Review, April 1999, at 15.
[58] *See id*. at 16.
[59] Captive Supplies and Cash Market Prices for Fed Cattle: A Dynamic Rational Expectations Model of Delivery Timing, John R. Schroeter, Department of Economics, Iowa State University, Working Paper # 07002, January 2007.
[60] A Review of Causes for and Consequences of Economic Concentration in the U.S. Meatpacking Industry, Clement E. Ward, Current Agriculture Food and Resource Issues, 2001, at 1.

2. Regional Competition for Raw Products Like Cattle Is Less Intense than Is Competition in Processed Food Products

Researchers have found that regional competition for raw products, which would include competition for slaughter-ready cattle, is inherently less intense than is competition in processed food products.[61] Thus, the competition for slaughter-ready cattle is inherently fragile, even without the added burden of market power abuses from concentrated beef packers that wield considerable monopsony power.

Further, the Regional Herfindahl-Hirschman Indices (RHHI) are already exceedingly high in all nine cattle procurement regions. In studying regional differences in procurement and pricing methods (resulting in part from transportation constraints) researchers calculated the RHHI for nine regional procurement areas for meatpacking plants.[62] Values for RHHI in the nine regions ranged from a low of 2,610 to a high of 4,451, though the RHHI values in three regions were deleted to avoid disclosure.[63] The researches found that a 1 percent increase in regional firm concentration as measured by the RHHI raises the probability that packers would use packer fed arrangements by 3.18 percent.[64] These findings suggest that meaningful competition in the final cattle market may well be nonexistent in procurement regions where the RHHI was exceedingly high.

3. The U.S. Cattle Market Is Highly Sensitive to Even Slight Changes in Supply

As confirmed by the United States International Trade Commission (USITC), the U.S. cattle market is highly sensitive to even slight changes in cattle supplies. The USITC found that the farm level elasticity of demand for slaughter cattle is such that "each 1 percent increase in fed cattle numbers would be expected to decrease fed cattle prices by 2 percent."[65] Researchers at the University of Nebraska – Lincoln found that fed cattle prices were even more susceptible to changes in supplies and stated that a 1 percent increase in fed cattle supplies would be expected to reduce fed cattle prices by up to 2.5 percent.[66] As a result, the U.S. cattle market is highly sensitive to the importation of cattle from foreign sources.

Recent experience shows that nominal U.S. fed cattle prices jumped to the highest level in the industry's history within just five months after the importation into the U.S. of live cattle from Canada was curtailed due to the discovery of bovine spongiform encephalopathy (BSE) in the

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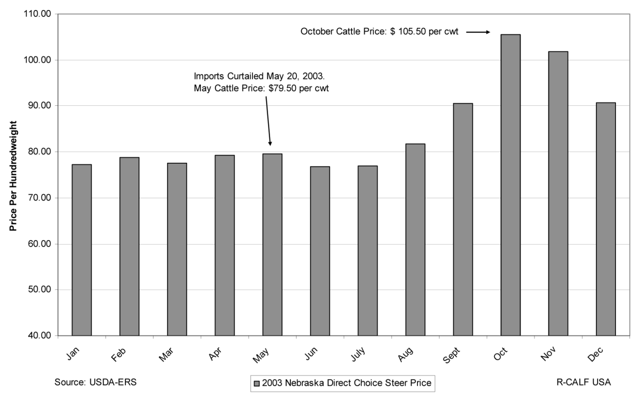
[61] *See* Captive Supplies and the Cash Market Price: A Spatial Markets Approach, Mingxia Zhang and Richard J. Sexton, Journal of Agricultural and Resource Economics, 25(1): 88-108, at 90, fn 7.
[62] *See* Examining Packer Choice of Slaughter Cattle Procurement and Pricing Methods, Oral Capps, Jr., et al., Agricultural and Resource Economics Review, April 1999, at 16.
[63] *See id*., at 16.
[64] *See* Examining Packer Choice of Slaughter Cattle Procurement and Pricing Methods, Oral Capps, Jr., et al., Agricultural and Resource Economics Review, April 1999, at 21.
[65] U.S.-Australia Free Trade Agreement: Potential Economywide and Selected Sectoral Effects, United States International Trade Commission (Publication 3697; May 2004) at 44, fn 26, available at http://hotdocs.usitc.gov/docs/pubs/2104f/pub3697.pdf.
[66] *See* The Economics of Carcass Weight: A Classic Micro-Macro Paradox in Agriculture, Cornhusker Economics, Institute of Agriculture & Natural Resources, Department of Agriculture Economics, University of Nebraska – Lincoln, March 20, 2002, ("So, if quantity increased one percent from q1 to q2, and if demand remained constant, then price would be expected to decrease 1.4 to 2.5 percent).

Canadian herd. The price for domestic cattle increased a remarkable $26 per cwt between May 2003, the month when Canadian cattle imports were curtailed, and October 2003, just five months later (chart 16). This domestic price increase occurred even after beef imports from Canada were resumed in August 2003. This price increase represents an unprecedented per head increase of $325 for an average Nebraska Direct Choice steer weighing 1,250 pounds.

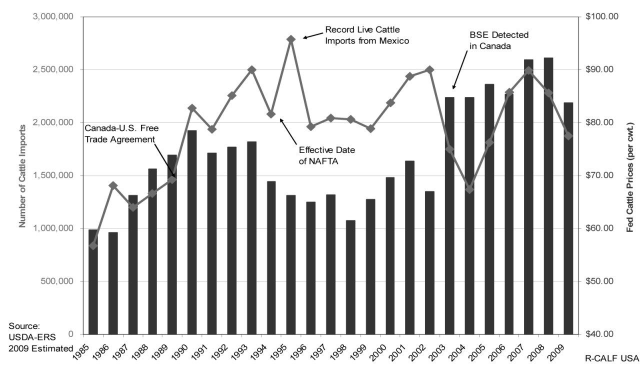
CHART 16: 2003 Cattle Price Response to Curtailment of Canadian Imports



R-CALF USA urges the Justice Department and USDA to investigate the beef packers' practice of strategically using imported cattle to reduce the domestic price of fed cattle. Approximately 1.5 million cattle are imported annually from Canada,[67] representing approximately 4 percent of the 34 million cattle slaughtered annually in the United States. Yet, there appears a significant negative correlation between the number of head imported and the price of domestic cattle (chart 17).

[67] Livestock and Meat Trade Data, Cattle: Annual and Cumulative Year-to-Date U.S. Trade (Head), USDA, ERS (Canadian cattle imports totaled 1.4 and 1.6 million head in 2007 and 2008, respectively), available at http://www.ers.usda.gov/data/meattrade/CattleYearly.htm.

CHART 17: RELATIONSHIP BETWEEN CATTLE IMPORTS AND FED CATTLE PRICES



It does not appear that USDA currently has accurate modeling capabilities to evaluate the impact to the U.S. cattle industry from the beef packer's strategic use of imported cattle to manage domestic cattle prices. When USDA issued its 2005 final rule to allow Canadian cattle less than 30 months of age into the United States, it projected that the largest decline in U.S. fed cattle prices would occur in the first or second quarter of the year following the resumption of Canadian cattle imports. USDA estimated price declines during the first and second quarter ranging from a low of $3.10 per cwt. to a high of $6.05 per cwt.[68] However, during the third and fourth quarters following the resumption of Canadian cattle imports, U.S. fed cattle prices fell from $96.50 per cwt. in December 2005 to $79.10 per cwt. in May 2006, a decline of $17.40 per cwt. – nearly three times greater than what USDA projected for the upper boundary of expected losses.[69]

It is evident that imported cattle have a more severe impact on domestic cattle prices than is currently estimated by USDA. Moreover, these imported cattle appear to defy the transportation limits that constrain the majority of shipments of domestic fed cattle to within approximately a 300-mile radius of beef packing plants. Based on information and belief, fed cattle from Canada are transported exceedingly long distances to packing plants in the United States. R-CALF USA speculates that U.S. beef packers likely are slaughtering these imported cattle at a loss in order to satisfy the weekly demand for live cattle, which would enable beef packers to avoid bidding more aggressively for domestic cattle. If this, in fact, is occurring, then the beef packer likely is more than making up the loss from the procurement of the relatively few imported cattle with the greater savings generated from holding prices for the much greater volume of domestic cattle

[68] *See* Economic Analysis Final Rule, Bovine Spongiform Encephalopathy: Minimal Risk Regions and Importation of Commodities, USDA, Animal and Plant Health Inspection Services, Dec. 20, 2004.
[69] *See* Choice Beef Values and Spreads and the All-Fresh Retail Value, USDA, ERS, available at http://www.ers.usda.gov/Data/meatpricespreads/Data/beef.xls, downloaded on December 19, 2006.

below what a competitive market would otherwise dictate. The Justice Department and USDA should investigate the beef packers' procurement practices for imported cattle.

4. Beef Packers Create Market Access Risk for Sellers in the Final Cattle Market

The combination of packer concentration, the perishable nature of slaughter-ready cattle and the weekly bounding of demand creates market access risk for U.S. cattle producers within the U.S. cattle market. The 2007 GIPSA Livestock and Meat Marketing Study (LMMS) defines market access risk as "the availability of a timely and appropriate market outlet."[70] This risk is particularly significant because fed cattle are perishable commodities that must be sold within a fairly narrow time frame, otherwise they will decrease in value.[71]

The beef packers have already achieved the ability to create market access risk and now function as powerful gatekeepers between cattle producers and the final cattle market. Under the current level of beef packer concentration, there is already evidence that cattle feeders are subjected to market power and are foregoing revenues to avoid market access risk. The LMMS found that "[t]ransaction prices associated with forward contract transactions are the lowest among all the procurement methods [including cash market procurement methods],"[72] and proffered that the results of the study may suggest that "farmers who choose forward contracts are willing to give up some revenue in order to secure market access . . ."[73]

Based on information and belief, it is market access risk that entices cattle feeders in the final cattle market to enter one or more of the captive supply arrangements offered by the beef packers. Researchers have found that individual producers within the U.S. cattle industry will agree to sign captive supply contracts even while knowing that the aggregate effect of captive supply contracts is to depress the cash market price and make all producers, including him/herself, worse off.[74] The researchers explained that it is the producer's inability to coordinate action that enables a packer to obtain acceptance for exclusionary contracts, and "as long as the producer is offered at least as much as could be received in the spot market in the equilibrium with captive supplies, the producer's equilibrium strategy is to ACCEPT the contract."[75] Based on this finding, U.S. live cattle producers are defenseless against the monopsony power exercised by the beef packers to shift ever increasing volumes of cattle from the cash market to one or more of the beef packers' captive supply procurement options.

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[70] GIPSA Livestock and Meat Marketing Study, January 2007, Volume 3, at 5-4, available at http://archive.gipsa.usda.gov/psp/issues/livemarketstudy/LMMS_Vol_3.pdf.
[70] *See Ibid.*
[70] *Id*., at 2-36.
[71] *See Ibid.*
[72] *Id*., at 2-36.
[73] *Ibid*.
[74] Captive Supplies and the Cash Market Price: A Spatial Markets Approach, Mingxia Zhang and Richard J. Sexton, Journal of Agricultural and Resource Economics, 25(1): 88-108, at 98, attached hereto as Exhibit 8.
[75] *Ibid*.

5. The Price of Domestic Cattle Is Sensitive to Procurement Practices that Shift Cattle from the Cash Market to Captive Supply Arrangements

As confirmed by the LMMS, the cash cattle market is sensitive to shifts in cattle procurement methods. While beef packers have significantly reduced the number of its market outlet gatekeepers through horizontal consolidation, thus exacerbating market access risk for all cattle producers in the final cattle market, beef packers have simultaneously increased their use of non-traditional contracting and other cattle procurement methods that enable them to more effectively exercise their manifest market power. These non-traditional cattle procurement methods increase the vertical coordination between the live cattle industry and the beef packing industry and include purchasing cattle more than 14 days before slaughter (packer-fed cattle), forward contracts, and exclusive marketing and purchasing agreements, including formula contracts. Together, the four largest beef manufacturers employed such forms of "captive supply" contracting methods for a full 44.4 percent of all the cattle they slaughtered in 2002.[76] And, use of these captive supply methods has been increasing rapidly, rising 37 percent from 1999 to 2002.[77] The LMMS found that approximately 38 percent of cattle were procured by such non-traditional methods during the period October 2002 through March 2005.

Captive supplies have been shown to increase the instability of prices for cattle producers and hold down cattle prices.[78] Over the past 20 years studies have supported the idea that buyer concentration in cattle markets systematically suppressed prices, with price declines found to range from 0.5 percent to 3.4 percent.[79] As average prices for cattle are artificially depressed and become more volatile, due to these captive supply procurement methods, it is cattle producers who pay the price, even when broader demand and supply trends should be increasing returns to producers.[80] Despite this negative outcome, cattle producers continue to opt into captive supply arrangements because those producers have few other attractive marketing choices in an industry that effectively reduces access to market outlets.[81] Furthermore, while such captive supply arrangements may appear attractive to an individual producer at a given point in time, the collective impact of these contracting practices on the market as a whole is harmful to the live cattle industry. As previously discussed, producers acting individually are not in the position to change these dynamics of the market.

It is informative for the Justice Department and USDA to analyze the recent transformation of the U.S. hog industry. USDA data suggest that the contraction of the U.S. live hog industry was more severe than was experienced in the U.S. live cattle industry, despite a smaller four-firm concentration ratio in the pork packing industry. This likely is because of the measurable difference in the degree to which the concentrated pork packing industry was able to exercise its inherent market power. For example, the pork packing industry exploited the live hog industry's

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[76] *See* RTI International, "Spot and Alternative Marketing Arrangements in the Livestock and Meat Industries: Interim Report," Report Prepared for the Grain Inspection, Packers, and Stockyard Administration, U.S. Department of Agriculture, July 2005 at 3-15.
[77] *See id.* at 3-17.
[78] *See* John M. Connor, "The Changing Structure of Global Food markets: Dimensions, Effects, and Policy Implications," Staff Paper #3-02, Department of Agricultural Economics, Purdue University, February 2003, at 7-8.
[79] *See Ibid.*
[80] *See id*., at 8.
[81] *See Ibid.*

greater propensity toward vertical integration of its entire live hog production cycle – from birth to slaughter – and captured earlier in the industry's concentration process a larger proportion of slaughter-ready hogs before they entered the open cash market, where the base-price for all hogs marketed continues to be established. The LMMS found that during the period October 2002 through March 2005, the pork packing industry captured 20 percent of its slaughter-ready hogs through the alternative procurement method of direct ownership;[82] about 57 percent of hogs were captured through marketing contracts, forward contracts or marketing agreements; and fewer than 9 percent of hogs were procured in the open market.[83] Among the conclusions of the LMMS was: "Based on tests of market power for the pork industry, we found a statistically significant presence of market power in live hog procurement."[84] Further, the LMMS concluded that there was a casual relationship between the increased use of non-cash hog procurement methods and lower prices for hogs:

> **Of particular interest for this study is the effect of both contract and packer-owned hog supplies on spot market prices; as anticipated, these effects are negative and indicate that an increase in either contract or packer-owned hog sales decreases the spot price for hogs.** Specifically, the estimated elasticities of industry derived demand indicate
>
> - a 1% increase in contract hog quantities causes the spot market price to decrease by 0.88%, and
>
> - a 1% increase in packer-owned hog quantities causes the spot market price to decrease by 0.28%.
>
> A higher quantity of either contract or packer-owned hogs available for sale lowers the prices of contract or packer-owned hogs and induces packers to purchase more of the now relatively less expensive hogs and purchase fewer hogs sold on the spot market.[85]

The LMMS found that procurement methods that facilitated the exercise of market power by the concentrated pork packing industry are currently less developed in the concentrated beef packing industry. For example, the study found that only 5 percent of live cattle were procured through packer-ownership and only 33.3 percent of cattle were procured by forward contracts and marketing agreements, leaving nearly 62 percent of the cattle procured through the open market,[86] which, like in the hog market, continues to set the base price for all marketed cattle. Although alternative procurement methods for cattle destined for slaughter are currently less developed than for hogs destined for slaughter, the LMMS nonetheless found a causal relationship between the increased use of alternative slaughter-ready cattle procurement methods and a decrease in the cash market price for slaughter-ready cattle under the current structure of

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[82] *See* GIPSA Livestock and Meat Marketing Study, January 2007, Volume 4, at 2-13, available at http://archive.gipsa.usda.gov/psp/issues/livemarketstudy/LMMS_Vol_4.pdf.
[83] *See Ibid.*
[84] *See id.*, at ES-3.
[85] *See id.*, at ES-2, 3.
[86] *See id.*, at ES-4.

the beef packing industry. The LMMS found that a 10 percent shift of the volume of cattle procured in the open market to any one of the alternative procurement methods is associated with a 0.11 percent decrease in the cash market price.[87] The comprehensive econometric analysis documented in *Pickett v. Tyson Fresh Meats, Inc.*, which covered the period 1994-2004, showed an even greater sensitivity to shifts in cattle procurement. The analysis showed that for each 1% increase in captive supply cattle, cattle prices decreased 0.155%.[88]

CHART 18

Texas-Oklahoma-New Mexico Breakdown of Volume by Purchase Type

	2005	2006	2007	2008	2009
Cash	47.2%	42.5%	36.7%	31.5%	26.1%
Formula	42.2%	42.2%	48.4%	53.3%	60.7%
Forward Contract	3.1%	5.0%	4.4%	5.8%	5.4%
Negotiated Grid	7.5%	10.3%	10.5%	9.3%	7.8%

Source: USDA Market News, St Joseph, MO

Kansas Breakdown of Volume by Purchase Type

	2005	2006	2007	2008	2009
Cash	50.6%	47.3%	44.8%	41.7%	39.3%
Formula	44.8%	46.0%	48.5%	48.0%	52.6%
Forward Contract	2.8%	5.4%	5.4%	7.8%	7.1%
Negotiated Grid	1.8%	1.3%	1.3%	2.4%	1.0%

Source: USDA Market News, St Joseph, MO

Nebraska Breakdown of Volume by Purchase Type

	2005	2006	2007	2008	2009
Cash	64.5%	63.7%	64.7	61.1%	60.4%
Formula	18.3%	16.8%	17.8%	17.8%	22.6%
Forward Contract	5.9%	9.7%	7.8%	14.7%	9.0%
Negotiated Grid	11.4%	9.7%	9.6%	6.5%	8.0%

Source: USDA Market News, St Joseph, MO

Alarmingly, the beef packers are now shifting unprecedented volumes of cattle from the cash market and to their forward contracts and formula contract schemes. USDA reports that in the Texas-Oklahoma-New Mexico region, the cash market in 2009 has been reduced to less than 34 percent (including cash and negotiated grid transactions) (chart 18). And, forward contracting and formula contracting now represents over 66 percent of all fed cattle transactions in the region. Similar shifts have occurred in the Kansas region while Nebraska remains the only regions where cash transactions represent more than 41 percent of fed cattle transactions.

Not reported in these USDA data are the volumes of packer-owned cattle procured from each of these regions. Nationally, GIPSA reports that in 2007, packer-owned cattle represented between 5 percent and 10 percent of the cattle procured by beef packers.[89] However, the Justice Department and USDA must be aware that formula contracts accord beef packers nearly identical buying power as do packer-owned cattle. C. Robert Taylor, Auburn University, states that an affidavit contained in the *Pickett v. Tyson* litigation record reveals an acknowledgement by former IBP (now Tyson) CEO Bob Peterson on how formula contracts give beef packers comparable, if not superior, leverage in the market than do packer-owned cattle. Excerpts from Taylor's report of the affidavit include:[90]

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[87] *See* GIPSA Livestock and Meat Marketing Study, January 2007, Volume 3, at ES-5, available at http://archive.gipsa.usda.gov/psp/issues/livemarketstudy/LMMS_Vol_3.pdf.
[88] *See* Trial Transcript in *Pickett et al. v. Tyson Fresh Meats, Inc. (IBP, Inc.)* Civil No. 96-A-1103 N, U.S. District Court for the Middle District of Alabama, Northern Division.
[89] *See* 2008 Annual Report, Packers & Stockyards Program, USDA, GIPSA, March 1, 2009, at 59, available at http://archive.gipsa.usda.gov/pubs/2008_psp_annual_report.pdf.
[90] The American Antitrust Institute, Working Paper No. 07-08, Legal and Economic Issues with the Courts' Rulings in Pickett v. Tyson Fresh Meats, Inc., a Buyer Power Case, C. Robert Taylor, Auburn University, at 9, available at http://www.antitrustinstitute.org/archives/files/AAI_Taylor_WP07-08_033020070955.pdf.

On July 26, 1994 Peterson stated:

> *'I don't know if we should be proud or ashamed but I'm telling you we started formula pricing. Why did we do it? So we have the same leverage our competition had. And we feed cattle through the process of formula pricing.'*
>
> *'Well, we aren't going to change. We will have formula—that is our way of feeding cattle.'*

On December 2, 1994, he said:

> *'… I told your industry right here at the KLA convention (in 1988) that if it allowed packers to feed their own cattle, IBP (Tyson) would do whatever was necessary to level the playing field. Ladies and gentlemen, the leveling is called formula and contract buying. Thus far, we have been able to partially offset the leverage our competitors have by the use of formula cattle and contract buying. Will we stop doing it? No. Will we feed cattle? If we have to. As most of you know, our recent purchase of Lakeside Farm Industries in Canada includes a feedyard. I am only trying to tell you one thing. IBP (Tyson) will do whatever is necessary to remain competitive.'*

These quotes directly contradict the belief that formula contracts were developed by cattle producers to provide them with additional marketing options, a belief that has been expressed to R-CALF USA in recent years. R-CALF USA urges the Justice Department and USDA to act swiftly to bring an end to the beef packers' anticompetitive practices of packer ownership of cattle and formula pricing.

6. The Demand for Live Cattle Is Bounded on a Weekly Basis

The packer demand for live cattle is bounded on a weekly basis by available slaughter capacity, which is a limiting factor on demand for cattle, i.e., slaughter capacity sets the weekly slaughter cattle-marketing limit.[91] As a result of this weekly constraint, packers can suppress the weekly demand for cattle offered in the domestic cash market by finishing off their weekly supply needs with green cattle (i.e., cattle that have not yet reached their optimal slaughter weight) pulled from their captive supply holdings or, as stated above, by finishing off their week with imported cattle. The effect of this practice is to hold down or lower domestic prices and prevent a higher starting price for the beginning of each subsequent week.

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[91] *See* Beef Pricing and Other Contentious Industry Issues, Special Report, Kevin Grier and Larry Martin, George Morris Centre, March 16, 2004 (an analysis of the live versus beef price disparity in Canada).

7. Price Transparency is Limited in the U.S. Cattle Market

Transparency in the U.S. live cattle market is already limited as found by the GAO in 2005. The GAO reported on a number of deficiencies in the government's Livestock Mandatory Reporting system with regard to the transparency of the reporting system and accuracy of the data reported.[92] Included among the deficiencies identified was the exclusion of a large percentage of cattle transaction data.[93] In addition to the lack of transparency and accuracy of marketing transaction data already impacting the U.S. live cattle industry, the so-called 3/70/20 confidentiality guidelines that structurally limit reports of transactions in concentrated regions likely are masking critical pricing information. The confidentiality guidelines that likely restrict or eliminate the reporting of currently reported cattle transaction data include the requirement that at least 3 reporting entities provide data at least 50 percent of the time during a 60-day period; no entity may provide more than 70 percent of the data during a 60-day period; and no entity may be the only reporting industry more than 20 percent of the time during a 60-day period.[94] It is inexplicable that concentrated packers are shielded from disclosing prices in any region in the United States and the Justice Department and USDA should investigate the extent to which unreported pricing data is impacting domestic cattle prices. In addition, the agencies should investigate both the disposition and impact of pricing data that result from transactions that occur outside the daily and weekly price reporting timeframes.

8. Beef Packers Have Superior Market Information, Particularly Those with Substantial Captive Supply Arrangements

As discussed above, the Livestock Mandatory Reporting system shields beef packers from disclosing market information under certain circumstances, thus affording them asymmetric information in the marketplace. In addition, beef packers with captive supplies have superior information than do cattle sellers regarding the number of additional cattle needed each week to maintain plant operations. Also, beef packers with contracts for the sale of beef to retailers are benefited by information regarding weekly output needs and future wholesale beef prices. The beef packers' access to critical marketing information not available to producers gives them considerable leverage over cattle sellers in the U.S. cattle market.

III. EVIDENCE OF EXTREME MARKET FAILURE IN THE U.S. CATTLE AND BEEF INDUSTRIES

The beef packers and their allied trade associations have long justified their ongoing attempts to capture greater control over the live cattle industry. Their claims include the achievement of increased efficiencies through economies of scale. And, as discussed above regarding TCFA's claim, they rationalize the adverse consequences of their actions, e.g., the exodus of industry

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[92] *See* U.S. Government Accountability Office, Livestock Market Reporting: USDA Has Taken Some Steps to Ensure Quality, but Additional Efforts Are Needed, GAO-06-202 (Dec. 2005).
[93] *See* U.S. Government Accountability Office, Livestock Market Reporting: USDA Has Taken Some Steps to Ensure Quality, but Additional Efforts Are Needed, GAO-06-202 (Dec. 2005), at 10.
[94] USDA Announces New Confidentiality Guidelines for Livestock Mandatory Reporting Program, U.S. Department of Agriculture, Release No. 0132.01, August 3, 2001.

participants and the dwindling cow herd, with claims of increased productivity that, they say, negates the need for the industry's previous numbers of either participants or cattle.

For example: in written testimony before the July 16, 2002, United States Senate Agriculture Committee hearing on packer ownership of livestock, the meatpacking industry's trade association, the American Meat Institute (AMI), testified: "Demand for consistent quality product has led many firms to exert greater control over the supply chain."

In its written testimony before the same July 16, 2002, Senate hearing, the National Cattlemen's Beef Association (NCBA) attached the executive summery of the Sparks Study to its testimony. Specifically, the NCBA commissioned Sparks Study states the following:

> Packers use ownership of livestock to help control unit costs in a variety of ways. If this management tool is restricted, unit costs can be expected to increase (without increasing the value of the final product).[95]

The Sparks Study asserts that direct ownership of livestock limits the packers' market risk, arguing that the futures market is insufficient for this purpose. Therefore, according to the Sparks Study, one of the few tools available to packers to offset the smaller margins associated with higher livestock prices is through direct ownership of raw production materials, i.e., livestock, which enables them to reduce their margin risk. The Sparks Study states, "The pressure to reduce costs force the search for low-cost livestock supplies (often at the expense of producer returns)."[96]

The Sparks Study adds additional insight into the packing industry's rational for supporting packer ownership of livestock as well as other means that contribute to vertical integration of their industry. The Sparks Study acknowledges:

> For many meat packers, integration between the packing and feeding stages of livestock production is seen as an effective vehicle to reduce market risk exposure and loss of such a valuable tool increases their costs . . .[97] and,
>
> Vertical integration often attracts investors because of the negative correlation between profit margins at the packing stage and the feeding stage.[98]

It is clear that the current market structure affords beef a distinct pricing advantage over the U.S. cattle market, and this pricing advantage is disrupting the competitiveness of the U.S. cattle industry. Also obvious is the inherent disadvantage faced by domestic cattle feeders that must first compete against the same beef packers when purchasing feeder cattle in the feeder cattle market that they must later sell to in the final cattle market when their cattle are finished.

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[95] Sparks Companies Inc., "Potential Impacts of the Proposed Ban on Packer Ownership and Feeding of Livestock", A Special Study, (March 18, 2002) at 40.
[96] *Id*. at 22.
[97] *Id*. at 24.
[98] *Id*. at 24.

Perhaps the most compelling testimony regarding the onset of packer ownership and the advent of captive supply procurement methods, and their implications, is again provided by C. Robert Taylor, Auburn University, who reports that the affidavit in the *Pickett v. Tyson* litigation record contains quotes from Bob Peterson, former CEO of the nation's largest meatpacker at the time – IBP. According to C. Robert Taylor, the affidavit filed in the *Pickett v. Tyson* lawsuit contains the following record of Peterson's statements:[99]

> In a 1988 talk to the Kansas Livestock Association, Peterson maintained,
>
>> *'…our competitors are promoting contracts … and seeking more. These (forward) contracts coupled with packer feeding could represent a significant percentage of the fed cattle during certain times of the year… Do you think this has any impact on the price of the cash market? … you bet! … We believe that it's having a significant impact on the market—on the cash market place.'*
>>
>> *'…we believe that some of those who are feeding cattle and using forward contracting are creating aberrations within the market place by coming in and out of the market; that is not reflecting the true value of the cash market.'*
>>
>> *'But with the packers in the feeding business and forward contracting, there's going to be a major, major shift against the leverage system.'*
>>
>> *'In my opinion the feeder can't win against the packer in the real fair play if we go into the feeding and the hedging program.'*
>>
>> *'Do you think that if we had a million cattle on feed and we thought cattle were going to get higher we'd kill ours first and wait for yours until last? Or do you think we'd kill yours first and wait for ours until last? Do you think if it's going down we're going to buy yours and wait for ours until last? This is pretty basic. Boy Scouts and Girl Scouts are nice, but when you get back to money in the bank and the facts, I'm telling you the facts.'*
>
> In 1994, after IBP had entered into extensive captive supply arrangements, Peterson stated:
>
>> *'… not formula cattle but packer-fed cattle, which can be killed early or late to fill a particular time frame, be it a day or a week grant the packer far greater flexibility to move in and out of the*

[99] The American Antitrust Institute, Working Paper No. 07-08, Legal and Economic Issues with the Courts' Rulings in Pickett v. Tyson Fresh Meats, Inc., a Buyer Power Case, C. Robert Taylor, Auburn University, available at http://www.antitrustinstitute.org/archives/files/AAI_Taylor_WP07-08_033020070955.pdf.

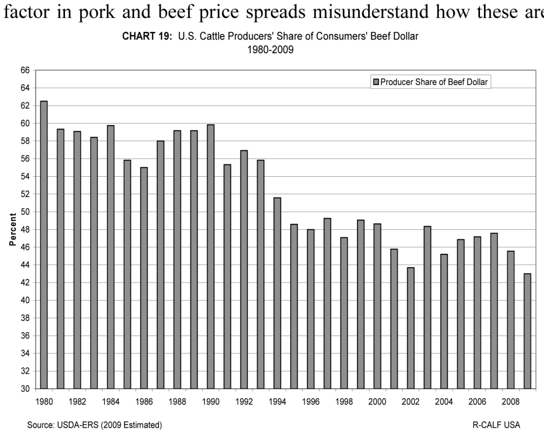
> *market. On the way down (in price), he kills his cattle first and on the way up, last.'*

Armed with industry concentration, packer-owned cattle and their new cattle procurement schemes since the late '80s, the dominant beef packers have created a marketplace now replete with evidence of market failure caused by abusive monopsony power that is harming cattle producers and beef consumers alike.

A. The Lost Share of the Consumer's Beef Dollar Is Evidence of Market Failure

In 1980, U.S. cattle farmers and ranchers who sold cattle in the final cattle market received 63 percent of each dollar paid by consumers for retail beef cuts derived from a "standard animal, cut up in a standard way at the packing plant, and sold in standard form through the retail store." [100] R-CALF USA refers to this percentage as the producers' share of the consumers' beef dollar. Based on the producers' monthly average share of the consumers' beef dollar from January 2009 through November 2009, the producers' share of the consumers' beef dollar, for the same standard animal and the same standard cuts that were measured in 1980, will fall to only 43 percent in 2009, representing a 20 percent decline (chart 19).

These data calculated by USDA Economic Research Service (ERS) are not influenced by an increase in value-added beef products.[101] The ERS emphatically states: "Analysts who cite increasing value-added as a factor in pork and beef price spreads misunderstand how these are calculated."[102] Thus, the producers' lost share of the consumers' beef dollar indicates that someone in the beef supply chain is capturing the cattle producers' competitive market share of the value of retail beef. This is evidence of severe market failure caused by abusive monopsony power. If U.S. cattle producers in November 2009 received the same share of the consumers' beef dollar they received in 1980, the nominal value of their fed cattle



[100] Beef and Pork Values and Price Spreads Explained, USDA, ERS, May 2004, at 4, available at http://www.ers.usda.gov/publications/ldp/APR04/ldpm11801/ldpm11801r.pdf.
[101] *See id*., at 2.
[102] *Ibid.*

would have been $122 per cwt, which is $37 above the actual November 2009 5-market steer price of $84.50 per cwt.[103]

B. Increasing Price Spreads Between Ranch Gate and Wholesale, and Ranch Gate and Retail Are Evidence of Market Failure

In addition to the clarification that its price spread data is not influenced by increased value-added beef products, the ERS further states that its price spread data can be used to "measure the efficiency and equity of the food marketing system,"[104] and "increasing price spreads can both inflate retail prices and deflate farm price."[105] The price spreads between ranch gate prices (i.e., cattle prices) and wholesale prices (i.e., prices received by beef packers) and ranch gate and retail prices (i.e., prices paid by consumers) have been steadily increasing over time (chart 20). According to ERS, "[h]igher price spreads translate into lower prices for livestock,"[106] innovative technologies can reduce price spreads and economic efficiency increases when price spreads drop,[107] and "[b]oth consumers and farmers can gain if the food marketing system becomes more efficient and price spreads drop."[108]

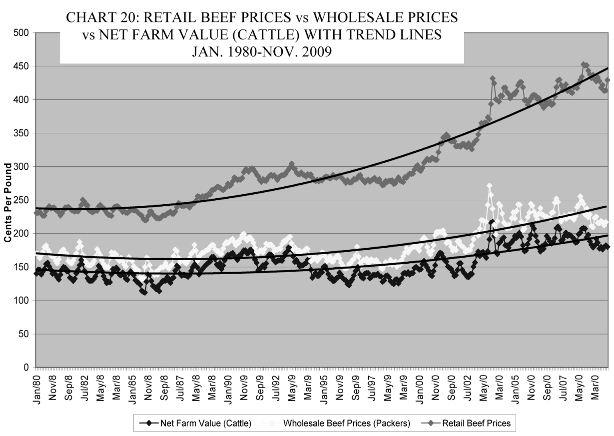


CHART 20: RETAIL BEEF PRICES vs WHOLESALE PRICES vs NET FARM VALUE (CATTLE) WITH TREND LINES JAN. 1980-NOV. 2009

It is clear that both consumers and producers are being harmed by the current system that is creating increased price spreads, which means the marketplace is becoming less innovative and less inefficient. USDA found in 2004 that "the total price spreads show a weak upward trend when corrected

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[103] *See* Beef Values and Price Spreads Data Sets, U.S. Department of Agriculture, Economic Research Service (calculation based on Nov. 2009 Choice retail beef value at 429.2 cents per pound: (429.2 x .63) + byproduct value of 22.6 divided by 2.4 ERS conversion factor = $122.1 per cwt.), available at http://www.ers.usda.gov/Data/meatpricespreads/
[104] Beef and Pork Values and Price Spreads Explained, U.S. Department of Agriculture, Economic Research Service, at 3.
[105] *Id*. at 2.
[106] *Id.,* at 8.
[107] Id., at 3.
[108] *Ibid*.

for inflation,"[109] and this upward trend has only worsened since 2004. The ever-increasing price spread between ranch gate values for cattle and retail prices for beef is evidence of market failure caused by the exercise of market power that is exploiting both consumers and producers.

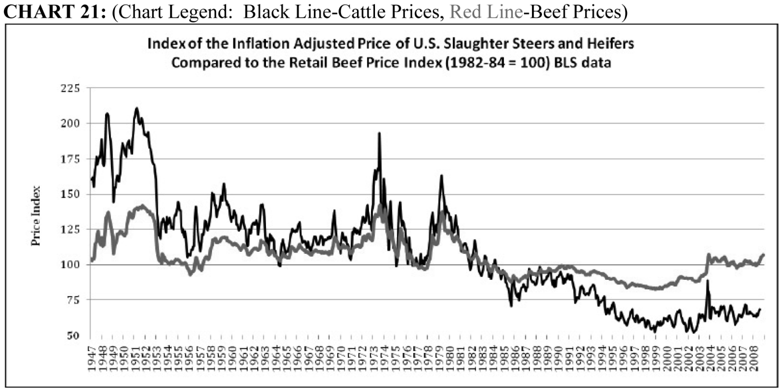
C. The Disconnect Between Cattle Prices and Beef Prices Is Evidence of Market Failure

C. Robert Taylor, economist at Auburn University, compared inflation adjusted prices for fed cattle to the inflation adjusted prices for retail beef from 1947 to 2008 (chart 21). His comparison shows a close, synchronous relationship between the price index for cattle and the price index for beef from about 1960 to 1985, after which two significant changes occurred: First, the beef price index rose above the cattle price index. Second, the synchronous relationship between the two indices ended and the spread between the indices has increased through 2008. These two changes: a clear disconnect between cattle and beef prices and the ever-widening spread between the two indices, is evidence of market failure caused by abusive monopsony power.

Chart 21 reveals another important phenomenon: from the late '80s to the 2003-2004 timeframe, the fed cattle price index was in a death spiral, while the beef price index remained comparatively constant. In 2003 an anomaly occurred in the U.S. cattle market when imports of Canadian cattle and beef were temporarily suspended following the discovery of BSE in Canada. Suddenly, U.S. beef packers were unable to access their captive supply cattle in Canada for slaughter in the United States. As indicated by the abrupt upward spike in the fed cattle index in the 2003-2004 timeframe, the death spiral illustrated by the fed cattle price index was reversed. R-CALF USA believes the curtailment of Canadian cattle imports in 2003 caused the beef packers to lose the significant control accorded them by those imports over the price of domestic cattle. As a result, the beef packers' control over U.S. cattle prices temporarily slipped through their fingers and the U.S. cattle industry was serendipitously granted a temporary reprieve from the beef packers' abusive market power. The relationship between fed cattle prices and retail beef prices in 2009, however, strongly suggests that U.S. beef packers have now reacquired their significant control over the U.S. cattle market and are again exerting their abusive monopsony power over the U.S. cattle industry.

[109] *See* Beef and Pork Values and Price Spreads Explained, U.S. Department of Agriculture, Economic Research Service, at 10.

CHART 21: (Chart Legend: Black Line-Cattle Prices, Red Line-Beef Prices)



D. Long-Run Losses In the Final Cattle Market While Retail Beef Prices Remain at or Near Record Levels Is Evidence of Market Failure

According to USDA's High Plains Cattle Feeding Simulator, during the 37-month period from November 2006 through November 2009, U.S. cattle feeders who sold cattle in the final cattle market enjoyed only 7 profitable months and suffered 30 months of losses (chart 22). From July 2007 through March 2009 these cattle feeders suffered 22 months of consecutive losses, with losses at about $300 per head during October 2008 through January 2009. Meanwhile, Choice retail beef prices, throughout this entire period, increased until reaching record highs in 2008 and have remained near those record high levels through November 2009.

These data show that the U.S. cattle feeding sector alone lost $6.4 billion since Jan. 1, 2007, which does not begin to include the consequential losses suffered in the feeder cattle market since that time.[110] This conservative estimate of loss is based on USDA data that show the average loss from each of the 49 million head of fed cattle sold by U.S. cattle feeders was over $48 in 2007, over $150 in 2008, and over $65 in 2009.[111]

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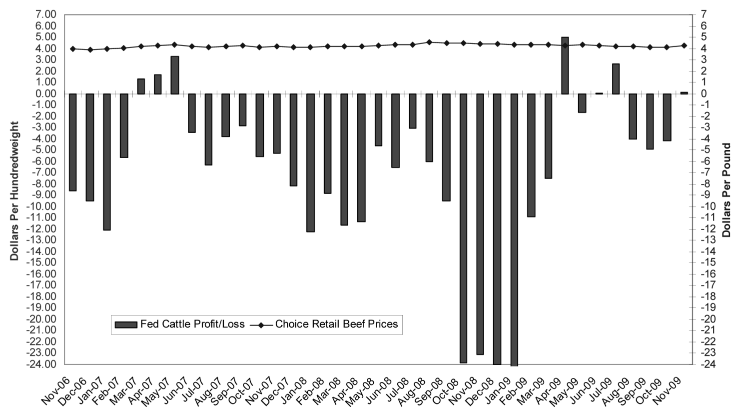
[110] The loss of over $6.4 billion was calculated by adding the average annual losses for each year as reported in the High Plains Cattle Feeding Simulator since Jan. 1 2007, and multiplying each year's loss by the number of fed cattle slaughtered during each year, e.g., the annual loss in 2008 was calculated by multiplying the 27 million fed cattle slaughtered in 2008 by that year's average annual per head loss to cattle feeders of $150.75 per head for each 1,250 pound animal sold, resulting in a total loss of $4.07 billion during that year alone.

[111] *See* High Plains Cattle Feeding Simulator, Data Sets, USDA, ERS, available at http://www.ers.usda.gov/Publications/LDP/LDPTables.htm ; *see also*, Livestock Slaughter 2008 Summary, USDA, NASS, March 2008, at 13, available at http://usda.mannlib.cornell.edu/usda/current/LiveSlauSu/LiveSlauSu-03-06-2009.pdf (The U.S. slaughtered approx. 27 million steers and heifers, not including cows and bulls, in each of the years 2007 and 2008.); *see also* Livestock Slaughter, USDA, NASS, August 2009, at 10, available at http://usda.mannlib.cornell.edu/usda/nass/LiveSlau//2000s/2009/LiveSlau-08-21-2009.pdf (The U.S. slaughtered approx. 15 million steers and heifers from Jan. through July, 2009.).

R-CALF USA is deeply concerned that these persistent losses likely have forced thousands, if not tens of thousands, of farmer-feeders to exit the industry in 2009. These farmer-feeders are less likely to have the deep pockets that their larger, corporate feedlot counterparts have to withstand such persistent and severe losses. These horrendous losses to cattle feeders while consumers continue to pay at or near record prices for beef are evidence of market failure caused by abusive monopsony power.

CHART 22: Fed Cattle Returns vs Choice Beef Prices

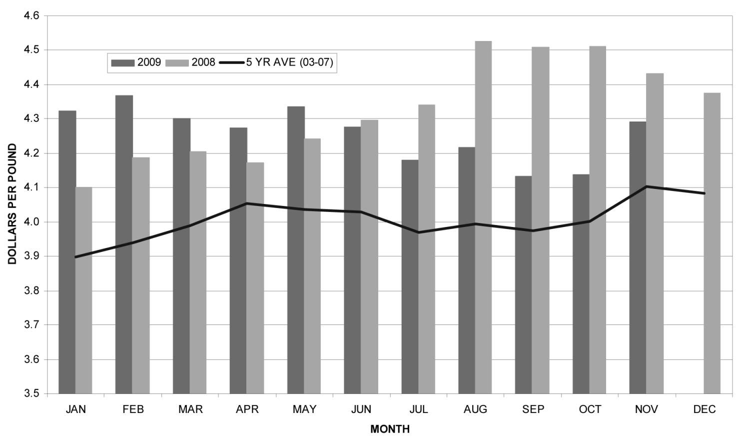


Source: USDA-ERS High Plains Cattle Feeding Simulator and Beef Price Spreads R-CALF USA

E. Record Beef Prices Paid by Consumers while Cow/Calf Producers Receive Severely Depressed Prices in the Feeder Cattle Market Is Evidence of Market Failure

While fed cattle sellers in the final cattle market suffered horrendous, long-run losses at the same time consumers continued to pay record and near-record prices for beef, sellers in the feeder cattle market likewise suffered losses due to severely depressed prices for their lighter feeder calves. In 2008 and 2009, the average monthly prices for Choice retail beef remained well above the previous five-year average (2003-2007), reaching record highs in the second-half of 2008 and remaining at historically high levels through November 2009 (chart 23 (a)).

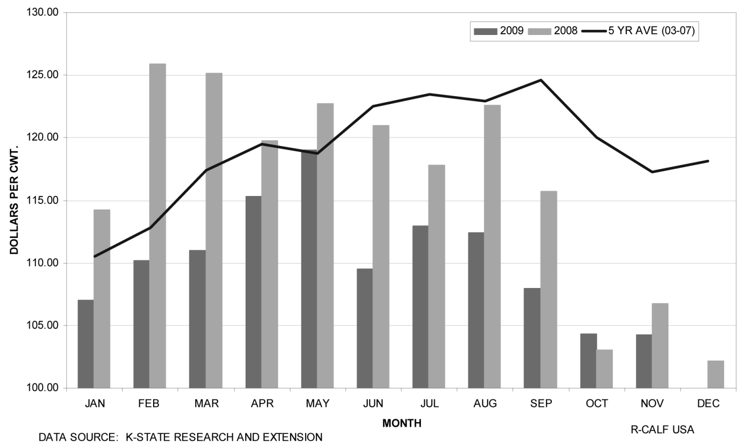
CHART 23 (a): RETAIL CHOICE BEEF PRICES



SOURCE: USDA ERS R-CALF USA

Despite persistently high Choice retail beef prices paid by consumers, U.S. cow/calf producers in 2008 and 2009 who sold their cattle in the feeder cattle market were relegated to a market that returned prices well below the previous five-year average (2003-2007) (chart 23 (b)). Only during the first 5 months of 2008 did cow/calf producers who sold cattle weighing between 500 pounds and 600 pounds receive prices above the previous five-year average. From June 2008 through November 2009, these cattle producers have received persistently low prices. These depressed prices that have now permeated the feeder cattle market while consumers pay record and near record prices for beef is evidence of severe market failure caused by abusive monopsony power.

CHART 23 (b): MONTHLY PRICES FOR KANSAS 5-6 CWT. STEERS



DATA SOURCE: K-STATE RESEARCH AND EXTENSION

F. The Disruption of the U.S. Cattle Cycle Is Evidence of Market Failure

The GAO explains that the U.S. cattle industry is subject to a historical cycle, referred to by "increases and decreases in herd size over time and [] determined by expected cattle prices and the time needed to breed, birth, and raise cattle to market weight," factors that are complicated by the fact that "[c]attle have the longest biological cycle of all meat animals."[112] The cattle cycle historically occurred every 10-12 years, a function of the long biological cycle for cattle. USDA reports it consists of about 6 to 7 years of expanding cattle numbers, followed by 1 to 2 years in which cattle numbers are consolidated, then 3 to 4 years of declining numbers before the next expansion begins again.[113] In 2002 USDA acknowledged that "the last cycle was 9 years in duration; the present cycle is in its thirteenth year, with two more liquidations likely."[114]

Given its historical responsiveness to the competitive forces of supply and demand, the cattle cycle is the bellwether indicator of the competitiveness of the U.S. cattle industry. The last normal liquidation phase of the U.S. cattle cycle began in 1975 and ended in 1979, lasting the typical four years (chart 24). The next liquidation phase began in 1982 and ended in 1990, lasting

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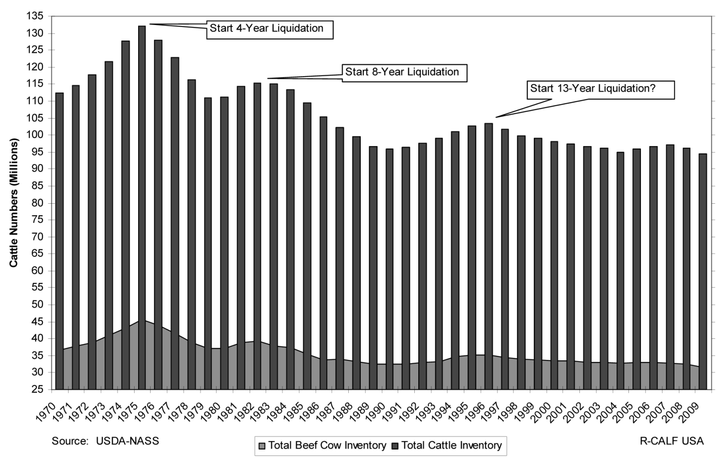
[112] Economic Models of Cattle Prices, How USDA Can Act to Improve Models to Explain Cattle Prices, U.S. Government Accountability Office (formally the General Accounting Office), (GAO-020246, March 2002, at 30.
[113] Kenneth H. Mathews, Characteristics of Cattle Cycles*,* USDA, ERS, U.S. Beef Industry/TB-1874, November 2001.
[114] Interagency Agricultural Projections Committee, *USDA Agricultural Projections to 2011, Staff Report WAOB-2002-1, February 2002, available at* http://www.ers.usda.gov/publications/waob021/waob20021.pdf, obtained from internet on October 17, 2002.

an unprecedented eight years. The liquidation phase that began in 1996 is ongoing today and has lasted an unprecedented 13 years, though it unsuccessfully tried to recover during 2005 through 2007 in response to the anomalous curtailment of Canadian cattle imports. In late 2007, USDA began cautioning the industry, stating that "[s]ome analysts suggest the cattle cycle has gone the way of the hog and dairy cow cycles."[115]

Chart 24: Total U.S. Cattle Inventory and Beef Cow Inventory, January 1



There is no question that the historical cattle cycle is now disrupted, and the obvious trend since 1975 is an ever-shrinking cattle herd. It also is clear that the competition-induced demand/supply signals that once led to expectations about changes in cattle prices are no longer functioning properly. While cattle industry analysts ponder this phenomenon, in February 2008 USDA attributed a similar disruption that was occurring in the U.S. hog cycle to the hog industry's new structure. USDA declared that the "New Hog Industry Structure Makes Hog Cycle Changes Difficult to Gauge," and stated, "The structure of the U.S. hog production industry has changed dramatically in the past 25 years."[116] This "dramatically" changed structure includes the consolidation of the industry, where "fewer and larger operations account for an increasing share of total output."[117]

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[115] Livestock, Dairy, & Poultry Outlook, USDA, ERS, Dec. 19, 2007, at 5, available http://www.ers.usda.gov/Publications/LDP/2007/12Dec/ldpm162.pdf.
[116] Livestock, Dairy, & Poultry Outlook, USDA, ERS, Feb. 15, 2008, at 14, available at http://www.ers.usda.gov/Publications/LDP/2008/02Feb/ldpm164.pdf.
[117] Hog Operations Increasingly Large, More Specialized, Amber Waves, USDA, ERS, February 2008, available at http://www.ers.usda.gov/AmberWaves/February08/Findings/HogOperations.htm.

As *was* the case in the hog industry, a functioning cattle cycle, itself, is recognized by USDA as an indicator of a competitive market. The USDA succinctly explained:

> The cattle cycle refers to cyclical increases and decreases in the cattle herd over time, which arises because biological constraints prevent producers from instantly responding to price. In general, the cattle cycle is determined by the combined effects of cattle prices, the time needed to breed, birth, and raise cattle to market weight, and climatic conditions. If prices are expected to be high, producers slowly build up their herd size; if prices are expected to be low, producers draw down their herds.[118]

The recently acknowledged disruption of the historical U.S. cattle cycle, as discussed above, is clear evidence that competition has been severely reduced in the U.S. cattle market and, as USDA now succinctly concludes for the analogous hog industry cycle disruption, there is a causal relationship between this phenomenon and a changed industry structure marked by increased consolidation. The disrupted cattle cycle is clear evidence of market failure caused by abusive monopsony power.

G. A Shrinking Cattle Industry with Stagnant Production in the Face of Growing Domestic Beef Consumption Is Evidence of Market Failure

Total domestic beef consumption peaked in 1976, subsided, and then began increasing significantly after 1993 (chart 25). In a competitive cattle industry, production would be expected to increase when beef consumption increases. However, the production of beef produced from cattle exclusively born, raised and slaughtered in the United States has not kept pace with the nation's appetite for beef. As stated above, since 1996 domestic beef production has remained relatively stagnant, though beef consumption has risen in recent years to nearly its peak 1976 level. In fact, from 2004 through 2007, the U.S. cattle industry experienced the largest shortfall in its history between its domestic beef production and the nation's beef consumption.

The shortfall in domestic production is being satisfied with imported beef and beef derived from imported cattle slaughtered in the United States. Thus a growing shortfall in domestic production means the U.S. cattle industry is losing market share in its own market and U.S. production is being systematically supplanted by foreign production. The domestic cattle industry would not be constrained from meeting the increase in consumption in its own market if the industry were competitive. The fact that the cattle industry is so constrained, as evidenced by the ongoing liquidation of its cattle herd and its stagnant production while consumption has increased, is evidence of severe market failure caused by abusive monopsony power.

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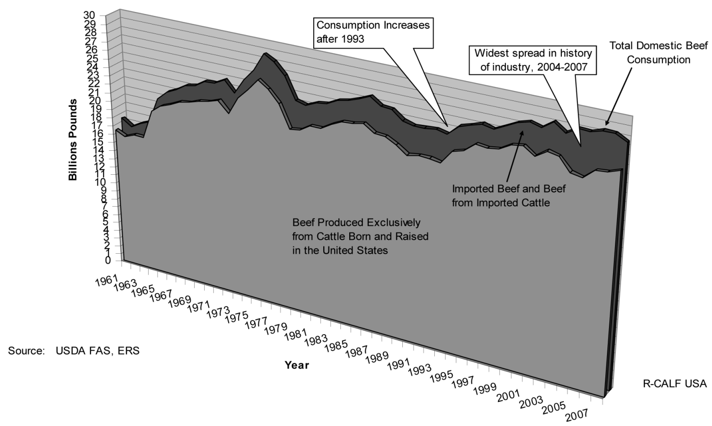
[118] Cattle: Background, Briefing Room, USDA, ERS, updated June 7, 2007, available at http://www.ers.usda.gov/Briefing/Cattle/Background.htm.

CHART 25: Domestic Consumption in Excess of Domestic Production
1961-2008



H. Depressed Cattle Prices While Exports Reach Record Levels is Evidence of Market Failure

The beef packing industry has long assured the U.S. cattle industry that domestic cattle prices increase when U.S. beef exports increase. The NCBA testified before the USITC in November 2007 that, "In fact, the industry 'rule of thumb' is that U.S. beef exports in 2003 added about $15/cwt or $180 to each and every one of the roughly 27 million steers and heifers marketed that year."[119] The NCBA also asserted that the $15 per cwt added export value to fed cattle translates into a $22.20 per cwt (or $166.50 per head) increase in the value of a 750 pound steer, and an increase of $28.20 per cwt (or $155.10 per head) increase in the value of a 550 pound steer.[120]

These beef-packing industry assertions regarding the benefits to live cattle producers from exports at 2003 levels are unfounded and demonstrably false. United States beef exports in the years leading up to 2003 were, in fact, comparable to 2003 levels at approximately 2.4 billion pounds in 1999, 2.5 billion pounds in 2000, 2.3 billion pounds in 2001, 2.5 billion pounds in

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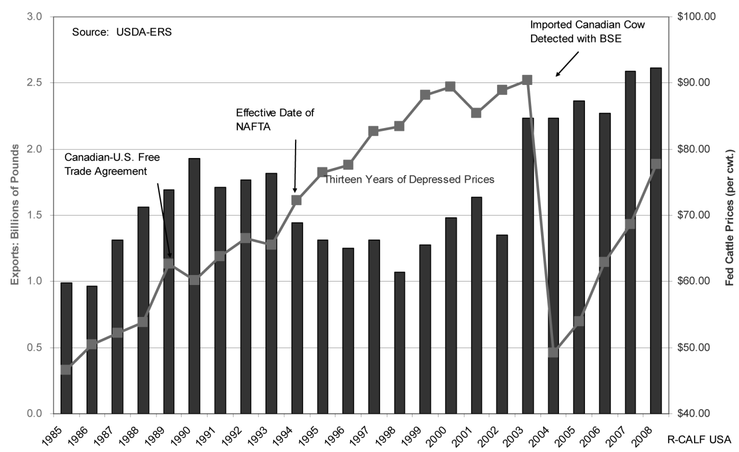
[119] Memorandum of Record, Investigation No. 332-488, Concerning: Global Beef Trade: Effects of Animal Health, Sanitary, Food Safety, and Other Measures on U.S. Beef Exports, U.S. International Trade Commission, Nov. 15, 2007.

[120] *See* Special Report: How do Canadian Beef Imports Affect Our Business? Greg Doud, Chief Economist, NCBA, Issues Update 2004, Trade/Marketing/Economics, May-June 2004, available at https://www.beefusa.org/uDocs/canadian_20beef_20imports_20-_20mayjune_202004.pdf.

2002, and 2.5 billion pounds in 2003.[121] Yet, the prices for U.S. fed cattle in the years leading up to 2003 were severely depressed: Per hundredweight Nebraska Direct Choice steer prices were only $67.56 in 1999, $69.65 in 2000, $72.71 in 2001, $67.04 in 2002, and then jumped to $84.69 in 2003 following the curtailment of Canadian cattle imports that occurred on May 20 of that year.[122] However, when U.S. beef exports fell to less than half a billion pounds in 2004, falling to a 19-year low, U.S. fed cattle prices rose to their highest nominal levels in history (chart 26), and so too did prices for all classes of cattle, including 750-weight and 550-weight cattle. Clearly, the economic benefits of increased beef exports are being captured by beef packers *before* they can reach the U.S. cattle market. The fact that historical evidence proves that increased beef exports *do not* translate into increased cattle prices, even when a competitive market would predict they should, is clear evidence of market failure caused by abusive monopsony power.

CHART 26: Relationship Between Export Volumes and Fed Cattle Prices



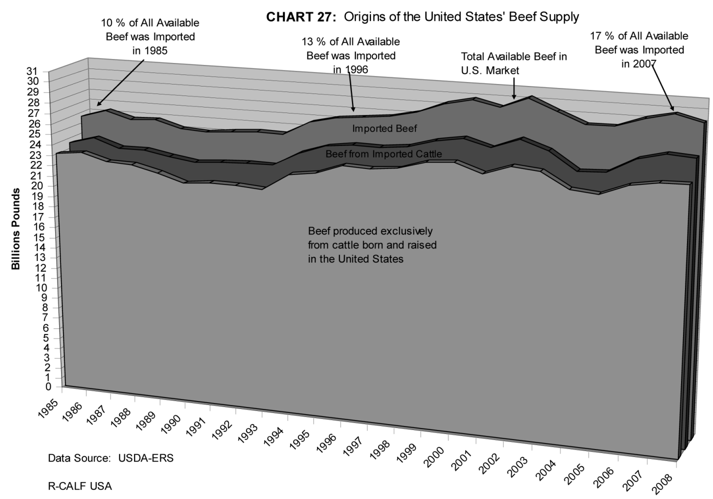
I. A Shrinking Cattle Industry That Is Simultaneously Losing Its Market Share of the Total Available Beef Supply Is Evidence of Market Failure

The total available beef supply includes all beef in the U.S. market that is available for domestic consumption and export. The phenomenon described immediately above, whereby cattle

[121] *See* Beef and veal: Annual and cumulative year-to-date U.S. trade (carcass weight, 1,000 pounds), Data Sets, U.S. Department of Agriculture Economic Research Service, available at http://www.ers.usda.gov/data/meattrade/BeefVealYearly.htm.

[122] *See* Livestock Prices, Red Meat Yearbook Data Sets, U.S. Department of Agriculture Economic Research Service, available at http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1354.

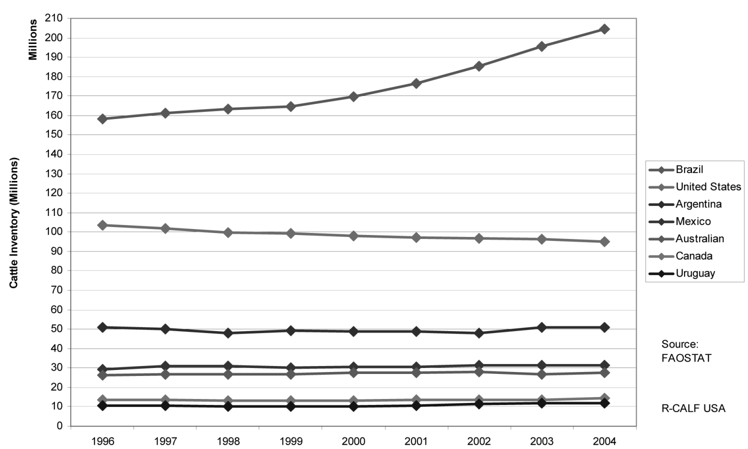
producers are not benefiting from increased exports, can be explained by the cattle industry's lost share of the total available beef supply (chart 27). As is readily discernable from the chart below, the U.S. cattle industry's share of the United States' total available beef supply has been systematically reduced since 1985. Because imports are capturing an ever increasing share of the domestic supply of beef, benefits from increased exports are unable to translate into higher domestic cattle prices. Instead, increased exports are offset by the increased imports and translate into additional profits for the beef packers that are strategically sourcing imported cattle and beef to increase their market leverage over domestic cattle prices, thus constraining domestic cattle production. The U.S. cattle industry's ongoing loss of its share of the United States' total available beef supply is evidence of market failure caused by abusive monopsony power.



J. A Shrinking U.S. Cattle Herd Size While Global Beef Competitors Were Expanding Their Cattle Herds Is Evidence of Market Failure

Beginning in 1996, when the U.S. began liquidating its cattle herd, and continuing through 2004, following the discoveries of BSE in Canadian-born cattle that disrupted global trade patterns, the United States was the *only* major beef exporting country that was appreciably reducing its cattle herd size (chart 28). Other major beef producing countries: Brazil, Mexico, Australia, Canada and Uruguay were all increasing the size of their respective herds, while Argentina's herd size remained relatively stable, decreasing only slightly throughout this period.

CHART 28: Pre-BSE Changes In World Cattle Herd Sizes



The United States is the worlds' largest beef producer and was, during the period prior to 2004, the worlds' second largest beef exporting country. It is counterintuitive that the U.S. cattle herd would have been shrinking during this prolonged period when its global competitors were expanding their herd sizes, and consequently their production capacity. The fact that the U.S. was shrinking its cattle herd and its production capacity during this period is indicates that the U.S. cattle industry was being unduly constrained and is evidence of market failure caused by abusive monopsony power.

IV. KNOWN OR SUSPECTED PRACTICES BY BEEF PACKERS THAT CONSTITUTE ANTICOMPETITIVE BEHAVIOR AND/OR VIOLATIONS OF ANTITRUST STATUTES

A. Coercive Threats to Cattle Producers to Advance Beef Packers' Political Goals

The beef packing industry recently exacted its market power on the U.S. cattle industry for purposes of influencing national public policy; and, in doing so, imposed unnecessary costs and burdens on U.S. cattle producers, which costs and burdens U.S. producers could not avoid without eliminating or severely limiting their marketing options. In March 2003, beef packer IBP, Inc. (now Tyson) notified U.S. cattle producers that it would require producers to, *inter alia*, "Provide IBP, inc. access to your [producers'] records so that we [IBP] can perform random producer audits . . ." and "Provide third-party verified documentation of where the livestock we [IBP] purchase from you [producers] were born and raised."[123]

This coercive threat to impose costly and burdensome requirements on U.S. cattle producers was initiated by IBP for the express purpose of soliciting producers' help in contacting "Senators or members of Congress," to whom producers were asked to express their concerns regarding IBP's plans to impose such onerous conditions on their industry. This was IBP's response to Congress' passage of the mandatory country-of-origin labeling (COOL) law.[124] This abuse of market power was initiated months *before* USDA even published its October 30, 2003, proposed rule to implement the COOL law.

B. Imposition of Arbitrary Production Specifications that Lead to Producer Discounts and Facilitate Preferential Treatment

In addition to the application of price premiums and discounts for contract or grid-priced cattle that are based on standardized USDA yield and quality grades, Tyson and Smithfield (now JBS) had each established different price premiums and discounts for additional factors, such as muscle scoring. For example, Smithfield discounted certain muscle scores between $5.00 per cwt. and $10.00 per cwt, and Tyson uses muscle scores to apply varying discounts under a different system.[125] These discounts and premiums are purported to reflect consumer preferences,[126] but whether a $120 discount (i.e., $10 per cwt. applied to a 1,200 lb. animal) is reflective of the actual discount the beef packer receives upon the sale of the resulting meat, or if it represents a windfall for the beef packing industry, is undeterminable without additional information. Nevertheless, the ability to impose such discounts, without knowing if they are legitimate, is currently facilitated by the limited marketing outlets available to U.S. cattle producers.

In addition, producers that sell cattle "in-the-meat" (meaning they agree to receive payment after the packer slaughters the cattle and evaluates the animal's carcass traits) rather than "live" (meaning they receive payment based on the live weight of the animal), are literally at the mercy of the beef packer for determinations of carcass traits. There are a host of discounts imposed by packers for "in-the-meat" sales including discounts for hard bone, dark cutters, overweight, underweight and overage. But, it is the beef packer who applies discounts for such factors without the producer being present to contest the beef packers' determination. This practice puts producers at a serious disadvantage and is ripe for abuse, including preferential treatment whereby some producers may not be assessed the same discounts assessed to others. Also, and based on anecdotal information, some beef packers in some regions do not give cattle producers a choice between selling "in-the-meat" or "live," and offer only bids for "in the meat" sales.

Also based on anecdotal information, beef packers can use discount schemes to grant preferences to certain cattle feeders by, e.g., paying preferred feeders an average, non-discounted price for

[123] Letter from Bruce Bass, IBP, Inc., to Producers, March 2003.
[124] *Ibid.*
[125] *See* Muscle Scoring Provides Important Production Tips, Nexus Marketing, Ames, Iowa.
[126] *See id.*

low quality cattle while taking deeper discounts from non-preferred feeders that sell higher quality cattle.

And, anecdotal information indicates that beef packers do pass over some feeders (i.e., do not offer a bid for cattle on the feeder's show list) until the feeder's cattle become overweight, at which time the beef packer offers a bid with significant discounts for the heavier-weight cattle.

C. Procurement Practices Lead to Pricing Anomalies that Benefit Beef Packers

As part of its investigation, the Justice Department and USDA should determine if pricing strategies of the concentrated beef packers, such as that described in the examples above, are among the reasons for the pricing anomalies disclosed in the LMMS study. The LMMS study states that in direct trade transactions based on a carcass weight valuation, the average cattle price is 1.3 cents lower than the average price for direct trade transactions with live weight valuation.[127] Even more striking is the difference for grid valuation transactions, where prices average 1.8 cents lower than the average price for direct trade transactions.[128] Assuming an average dressed weight for cattle of 781 pounds,[129] this price differential translates into a loss of $10.15/head for producers selling on a carcass weight basis and a loss of $14.06/head for producers selling on a cash grid basis compared to producers selling on a live weight valuation. It is important to note that these comparisons hold other explanatory variables for price differentials fixed in the model.[130] When this price difference is multiplied times the volume of cattle sold during the period examined by the LMMS study, it adds up to a total loss of $202,631,068 for producers who sold their cattle on the cash market on a carcass weight or grid basis rather than a live weight basis.[131]

The LMMS study reveals that cattle producers selling their animals on a carcass weight basis or a grid basis have lost more than $200 million on these transactions in the period covered by the study. The anomalous price differential for dressed weight and grid basis cattle compared to cattle sold on a live weight basis appears counter-intuitive and contradicts a conclusion that beef packers use purchasing methods that provide an incentive for quality and yield. Instead, it appears that the uncertainty inherent in dressed weight and grid basis transactions, and the transference of that price risk from beef manufacturers to cattle producers through these types of transactions, has only operated to depress prices for live cattle and to deprive cattle producers of a market-based price for their product.

The data suggest that beef manufacturers have been able to manipulate the grid system to engineer a lower overall average return to producers who sell on a grid basis. This practice fails to send the right market signals to producers and feeders, and it creates a counter-intuitive disincentive to sell on a grid basis and to seek premiums for yield and quality characteristics.

[127] *See* GIPSA Livestock and Meat Marketing Study, Vol. 3 (Jan. 2007) at 2-39.
[128] *See Ibid.*
[129] *See id*., at 1-21.
[130] *See id*. at 2-39.
[131] This estimate is based on a total of 58 million head of cattle sold reported to RTI from October 2002 through March 2005 and RTI statistics showing that 61.7% of these cattle were sold on the cash or spot market, 17% of which were on a carcass weight basis and 28% of which were on a grid basis. *See Id*. at ES-3 – ES-4, 2-40.

The LMMS data reveal an unreasonable and unfair depression of cattle prices for those producers who sell on a grid basis that is contrary to competitive market fundamentals.

D. Current Procurement Practices Facilitate a Division of the Market that May Eliminating Competition for Certain Subclasses of Cattle in Certain Regions

Tyson Fresh Meats, Inc., ("Tyson") recently issued presumably new terms and conditions under which it will purchase cattle for slaughter.[132] Tyson states that it "does not typically accept for processing at its facilities" cattle that exceed 58 inches in height, cattle that exceed 1,500 pounds, or cattle with horns longer than 6 inches in length.[133] The imposition of such restrictions presents a number of competition-related concerns: First, if Tyson is one of only two buyers in the marketing region where such restricted cattle are potentially available (i.e., cattle are approaching but have not yet exceeded any of Tyson's restrictions) and if the other buyer imposed no comparable restrictions, then the other buyer would have an incentive not to bid on such cattle, which, if Tyson did not purchase, would be available for sale at a discount as soon as Tyson's restrictions were exceeded. In fact, Tyson would have an incentive to lowball such potentially available cattle knowing that if the producer did not sell to Tyson within a short period of time, there would be no competition for the cattle after the restrictions were exceeded. Second, for cattle that already exceed Tyson's restrictions, regardless of the demand for beef, the producer would have significantly fewer market outlets for the cattle. Third, as stated above, the beef packers' can manipulate the weight of cattle simply by limiting market access to a cattle feeder, such as bypassing feeders with slaughter-ready cattle as also discussed above.

The imposition of certain restrictions on the type of cattle a beef packer will purchase could constitute an outright denial of access to the marketplace for producers with only one or two packer buyers. Or, it could result in the division of the marketplace if, e.g., one beef packer were to accept only steers, only heifers, only Holsteins, or only hornless cattle. If this were to occur, or if it is occurring, the marketplace could be sufficiently divided by the few beef packers to severely limit competition for each subclass of cattle, if not eliminate competition altogether.

E. Beef Packers Have Engaged in Coordinated Actions with the Effect of Lowering Domestic Cattle Prices.

Under the existing, concentrated structure of the beef packing industry, empirical evidence shows the U.S. cattle market has been subjected to coordinated entries and exits from the market. In February 2006, all four major beef packers – Tyson, Cargill, Swift (now JBS), and National – withdrew from the cash cattle market in the Southern Plains for an unprecedented period of two weeks. On February 13, 2006, market analysts reported that no cattle had sold in Kansas or Texas in the previous week.[134] No cash trade occurred on the southern plains through Thursday of the next week, marking, as one trade publication noted, "one of the few times in recent memory when the region sold no cattle in a non-holiday week."[135] Market analysts noted that

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[132] *See* Standard Terms and Conditions for the Sale of Cattle to Tyson Fresh Meats, Inc. ("TFM"), Effective Date – February 4, 2008, attached as Exhibit 16.
[133] *Id*.
[134] "Packers Finally Seriously Cut Kills," *Cattle Buyers Weekly* (Feb. 13, 2006).
[135] "Classic Standoff Continues Through Thursday," *Cattle Buyers Weekly* (Feb. 20, 2006).

"[n]o sales for the second week in a row would be unprecedented in the modern history of the market."[136] During the week of February 13 through 17, there were no significant trades in Kansas, western Oklahoma, and Texas for the second week in a row.[137] Market reports indicated that Friday, February 17, 2006, marked two full weeks in which there had been very light to non-existent trading in the cash market, with many feedlots in Kansas, Oklahoma, and Texas reporting no bids at all for the past week.[138]

The beef packers made minimal to no purchases on the cash market, relying on captive supplies of cattle to keep their plants running for two weeks and cutting production rather than participating in the cash market. The beef packers reduced slaughter rates rather than enter the cash market. Cattle slaughter for the week of February 13 – 17 was just 526,000 head, down from 585,000 the previous week and 571,000 at the same time a year earlier.[139] According to one analyst, the decision to cut slaughter volume indicated "the determination by beef packers to regain control of their portion of the beef price pipeline."[140] Another trade publication noted that the dramatic drop in slaughter was undertaken in part to "try and get cattle bought cheaper."[141] At the end of the second week of the buyers' abandonment of the cash market, one market news service reported, "The big question was whether one major [packer] would break ranks and offer higher money. That has often occurred in the past, said analysts."[142]

As a result of the beef packers shunning the cash market, cash prices fell for fed cattle, replacement cattle, and in futures markets. Sales took place after feedlots in Kansas and the Texas Panhandle lowered their prices to $89 per hundredweight, down $3 from the $92 per hundredweight price reported in the beginning of February.[143] The same day, February 17, live and feeder cattle futures fell to multi-month lows.[144] Replacement cattle prices also dropped in response to buyer reluctance.[145] In Oklahoma City, prices for feeder cattle dropped as much as $4 per hundredweight.[146]

The beef packers' simultaneous boycott of the cash market appears deliberately coordinated. It was a highly unusual event that required simultaneous action in order to effectively drive down prices, which it did. As market analysts observed, the major question in markets during the second week of the buyers' strike was whether or not any one of the major beef packers would "break ranks" to purchase at higher prices than the other beef packers. No buyer did so until prices began to fall. In fact, beef packers were willing to cut production rather than break ranks and purchase on the cash market.

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[136] "Classic Standoff Continues Through Thursday," *Cattle Buyers Weekly* (Feb. 20, 2006).
[137] Curt Thacker, "Cash Cattle Quiet 2-20," *Dow Jones Newswires* (Feb. 20, 2006).
[138] Lester Aldrich, "Cash Cattle Standoff 2-17," *Dow Jones Newswires* (Feb. 17, 2006).
[139] Curt Thacker, "Cash Cattle Quiet 2-20," *Dow Jones Newswires* (Feb. 20, 2006).
[140] Jim Cote, "Today's Beef Outlook 2-17," *Dow Jones Newswires* (Feb. 17, 2006).
[141] "Classic Standoff Continues Through Thursday," *Cattle Buyers Weekly* (Feb. 20, 2006).
[142] "Classic Standoff Continues Through Thursday," *Cattle Buyers Weekly* (Feb. 20, 2006).
[143] Curt Thacker, "Cash Cattle Quiet 2-20," *Dow Jones Newswires* (Feb. 20, 2006).
[144] Jim Cote, "Live Cattle ReCap – 2/17/2006," *Dow Jones Newswires* (Feb. 17, 2006).
[145] "The Markets," *AgCenter Cattle Report* (Feb. 18, 2006), available on-line at http://www.agcenter.com/cattlereport.asp.
[146] "The Markets," *AgCenter Cattle Report* (Feb. 18, 2006), available on-line at http://www.agcenter.com/cattlereport.asp.

Abandonment of the cash market in the Southern Plains by all major beef packers for two weeks in a row resulted in lower prices and had an adverse effect on competition. Cattle producers in the Southern Plains cash markets during those two weeks were unable to sell their product until prices fell to a level that the buyers would finally accept. The simultaneous refusal to engage in the market did not just have an adverse effect on competition – it effectively precluded competition altogether by closing down an important market for sellers. The simultaneous boycott of cash markets in the Southern Plains was, however, a business decision on the part of the beef packers that did not conform to normal business practices and that resulted in a marked decline in cattle prices. At the time, market analysts interpreted the refusal to participate in the cash market as a strategy to drive down prices, and purchases only resumed once prices began to fall.

The coordinated action in February 2006 was not isolated and was soon followed by a second, coordinated action. During the week that ended October 13, 2006, three of the nation's four largest beef packers – Tyson, Swift, and National - announced simultaneously that they would all reduce cattle slaughter, with some citing, *inter alia,* high cattle prices and tight cattle supplies as the reason for their cutback.[147] During that week, the packers reportedly slaughtered an estimated 10,000 fewer cattle than the previous week, but 16,000 more cattle than they did the year before.[148] Fed cattle prices still fell $2 per hundredweight to $3 per hundredweight and feeder prices fell $3 per hundredweight to $10 per hundredweight.[149]

By Friday of the next week, October 20, 2006, the beef packers reportedly slaughtered 14,000 more cattle than they did the week before and 18,000 more cattle than the year before – indicating they did not cut back slaughter like they said they would.[150] Nevertheless, live cattle prices kept falling, with fed cattle prices down another $1 per hundredweight to $2 per hundredweight and feeder cattle prices were down another $4 per hundredweight to $8 per hundredweight.[151]

The anticompetitive behavior exhibited by the beef packers' coordinated market actions caused severe reductions to U.S. live cattle prices on at least two occasions in 2006. This demonstrates that the exercise of market power is already manifested in the U.S. cattle industry.

F. The Beef Packers' Dual Role as a Feeder and a Packer Enables Them to Force Smaller Feeders Out of Business

Because beef packers now participate in both the feeder cattle market and the final cattle market, they are positioned to drive smaller cattle feeders out of business. This can be accomplished by knowingly overbidding for feeder cattle to force smaller feeders to pay higher than competitive prices in order to fill their feedlots. Though both the packer and the smaller feeder would suffer financial losses as a result of such action, the long-term effect would be the exodus of smaller

[147] *See* "National Beef Cuts Hours at Two Kansas Plants (Dodge City, Liberal)," Kansas City Business Journal (October 10, 2006); "Update 1 – Tyson Foods to Reduce Beef Production," Reuters (October 10, 2006); "Swift to Stay with Reduced Production at U.S. Facilities," Meatpoultry.com (October 10, 2006).
[148] *See* "Livestock Market Briefs, Brownfield Ag Network," (October 13, 2006).
[149] *See id.*
[150] *See* "Livestock Market Briefs, Brownfield Ag Network," (October 20, 2006).
[151] *See id*.

feeders from the industry, leaving the packer-feeder with even greater buying power in the feeder cattle market. Moreover, when the packer-feeder's higher priced feeder calves are ready for slaughter, the packer-feeder could use these cattle to avoid purchasing fed cattle in the final cattle market. The effect would be to further depress fed cattle prices, which likely would enable the beef packer to recoup any losses resulting from the higher-priced feeder cattle.

Though this type of predatory purchasing would benefit feeder cattle sellers in the short term, the long-term results would be disastrous as the feeding sector would become even more concentrated and both the final cattle market and the feeder cattle market would become even less competitive. R-CALF USA urges the Department of Justice and USDA to take action to eliminate the beef packer from the feeder cattle market.

G. The Beef Packers' Dominance in the Cash Market Is Mirrored in the Futures Market, Where They Also Can Exercise Market Power

R-CALF USA is concerned that beef packers are able to significantly influence the commodities futures market, rendering it unsuitable for managing the risks of independent cattle producers. Practices such as shorting the market to drive down both cash and futures prices, particularly on the last trading day of the month before futures contracts expire are a form of market manipulation. The October 2009 futures board, e.g., broke the limit down on the last trading day in October, causing an unprecedented number of live cattle deliveries to occur. Based on information and belief, the manipulative practices by the beef packers in the commodities futures market has created a disinterest among speculators who would otherwise participate in long speculative positions in the market. The lack of speculative long positions in the market may well be depressing the cash and futures market by several dollars per hundredweight and reducing the utility of the commodity futures market as a risk management tool for cattle producers. R-CALF USA urges the Department of Justice and USDA to investigate the beef packers' activities in the commodities futures market.

H. Concentrated Beef Packers Are Uniquely Positioned to Manipulate Beef Demand to Prevent U.S. Cattle Prices from Responding to Tight Domestic Supplies

The mandatory country of origin labeling (COOL) law implemented in 2008 was expected to allow a consumer preference for USA beef to translate directly into an increased demand for cattle born, raised, and slaughtered in the United States. However, the nation's beef packers resisted the COOL law and began labeling exclusively USA beef with a multi-country label, e.g., "Product of Mexico, Canada and the U.S." The effect of this action was to thwart consumer demand for exclusively domestic beef from translating into a demand for USA cattle, thus enabling beef packers to continue satisfying only a generic demand for beef and sourcing the cattle needed to satisfy that generic demand from any country.

In addition to the discussion above regarding the beef packers' ability to manipulate beef consumption though its control over the price and output of competing proteins, just as the concentrated beef packers are the gatekeepers to the slaughter market for fed cattle, their tremendous market dominance also makes them gatekeepers to the flow of beef to retail stores and consumers. Either unilaterally or in concert with retailers, beef packers can suppress domestic demand for beef by maintaining high beef prices. The effect of this action would be to suppress the U.S. cattle market even when cattle supplies are at an all-time low. This appears to be what is taking place in the marketplace today: consumer beef prices are being held at near record levels and despite the tight cattle supply situation, cattle prices remain severely depressed. R-CALF USA urges the Department of Justice and USDA to thoroughly investigate the beef packers wholesale and retail selling practices to determine the extent to which the beef packing industry is manipulating beef demand, hence the price and demand for U.S. cattle.

V. RECOMMENDATIONS AND CONCLUSION

As a first step, R-CALF USA urges the Department of Justice and USDA to take immediate and decisive action to enforce the Packers and Stockyards Act (PSA) and halt the beef packers' anticompetitive use of captive supply cattle to manipulate and control the U.S. cattle market. The beef packers' ongoing use of packer-owned cattle and certain marketing arrangements, particularly formula contracts, in our opinion, is a clear violation of the express language contained in the PSA. Contrary to recent court decisions involving private PSA actions that have focused either on the beef packers' intent to manipulate or control prices, or of creating a monopoly; or that have created a justifiable defense for violators not contained in the statute, we believe Congress has expressly and precisely established a distinct threshold that prohibit acts or practices by the beef packers' that have the effect of manipulating or controlling prices, or of creating a monopoly, even absent a showing of intent.

R-CALF USA greatly appreciates the Department of Justice's and USDA's keen interest regarding the current state of competition in agricultural markets and we would be pleased for the opportunity to work with the Department of Justice and USDA to discuss in more detail a comprehensive solution to the plight of our U.S. cattle industry that is described herein.

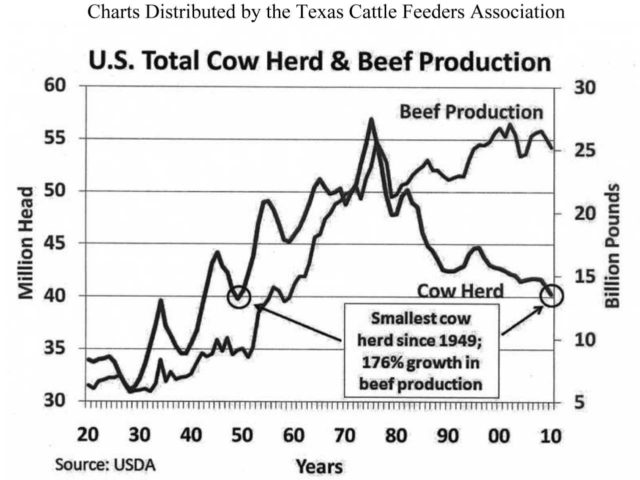
Sincerely,

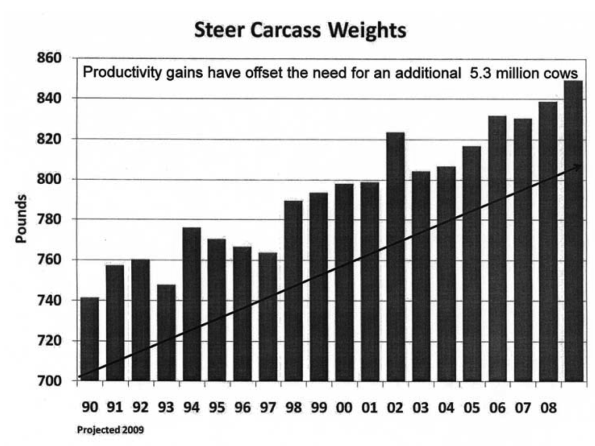
Bill Bullard, CEO

Attachment: 1

Attachment 1

Charts Distributed by the Texas Cattle Feeders Association





SUBMITTED E-MAIL FROM MARTHA N. HELLYER, HELLYER LIMITED PARTNERSHIP, LANDER, WY

From: Martha Hellyer
Sent: Tuesday, May 04, 2010 9:56 AM
To: Obermueller, Pete
Subject: Grassland Reserve Program
Follow Up Flag: Follow up
Flag Status: Flagged

RE: Hearing on Grassland Reserve Program

Dear Pete and Pam,

Our ranch enrolled 4,000 acres in the Grassland Reserve Program in 2006. We have a 10 year enrollment. These 4,000 acres are scattered across and within our 100,000 acre Federal Grazing Allotment. These acres are in wilderness study areas, historical landscapes, and critical wildlife habitats. The GRP has been very beneficial to the viability and success of our ranch. The GRP has also been very beneficial to the viability and success of the Landscape; the ranch and the landscape are dependent on each other.

We would like to note that the long term stability of the land is directly related to the long term security of the Federal grazing permits.

Thank you,

MARTHA HELLYER.

SUBMITTED STATEMENT FROM CARL A. LARSON, SHEEP RANCHER, SUMMIT COUNTY, UT

Statement regarding "Forest Health and the Bark Beetle Epidemic"

House Agriculture Committee Hearing—Cheyenne, Wyoming—May 4, 2010

My name is Carl A. Larson. I graduated from the University of Wyoming in January 1958 with a major in Range Management. I am a third generation sheep rancher in southwestern Wyoming. We summer our sheep (4 herds) on the North Slope of the Uinta Mountains in Summit County, Utah. My Grandfather began running his sheep in these mountains about 1900. We have been intimately involved in being good stewards of the forest in which we graze our sheep, over all of these years.

We are now very sad to see the devastation caused by the bark beetle infestations over these past few years. We know that these beetles come in cycles—and we also know that healthy trees can withstand an attack by these bark beetles.

The Intermountain Forest & Range Experiment Station, Forest Service, USDA, in Ogden, Utah published. in 1965, the Research Paper INT–23, titled, *Timber Management Issues on Utah's North Slope.* This Research Paper states, "If the North Slope were to be brought under management as a sustained yield unit, the task would be difficult because the age distribution is unbalanced and is dominated by overmature stands. More than half of the coniferous forest bears stands that are mature or overmature . . . The North Slope Forest is in a state of rapid attrition. Because more than half of the conifer timber is mature or overmature, the North Slope lodgepole pine has been under intermittent siege by mountain pine beetles for several decades . . . Forty-four percent of the 201,000 acres of mature and overmature timber is classified as 'high risk'. Until this timber is logged or killed, periodic flareups of the mountain pine beetle and other insects must be expected."

The 1985 Forest plan confirmed the deteriorating condition of the forest, by stating, "Of the Forest's 212,000 acres of lodgepole pine, about 98,700 acres is rated as having high to medium susceptibility to attack by mountain pine beetle."

In the 5 year monitoring report of the 1985 Forest Plan, dated June 1, 1992, under goal #25 it states, "Concentrate timber harvesting in the moderate to high risk lodgepole pine stands to reduce resource losses caused by the mountain pine beetle. Objective: Offer 14.7 Million boardfeet (MMBF) of sawtimber annually by the end of the first decade."

The 1985 Forest Plan set the Annual Sale Quantity (ASQ) of timber at approximately 16 MMBF, later reduced to 12.5 MMBF due to an error in double counting part of the timber resource. The actual timber volume offered and sold ranged from 11.5 to 14.0 MMBF in the late 1980's, to 10.0 MMBF in 1991, 1992 and 1993, down to 1.8 MMBF in 1995, 1.7 MMBF in 1996 and 4.9 MMBF in 1999. The timber required for the sawmills in Uinta County at this time was approximately 12 MMBF. The timber supplied to our local mills from Forest Service lands has decreased from approximately 90% to 50% for one of our two largest sawmills and to 0% for our largest sawmill.

The Reason—The Environmental Movement

Roadless areas were set out, then expanded. Threatened & endangered species were used to stop proposed timber sales. Almost every timber sale was appealed by the environmental groups. The destruction of our forests and watersheds is blood on their hands.

We are now faced with the difficult task of removing roadless areas designations so we can access the areas of dead trees, in order to construct fire breaks, remove the massive fuel load which will inevitably contribute to a major wildfire and begin a needed forest management plan.

We Need Your Help in Removing the Roadless Area Designations—Especially The "Little West Fork Blacks"—Without this we are facing 'A hot, fast moving wildfire, resulting in the loss of human lives, death of livestock, homes burned to the ground, water quality impaired, air quality polluted & our large irrigation and culinary water reservoirs filled with silt.

Thank you.

SUBMITTED LETTER FROM ROBERT LERESCHE, CHAIR, POWDER RIVER BASIN RESOURCE COUNCIL

May 4, 2010

Hon. COLIN C. PETERSON,
Chairman,
House Committee on Agriculture
Washington, D.C.;

Hon. FRANK D. LUCAS,
Ranking Minority Member,
House Committee on Agriculture
Washington, D.C.

Dear Chairman Peterson and Ranking Member Lucas,

Thank you all for this opportunity to provide our input on the next farm bill. We very much appreciate the Committee traveling to the State of Wyoming today.

Powder River Basin Resource Council is a member-run organization based in Wyoming whose mission includes the preservation and enrichment of our agricultural heritage and rural lifestyle. PRBRC is a member organization of the Western Organization of Resource Councils which has a critical presence in Washington, D.C.

As you deliberate the next farm bill that addresses such a vast array of programs for the people and Agricultural producers of these United States, we would prioritize our comments today to a specific issue that is yet to be fully initiated as requested by Congress in the 2008 Farm Bill.

Congress is currently wrestling with issues of regulation in the banking and financial industries. So too, must Congress bring fairness back to our food industry. For far too long, the meats packing industry has been dominated by a handful of corporate processors. There is close to a 90% chance that the beef you consume today would have been slaughtered and processed by one of the only four biggest controlling companies in this industry.

To bring fairness to all producers, feeders and processors, we urge you to continue to use your legislative powers to:

(1) Prohibit packers from procuring cattle for slaughter through the use of a forward contract, unless the contract contains a firm base price and can be equated to a fixed dollar amount on the day that contract is signed, and that forward contracts are offered or bid in an open, public manner.

(2) Prohibit packers from owning and feeding cattle, unless the cattle are sold for slaughter in an open and public marketplace.

In the 2008 Farm Bill, Congress directed the USDA to fully define what constitutes an "undue and unreasonable preference" in livestock markets as contained in the Packers & Stockyards Act of 1921. Subsequent rule making is presently being generated within the USDA and the public awaits this publication.

The outcome of this rule making is unknown. We anticipate that the fight for fair competition and successful free enterprise agriculture among our independent ranchers and farmers, feeders and processors will continue for years to come.

Therefore, as you anticipate the major issues of the 2012 Farm Bill, please continue to strive toward open and fair markets for livestock producers. The control of our precious wealth of food stuffs by a small cartel of industrial giants will no doubt continue due to volume of scale and capacity alone. However, the laws and subsequent rules passed by Congress can return fairness and openness to these markets and provide true competition in agriculture once again.

Thank you again for the opportunity to provide input to this Committee today. We very much appreciate your efforts on these issues critical to America. If you would like more information on solutions which Congress can enact to return this fairness to the livestock industry, please contact us at [Redacted] or go to our website at *powderriverbasin.org.*

Sincerely,

PRBRC.

CC:

Rep. Boswell;
Rep. Conaway;
Rep. Cardoza;
Rep. Fortenberry;
Rep. Costa;
Rep. Lummis;
Rep. Markey;
Rep. Smith.

SUBMITTED STATEMENT BY ALAN MERRILL, PRESIDENT, MONTANA FARMERS UNION

Congressman Peterson and Members of the Committee: Thank you for the opportunity to testify today on farm bill possibilities for Montana's agricultural producers. My name is Alan Merrill, and I am President of the Montana Farmers Union. I want to thank you for holding this hearing, and we look forward to working with you as the development of the 2012 Farm Bill moves forward.

As you may know, Montana Farmers Union is an organization whose policies originate from the ground up. Our producer members develop our policy every year at our convention. I'd like to share some of their concerns and goals with you today.

One of our first policy charges is to work to promote a price balance between sales and cost of farm operations. A priority for the 2012 Farm Bill should be profitability for our country's farmers and ranchers: a policy that allows farmers to earn their income from the market and assures them a safety net during times of low commodity prices and/or rising costs of production.

We believe that farm policy should provide a meaningful measure of price protection, be targeted toward family farmers and ranchers, and ensure competition in the marketplace.

It is our belief that the next Farm Bill should include provisions to ensure that farmers, ranchers and rural communities will be a part of an economic climate that will permit family-based agriculture to flourish.

1. We believe the primary goal of commodity programs should be to provide economic stability and opportunities for producers. We suggest a farm income safety net that uses countercyclical payments indexed to the cost of production to support family farmers during periods of low commodity prices;

2. The next farm bill should continue to fine-tune programs designed to assist farmers and ranchers to develop and implement conservation cost-share programs;

3. A competition title that addresses current anti-trust practices and ensures anti-trust laws will be enforced;

4. A renewable energy title that makes energy independence a national priority—one that puts farmer, rancher and community ownership of renewable energy first; one that encourages value-added projects, including biofuels and farmer and community-owned wind energy;

5. A rural development title that helps farmers, ranchers and rural communities develop economic opportunities for the betterment of rural America; and

6. The bill needs a strong nutrition title that provides basic food and nutrition needs for all citizens in need and enhances increased development and delivery of community-based food and local agriculture systems.

Fuels from the Farm

Energy is vital to securing our nation's needs for food and fiber. Montana Farmers Union supports a balanced, comprehensive energy policy that seeks energy independence for the United States, protects our nation's environment and recognizes the special needs of America's agricultural sector.

Renewable energy from farm-generated operations continues to provide opportunities in farm country. Montana Farmers Union members believe the economic benefits made possible through renewable energy projects should remain in our rural communities. Many times in our state's history we have seen large corporate investments draw the wealth out with little or no reinvestment in the local economy. We urge the Committee to ensure that USDA Rural Development and other programs that are developed for renewable fuels give a competitive advantage to farmer-owned and locally owned efforts.

Energy, economic development, national security and environmental quality are inextricably linked. Home-grown energy solutions offer tremendous potential for farmers and ranchers to capture more income; for rural communities to prosper, and for the nation to lessen its dependence on foreign oil.

Conservation Investments

Montana Farmers Union policy advocates for conservation funding to include soil, water, and energy as responsible economic investment avenues now and into the future. Conservation programs should be good for the environment, reward stewardship, discourage speculative development of fragile land resources, strengthen family fanning and enhance rural communities.

Competition

One thing that has not changed through the years is the vulnerability of agriculture producers to anti-competitive conduct.

Consolidation in rail transportation, for example, has injured Montana's "captive" grain farmers who are served by one dominant railroad. According to the USDA, rail rates for grains and oilseeds have increased 73 percent since 2003 and rail rates in 2008 for grains and oilseeds were 81 percent higher than rates for all other commodities. A recent report by Montana's Attorney General's Office found that Montana's captive grain shippers have been charged $19 million more annually by the single monopoly railroad serving the state than grain shippers in more competitive transportation markets.

Montana Farmers Union's agriculture producers strongly urge that all Federal agencies enforce current antitrust laws, and that Congress take the necessary steps to review and reform antitrust regulations where necessary to prevent abuse of captive shippers.

Trade

Free trade and fair trade are incongruent terms in today's world. Montana Farmers Union believes that our current trade agenda does not provide opportunities for farmers to make a profit from the marketplace. Trade negotiations must include labor standards, environmental standards and address currency manipulation situations.

Nutrition and Local Food Systems

We do not believe that there should be hungry people when we have such a capacity to produce safe, nutritious food. We support strong and fully funded nutrition and food programs.

Specifically, we support current programs being developed within USDA that support and promote common-sense solutions for community-based food systems such as the popular **Know Your Farmer; Know Your Food initiative,** and grant programs for specialty crops, beginning farmers, rural cooperative development, value-added ventures, and farmers' market nutrition for seniors and women, infants and children.

We believe in the need to promote local food systems based on cooperative business models in order to reverse the trend of the rural exodus to urban centers and from food deserts back to food self-sufficiency.

At about the same time that USDA announced its pilot Hoop House initiative, Montana Farmers Union awarded its own grant for a hoop house to a newly formed Agricultural Academy at a public high school district in our state. It is programs such as these that help put students and parents in touch with knowledge of where some of their food comes from and helps forge a link between consumers and the farmers and ranchers who grow and raise the food we all enjoy.

In conclusion, we support a 2012 Farm Bill that will help farmers, ranchers and rural Montanans make a profit from the market. The family farm is the keystone of a free, progressive society, as well as a strong America. Farm policy needs to recognize and build on the strength of our nation's agriculture. Every politician, voter, taxpayer, environmentalist, and consumer needs to realize independent family farmers are by far the best stewards of the land and animals.

Federal agricultural policy, with strong conservation, food and energy components, that prioritizes the interests of independent family farmers and ranchers, is vital to the people on the land and to our country.

It is my hope that the committee will keep these proposals in mind as it works to prepare future farm policy. We look forward to working with you to achieve these goals.

Mr. Chairman and members of the committee, again I thank you for holding this hearing and for the opportunity to testify.

ALAN MERRILL,
President,
Montana Farmers Union.

SUBMITTED STATEMENT FROM PATRICK O'TOOLE, PRESIDENT OF THE BOARD, FAMILY FARM ALLIANCE

Good morning, Chairman Peterson and Members of the Committee. My name is Patrick O'Toole, and I serve as president of the Family Farm Alliance (Alliance).

The Alliance is a grassroots organization of family farmers, ranchers, irrigation districts and allied industries in 16 Western states. The Alliance is focused on one mission: To ensure the availability of reliable, affordable irrigation water supplies to Western farmers and ranchers. We are also committed to the fundamental proposition that Western irrigated agriculture must be preserved and protected for a host of economic, sociological, environmental and national security reasons—many of which are often overlooked in the context of other Federal policy decisions.

Introduction

I am honored to be here today to discuss the farm bill, watershed health, conservation and the challenges and opportunities facing Western farmers and ranchers who depend upon adequate water supplies that irrigate the arid West. The Alliance Board of Directors played an active role in the development of the last farm bill. In particular, working with a diverse coalition of commodity groups, conservation organizations, and urban water users, we developed a framework that ultimately became the Agricultural Watershed Enhancement Program (AWEP). We will also soon release a report that contains a dozen case studies that highlight real-world examples of water conservation, water transfers and markets, aging water management infrastructure problems, and watershed restoration and enhancement projects. An important objective of our final report will be to demonstrate that water managers, ranchers and farmers are resourceful and creative individuals who should play an active role in resolving the water conflicts of the West. This testimony touches on these issues and other matters critical to the future of Western farmers and ranchers' ability to provide food, fiber and energy to our nation and the world.

Farm Bill Water Conservation Recommendations

Ranches in the West depend on the availability of both public and private land for economically viable operations. The single most important factor leading to the loss of wildlife and degraded landscapes is fragmentation from development. Ranchers want a stable business climate for their operations. Conservation groups want healthy and productive landscapes. We are already working with conservation groups who share a common interest in supporting working ranches and healthy landscapes and will work further with those groups to ensure that continued emphasis is placed in the farm bill to support incentive-driven conservation programs. Thousands of water and land conservation projects have been completed across the Western United States, and these efforts should continue. We urge that this Committee continue to make farm bill conservation programs a priority and fund those programs accordingly.

Concerns with AWEP

AWEP is a newly-established part of the Environmental Quality Incentives Program (EQIP), a program administered by the Natural Resources Conservation Service (NRCS). The main difference between typical EQIP projects and AWEP projects is that applications for project funding are made directly to the U.S. Secretary of

Agriculture from an organization on behalf of a group of agricultural producers who intend to make water improvements in a geographic area.

The Family Farm Alliance was part of a diverse coalition formed during the crafting of the last farm bill that focused exclusively on the development of the AWEP concept. Our primary motive for engaging in this process was to provide additional funding opportunities—outside of the Interior Department—for irrigation districts and other agricultural water delivery and management organizations to tackle aging infrastructure and water conservation challenges in a more coordinated and effective manner. The original concept behind AWEP was to focus on cooperative approaches to enhancing water quantity and/or quality on a regional scale. This new program—in tandem with multiple conservation tools (including farmland management practices, easement purchases, and ecosystem restoration assistance)—was intended to provide flexibility to cooperative conservation partners to achieve improved water quantity and quality goals.

Some of our members have witnessed firsthand the types of challenges that AWEP advocates were trying to address. For example, the 2002 Farm Bill contained $50 million of EQIP funding to implement water conservation measures in the Klamath Basin of northern California and southern Oregon. These Federal funds were matched by $12.5 million of local money, put up by individual landowners. While the water conservation measures undertaken undoubtedly contributed to improved water use efficiency on individual farms, the EQIP program was intended for on-farm purposes and was not designed to coordinate conservation benefits to meet specific regional goals, such as conserving water for storage and future use. Irrigation districts and other, larger conservation entities, which many times coordinate conservation projects to maximize benefits, were not eligible to compete for these funds in the last farm bill.

Our push on AWEP, in part, was intended to address these types of challenges. There is a need to fund projects that provide water quality or water quantity benefits at a scale that benefits more than just one or two producers. In many instances, coordinated regional water conservation efforts can lead to improved water quantities and quality that can only be physically captured and managed by the water delivery organizations to meet overall goals and objectives. We had hoped that AWEP would provide substantial grant money to irrigation districts or other water agencies, which would be placed in a lead position to work with multiple producers to achieve locally-generated objectives. If consensus at a regional level can be reached on a common approach, there will be a better chance of positive community participation and ultimately, a better bang for the Federal buck.

The original AWEP proposal was solid from a conceptual standpoint, but by the time it made it through the legislative and administrative process, the program that is now in place is not being implemented in a manner consistent with the original vision. Rather than providing funds directly to irrigation districts, the districts instead have been put in situation where they essentially pass the phone number of the local NRCS office on to the individual landowner, and NRCS takes over from there. In essence, this AWEP has simply become an expansion of the existing EQIP program, which was definitely not the intent when this concept was crafted 4 years ago.

Recommendations to Improve AWEP

There may be opportunities with the new farm bill to further improve upon AWEP's initial concept:

1. Provisions should allow direct payment made to irrigation districts, who can than administer the program, working directly with their landowner member farmers. NRCS should still approve the contracts, but we believe more efficient delivery of funds that results real improvements on the ground will occur if the irrigation districts distribute the funds and work with the landowners. Some of these districts have innovative ideas that would lead to the creation of grower education programs, testing, farm water management classes, and irrigation technology seminars that would have immeasurable long-term conservation benefits. Administrative expenses for such partners should be allowed, but be capped;

2. Irrigation districts or similar entities should be allowed to be the basis for "pooling" arrangements, where the benefits of a project which affects multiple landowners is funded by "pooling" their individual AWEP interests into a bigger project;

3. Direction must be provided to improve how NRCS program administrators deliver timely and accurate information, provide reliable and transparent processes, and set firm deadlines;

4. Administrative costs associated with any work performed by the NRCS should be capped at a reasonable level;

5. The role of the Bureau of Reclamation and how that agency coordinates with NRCS in the implementation of this program in Western states must be well thought out, and should compliment the collaborative philosophy (between the Departments of Agriculture and Interior) embedded in the "Bridging the Headgates" initiative endorsed by both the Bush and Clinton Administrations; and

6. The program should provide assurances that the intent is not to reallocate water away from agriculture, but to help stretch limited water supplies for future regional beneficial use. It must also recognize the traditional deference of Federal agencies to state water allocation systems.

Conservation Caveats

The Alliance supports continued voluntary implementation of efficient water management practices included in the farm bill and opposes mandatory or enforceable requirements for agricultural water use efficiency. Only practices that reduce irrecoverable losses actually increase the total useable water supply. Furthermore, water saved within a water district or on-farm is used elsewhere within the same district or farm. Western agriculture in many areas—including California's Central Valley and the Klamath Bain—is already highly efficient in its use of water. More efficient water application does not necessarily increase useable water supplies, but with changes to the AWEP program, coordinated regional water conservation projects can lead to stretching limited supplies to satisfy unmet needs in the future.

Conservation is often seen as the solution to water supply issues. While conservation is surely a tool that can assist in overcoming water supply problems, it cannot be viewed as the single answer to water shortages, as discussed further below. And, as was keenly demonstrated in California's San Joaquin Valley last year—you cannot conserve water if there is no water to conserve.

Importance of Federal Climate Change, Conservation and Infrastructure Assistance

Water conservation and water transfers are important tools for improved management of increasing scarce water resources. However, demand-management actions must be balanced with supply enhancement measures that provide the proper mix of solutions for the varying specific circumstances in the West.

Supply enhancement should include rehabilitation of existing facilities and construction of new infrastructure. Rehabilitation measures should focus on maximizing the conservation effort through increased delivery efficiencies, construction of re-regulation reservoirs on irrigation delivery systems to minimize operational waste, and construction of new dams and reservoirs in watersheds with inadequate storage capacity to increase beneficial use and provide operational flexibility. Additional groundwater supplies should also be developed, but in a manner where groundwater use falls within the safe yield or recharge parameters of the aquifer. Conjunctive management of surface and groundwater supplies should be encouraged. Installation of additional stream gauges, water meters, groundwater recharge projects to employ during times of high surface flow, groundwater monitoring wells and better estimates of consumptive use are of paramount importance for the equitable management of available water supplies.

The Federal Government needs to seriously consider adopting a policy of supporting new projects to enhance water supplies while encouraging state and local interests to take the lead in the planning and implementation of those projects. Local and state interests have shown enormous creativity in designing creative water development projects. For example, the State of Wyoming has initiated its Dam and Reservoir Program, in which proposed new dams with storage capacity of 2,000 acre feet or more and proposed expansions of existing dams of 1,000 acre feet or more qualify for state funding. Wyoming water managers and policy makers recognize that dams and reservoirs typically provide opportunities for many potential uses. While water supply is emphasized in the Wyoming program, recreation, environmental enhancement, flood control, erosion control and hydropower uses are also explored as secondary purposes.

Many water projects are ready to be developed in the West, as demonstrated by studies completed by the Family Farm Alliance and the Bureau of Reclamation in 2005. While conservation and recycling programs have done a tremendous job of meeting new growth, only a small amount of new water storage capacity has been developed in the past 30 years. Maintaining the *status quo* simply isn't sustainable in the face of continued population growth, diminishing snow pack, increasing water consumption to support domestic energy, and emerging environmental demands. We must immediately start building the water infrastructure needed to cope with a changing climate, meet the needs of a burgeoning population, and support a healthy agricultural base in the West.

The Need to Support Local Efforts to Manage Western Watersheds

There are many opportunities for Federal agencies to improve management of the West's biggest "reservoir"—our watersheds. In most Western states, much of the water used derives from snowmelt in mountainous areas. I can tell you from personal experience that I have serious concerns about how the Federal Government is managing the watersheds.

A July 2008 report released by the National Research Council, one of the first major studies on forest and water since a U.S. Forest Service project in 1976, underscores the importance of forests to the nation's water supplies: Forested lands cover about ⅓ of the nation's land area, and although they have roles in timber production, habitat, recreation and wilderness, their most important output may be water. Forests provide natural filtration and storage systems that process nearly ⅔ of the water supply in the U.S. Demand for fresh water continues to rise, while forest acreage is declining and remaining forest lands are threatened by climate change, disease epidemics, and fire. Forest vegetation and soils, if healthy and intact, can benefit human water supplies by controlling water yield, peak flows, low flows, sediment levels, water chemistry and quality.

One of the biggest threats to forests, and the water that derives from them, is the permanent conversion of forested land to residential, industrial and commercial uses. The 2008 report found that modern forest practices have helped to protect streams and riparian zones, but more needs to be learned about the implications of such practices as thinning or partial cuts. This understanding can lead to the development of "best management" practices could help balance timber harvest with sustainable water flow and quality.

We strongly believe that locals should be encouraged and given the tools to lead watershed enhancement efforts. The best decisions on natural resources issues happen at the state and local level. I live in the Little Snake River watershed. Since 1991 numerous agencies, organization, and NGO's have recognized my community and the local governmental natural resource agency, the Little Snake River Conservation District (LSRCD), as leaders in natural resource conservation. Numerous articles featuring work conducted by the LSRCD, area land owners, and its partners have been featured in popular publications like *Farm Journal, Beef Today, Bugle Magazine, Wyoming Wildlife,* and *Range* Magazine as well as peer reviewed journal publication in the *Journal of Soil and Water Conservation* (2008) and the *Journal of Rangeland Ecology* (2009).

These efforts have all been locally-led. Conservation of natural resources in the Little Snake River Basin integrated with agrarian life style and perpetuation of this culture is the highest priority for the local community in the Little Snake Basin. In Wyoming, the local residents have passed a conservation property tax to carry on this work. Since 1990 this tax has generated approximately $8 million in local revenues. These funds have leveraged over $40 million in project money to implement conservation and development projects in the Little Snake River Basin.

Today the Little Snake River Basin hosts a myriad of wildlife and robust natural resources while sustaining compatible agricultural uses and natural resource based recreation businesses. This was accomplished through local leadership and commitment of the Little Snake River Conservation District working collaboratively with over 30 different partner organizations and agencies that have assisted in the conservation of the Little Snake Basin, in a collaborative locally-led process.

Properly managing federally-owned watersheds and encouraging Federal agencies to work with the agricultural community to solve local water problems are imperative. Through thoughtful planning, Congress can play a truly important role in helping find the solutions that have proved so elusive to date.

Climate Change Legislation Considerations

There is broad scientific consensus that even modest changes in the global climate would likely alter precipitation patterns in ways that could pose serious threats to water supplies and agricultural production worldwide, particularly in arid regions such as the American West where a large portion of agricultural production is dependent upon irrigation. A significant reduction in the amount of food and fiber produced by American farmers would have adverse consequences for our economy and national security and for our trading partners abroad.

In the past year, legislation has been introduced to address climate change in a comprehensive and aggressive manner. We had hoped that Congress would share our concern that safeguarding the nation's ability to feed itself should be one of the principal goals of any legislation whose purpose is to marshal a national effort to minimize and adapt to the effects of climate change. Unfortunately, while House-passed climate legislation (H.R. 5424) and legislation introduced by Senators Boxer and Kerry (S. 1733) would commit the Federal Government to employ "*all practical means*" to protect fish and wildlife from the adverse effects of climate change, those proposals include no comparable commitment to ensuring the continued vitality of domestic agriculture and agriculturally-based rural communities. Legislation (S. 1933) introduced by Chairman Bingaman takes a more reasonable approach to natural resources adaptation, and it specifically incorporates the goals and measures of the SECURE Water Act (P.L. 111–11). But it, too, places the greatest emphasis on fish and wildlife.

The Family Farm Alliance supports the goal of conserving natural resources with fish and wildlife adaptation planning, research and programs. But the lack of comparable attention to adaptation needs of domestic agriculture and rural communities calls into question the intent and effects of a large-scale effort focused exclusively on natural resources.

If Congress enacts comprehensive climate change legislation, it must include additional adaptation programs for irrigated agriculture and rural resource-based communities if such efforts are to be given the necessary attention and resources. Farms and communities in the western United States face the prospect of economic disruption and increased competition and conflict over agricultural and water resources as a result of climate change. Helping them adapt to and withstand the impacts of climate change should be no less a national priority than meeting the needs of fish and wildlife and of farmers in other nations.

We refer you to the October 27, 2009 statement the Alliance submitted to the Senate Committee on the Environment and Public Works. It provides specific observations and recommendations on how Congress can provide adaptation programs that benefit Western irrigated agriculture and rural communities. We hope this Subcommittee can play a role in advancing these recommendations as the Senate considers climate change legislation.

Opportunities for Environmentally-Safe Low-Head Hydropower Development

The U.S. Interior and Energy Departments and the Army Corps of Engineers (USACE) have agreed to create a new strategy for promoting hydropower development while reducing environmental impacts and streamlining regulations. Many Family Farm Alliance members are lining up with creative new projects to take advantage of this development. Under a new Memorandum of Understanding (MOU), the Obama administration will evaluate new hydropower technologies and their potential impact on U.S. renewable energy supplies. The MOU directs USACE, the Office of Energy Efficiency and Renewable Energy, the Bureau of Reclamation, the agencies to formulate a resource assessment of current Federal facilities as well as identify ways to upgrade and modernize those facilities and install hydropower technologies at new sites. The Federal Energy Regulatory Commission (FERC) will also be involved in the process.

The Alliance was invited by Interior Secretary Salazar's office to participate in the MOU signing ceremony last March in Washington. Alliance President Pat O'Toole and Advisory Committee Member Gary Esslinger (NEW MEXICO) told those assembled that many of the farmers and ranchers we represent are interested in installing low-head hydropower facilities in existing irrigation canal systems. While this would seem to be a no-brainer—the actual construction is not that much more difficult than installing an irrigation turnout and there are no new "environmental impacts"—alas, that is not the case.

Under current regulations, anyone who wants to develop hydropower less than 5 megawatts (which would apply to virtually every single potential location within irrigation canals) can get an exemption from FERC licensing requirements. However, the process required to get that exemption can cost $100,000 and 18–36 months just to satisfy National Environmental Policy Act (NEPA) compliance requirements. The costs and time associated with the environmental compliance issues (noticing, public meetings, *etc.*) can make projects that only cost $20,000 in materials suddenly become infeasible. Meanwhile, new solar and wind projects can move full-steam ahead without these ridiculous licensing impediments. We believe the process for installing in-canal low-head hydro facilities should be the same.

The Alliance this year will be working hard to make it easier for Western irrigators to develop new low-head hydropower. A preferable fix would be a new exemption category for low-head hydro in irrigation projects that does not require Federal agency interaction. For more complicated projects that still fall under the existing FERC 5 megawatt exemption ceiling but exceed this new minimum threshold (whatever that may be), the process must be streamlined. We also want the Bureau of Reclamation to aggressively work with its water customers to find ways to get more low-head projects built into the existing delivery system.

At this time, we are working with the Obama Administration to find administrative solutions to these challenges. However, it may be necessary to enlist the support of Congress to expedite the common-sense solutions we are looking to achieve. We look forward to working with your Committee on this matter in the future, if need be.

Other Needs

Other critical problems remain to be solved, and Congress can help address these needs.

1. ***Streamline the Regulatory Permitting Process***

Modern, integrated water storage and distribution systems can provide tremendous physical and economic flexibility to address climate transformation and population growth. However, this flexibility is limited by legal, regulatory, or other institutional constraints, which can take longer to address than actually constructing the physical infrastructure. The often slow and cumbersome Federal regulatory process is a major obstacle to realization of projects and actions that could enhance Western water supplies.

The Family Farm Alliance has long worked on finding ways to *streamline* the regulatory process, and worked closely with past administrations and Congress towards that end. In the past year, our members are becoming increasingly concerned about the number of environmental policies that are currently being re-written by this Administration. It appears the changes being contemplated could result in stricter requirements that would further slow down Federal approvals on water projects that are already very time-consuming and challenging. We are concerned about the following administrative actions that could carry the risk of real potential harm for Western irrigators:

- *Economic and Environmental Principles & Guidelines for Water and Related Resources Studies.* The White House in December released a draft of new standards for Federal water projects that for the first time put environmental goals on the same plane as economic development concerns. The proposed overhaul of 1983 standards for the Army Corps of Engineers (Corps) directs the agency to fold non-monetary benefits into project assessments by measuring improvements to wildlife habitats and biodiversity. These proposed changes for the Corps and Bureau of Reclamation may have a significant impact on new water project planning and Federal funding in the future.
- *National Environmental Policy Act Expansion.* It is our understanding that the Administration may soon issue an Executive Order adding climate change to the list of factors Federal agencies must take into account when evaluating projects and policies. Some conservation groups have pushed for the expansion of the 40 year old National Environmental Policy Act (NEPA), which currently requires agencies to consider environmental factors such as land use, biodiversity and air quality. Our members fear that requiring analysis of climate change impacts during the NEPA process, especially at the project-specific level, will slow economic recovery while providing no meaningful environmental benefits.
- *ESA Administrative Revisions.* The U.S. Fish and Wildlife Service (USFWS) is considering wide-ranging revisions to the 1973 Endangered Species Act (ESA), that could provide new definitions for some key provisions, including those addressing critical habitat and consultations between service biologists and other agencies over projects that could impact protected animals and plants. For example, the USFWS earlier this year proposed to revise a 2005 designation of critical habitat for the bull trout, a threatened species protected under the ESA. If finalized, the proposal would increase the amount of stream miles originally designated as bull trout critical habitat in five Western states by 18,851 miles and the amount of lakes and reservoirs designated as critical habitat by 390,208 acres. The problem here is, for many Western water users, the maze of requirements for ESA permits that can restrict activities or delay projects for months or years. We essentially supported the administrative regulatory changes put forward prior to 2009 that would have streamlined the consultation process. It now looks like those changes have been reversed, with no apparent request for agency input offered to the regulated community.
- *EPA Pesticide Restrictions.* EPA is making a precedent-setting decision to impose pesticide restrictions that will essentially prohibit their use in large areas

of Washington, Oregon, California and Idaho. The most serious deficiency in EPA's announced plan involves expansion of no-use buffer zones to every ditch, drain, canal, and irrigation furrow that might eventually drain from an agricultural field into a salmon habitat. EPA also recently singled out the state of Florida as the first state in the nation on which they are proposing to establish a nutrient standard for all bodies of water. These proposed standards are being imposed on the basis of an EarthJustice lawsuit and will establish nitrogen and phosphorus standards different from the rest of the country. This is another very disturbing development, but consistent with other recent administration actions.

- *EPA Reconsideration of the "Water Transfers Rule"*. A 2008 U.S. EPA rule allows water transfers from one water body to another without Clean Water Act (CWA) permits. We now understand that EPA is planning on reconsidering the "Water Transfers Rule", which states that a mere transfer of water from one meaningfully distinct navigable body of water to another does not require a NPDES permit, even though the water being transferred may add new pollutants to the receiving body of water. The Justice Department in a recent document says EPA may abandon the rule, a move that would subject water transfers throughout the nation to pollution permitting requirements. This could have severe consequences in states like Colorado and California, where huge quantities of water are moved from one basin to another.

Many of the above administrative changes are drawing praise from environmental organizations that have been advocating them for some time. The Family Farm Alliance hopes that the Administration will give equal consideration to the concerns of agricultural organizations. We pledge to work with the Administration, Congress, and other interested parties to build a consensus for improving the regulatory processes associated with improving water systems.

Family Farm Alliance Water Management Case Study Report

The Family Farm Alliance is currently compiling in to a report a number of case studies that highlight real-world examples of water conservation, water transfers and markets, aging infrastructure problems, and watershed restoration/enhancement. This document will be used in several forums. For example, we would like to describe water conservation and management projects that work well (best management practices), especially those that have benefited from Federal grant programs, and pass the lessons learned from those projects on to the Bureau of Reclamation and NRCS. Our report can further be used as a template to advocate for the types of conservation activities that could be potentially funded under the climate change bills currently moving through Congress.

Another area of focus in our report will include water markets and transfers, where we would like to provide examples of successful efforts, identify where there are impediments to success, and describe where adverse impacts negated such benefits. These studies will help form the framework for Alliance policy on water transfers, which will be advanced in the agricultural/urban/environmental water sharing coalition we are involved with in the Colorado River Basin. We are already assembling work for transfer programs undertaken in the Central Valley (CALIFORNIA), in the Klamath Basin (CALIFORNIA/OREGON), in Southern California, and along the Front Range of the Rocky Mountains (COLORADO).

We will also include examples of aging water infrastructure predicaments facing our members. Findings and recommended solutions can be used in our ongoing efforts to implement the loan guarantee provisions we advocated for in the Rural Water Supply Act and to underscore the additional funding needs that are required to address key infrastructure issues in the West, such as the St. Mary Facilities (MONTANA) and rehabilitation of Minidoka Dam spillway (IDAHO).

Finally, we will describe the complications facing local water users, the creative solutions that can be developed to meet those problems and recommendations that ensure continued, locally-driven success. We already have developed one case study in Nebraska, where irrigation districts have completed project transfers resulting in expanded opportunities to partner with new entities to improve infrastructure, flood control, and water management. Another case study here in Wyoming describes the efforts of a local conservation district to take the lead in implementing holistic watershed solutions. That case study is included as an appendix to this testimony.

An important objective of our final report will be to demonstrate that water managers, ranchers and farmers are resourceful and creative individuals that should play an active role in resolving the water conflicts of the West.

When our report is completed, it will include a dozen individual case studies for projects located in virtually very major river basin in the Western United States.

We look forward to sharing the final report with this Committee and other important water policy makers.

Conclusion

The impacts of climate change, population growth, new power sources and our society's emphasis on providing water for ecological purpose will significantly challenge all water users in the West—municipal, industrial, agricultural, and environmental—in the near future. Being prepared requires investment and adaptation in the management of Western water supplies. To survive this trial, our efforts need to begin today—before crises, before conflict, and before there are winners and losers.

We stand ready to assist you, Chairman Peterson, and the Members of this Subcommittee in furthering these efforts that are so important to all our communities in the face of such an uncertain and challenging future. We must emphasize, however, that we are facing water problems right now. As evidenced in California's San Joaquin Valley and the Klamath Basin, legislation, water transfers and data collection alone will not resolve these problems. The amount of water on the planet remains the same. We need policy and water decisions that are based on sound science. And we need the infrastructure to conserve, reuse, store, treat, manage and convey water to where and when it is needed, at the quality and quantity needed, to resolve these problems and avoid even more severe consequences that loom on the horizon.

Thank you for this opportunity to provide input on this matter, which is very important to the family farmers and ranchers of our membership. Our comments and recommendations are intended to help the new farm bill become something that they will embrace.

APPENDIX A: LITTLE SNAKE RIVER CONSERVATION DISTRICT

A case study highlighting integrated collaborative watershed management and the importance of locally-led management efforts.

Backdrop

In most Western states, much of the water used derives from snowmelt in mountainous areas. We are hearing more frequent reports from state and local governments and water users who question how the Federal Government is managing the watersheds. Forested lands cover about ⅓ of the nation's land area, and although they have roles in timber production, habitat, recreation and wilderness, their most important output may be water. Forests provide natural filtration and storage systems that process nearly ⅔ of the water supply in the U.S. Forest vegetation and soils, if healthy and intact, can benefit human water supplies by controlling water yield, peak flows, low flows, sediment levels, water chemistry and quality. One of the biggest threats to forests, and the water that derives from them, is the permanent conversion of forested land to residential, industrial and commercial uses.

Real management is needed in the real "reservoir" of the West—our federally-owned forest lands in upper watershed areas.

Location

The Little Snake River is a Colorado River Headwaters Basin arising on the continental divide with land in both Colorado and Wyoming. It is a major tributary to the Yampa and Green Rivers in the Upper Colorado Basin.

Geography and Hydrology

The area is relatively geographically isolated from any large metropolitan or urban communities (> 300 miles from Denver or Salt Lake City). Population in the basin is less than 1,000 people. There are three towns in the basin, Baggs, Dixon, and Savery with populations of 400, 82, and 26, respectively. There are 20,000 acres of irrigated lands adjacent to the main stem of the Little Snake River and its major tributaries. Land ownership in the basin is approximately 31% private, 8% state, and 61% Federal (BLM & USFS).

Elevations and precipitation in the basin range from 10,000 feet and 55 inches of annual precipitation to 6,000 feet and 8 inches of annual precipitation. Low elevation landscapes are dominated by desert shrub land communities and transition to mixed mountain shrub, aspen, and pine/spruce/fir plant communities at the highest elevation.

Average annual water yield out of the basin is approximately 449,000 acre-feet (AF) per year. Total consumptive water use in the basin is approximately 44,000 AF per year. The largest annual consumptive use is for municipal water project via a trans-basin diversion (21,000 AF) followed by agriculture (20,000 AF) and environmental and miscellaneous uses (3,000 AF). The first water rights for irrigation where filed with the Territory of Wyoming in March of 1875.

Land Use and Habitat Characteristics

Predominant land uses are range land agriculture, recreation, and—more recently—fluid mineral development (oil & gas). Historically, the basin also supported some timber harvest and hard rock mining for copper, gold, and silver. Because of the basin's geographic isolation and low population, it has not incurred major deleterious impacts associated with human activity until the recently development of fluid minerals. Consequently, the area has a fairly intact ecosystem that supports the largest population of Colorado Cutthroat Trout, flannel-mouth suckers, and round-tailed chubs. It also supports some of the largest populations of Columbian Sharp-tail and Greater Sage Grouse in the U.S. The basin is also home to 8,000 elk, 21,000 mule deer, 22,000 antelope, 130 species of birds, 15 species of fish, and numerous other species of mammals and amphibians.

In 1844 John C Fremont traversed the Little Snake River Valley and noted in his journals "*The country here appeared more variously stocked with game than any part of the Rocky mountains we had visited: and its abundance is owing to the excellent pasturage and its dangerous character as a war ground*". The game (wildlife) that attracted the warring Native American tribes to area was a byproduct of the excellent pasturage that Fremont spoke of. It is also the reason the area attracted early ranchers. The first cattle entered the Little Snake Basin in 1871 when Noah Reader brought 2,000 head that where turned out at the mouth of Savery Creek. In 1873 George Baggs brought 2,000 head into the valley near the vicinity of the town bearing his name. Today the area supports around 25,000 head of cattle, 6,000 head of sheep, and 2,500 head of horse both domestic and wild.

Organization

The Little Snake River Conservation District (LSRCD) has a locally elected board of supervisors and is staffed by dedicated professionals.

Key Integrated Collaborative Watershed Management Actions

- Muddy Creek and Savery Creek Clean Water Act Section 319 Watershed Projects. The LSRCD has received and administered over $1 million from EPA to implement best management practice for livestock grazing.
- Muddy Creek Wetlands. Established the largest wetland project in the State of Wyoming and received over $800,000 in grant funding for this project including $165,000 from Ducks Unlimited.
- Little Snake River Aspen Conservation Joint Venture. Locally lead effort with BLM & USFS, private land owners to restore and enhance 12,000 acres of Aspen forest.
- Little Snake River Watershed Fish Barrier Assessment. Collaborative effort with Trout Unlimited, LSRCD, and local landowners/irrigators.
- Little Snake Watershed Fish Barrier Removal and Aquatic Ecosystem Restoration Project. Joint project with numerous local, state, Federal, and NGO partners. Current expenditure and obligation for this project is $2.5 million.
- Cooperative Conservation Planning Initiative (CCPI). This is a USDA–NRCS farm bill program. The LSRCD is the local sponsor on two different CCPI projects including the Fish Barrier Removal and Hazardous fuels—forest health projects in the Little Snake Basin.
- Battle Collaborative Stewardship Contract. The USFS and the LSRCD agreed to address hazardous fuels on 3,000 acres of the Medicine Bow National Forest due to bark beetle infestation.
- Little Snake River Conservation Planning initiative. This is a joint effort among the LSRCD, NRCS, The Nature Conservancy (TNC), and private land owners. It consists of inventorying and updating conversation plans for 42,000 acres of private lands for consideration under Conservation Easements.

Results

- In 2005 the local community, working with the State of Wyoming, constructed a 23,000 acre foot $30 million water storage project to provide water for municipal, agricultural, fisheries and recreational use.
- As part of the overall watershed project, Clean Water Act Section 319 monies were utilized to implement grazing Best Management Practice to restore and enhance riparian and upland areas. Other funds and partners have assisted with the restoration and enhancement of more than 20 miles of river and

stream channels for both cold and warm water fish species. Over 800 acres of wetland habitat has been constructed, improved, and enhanced.

- 3,500 acres of forest treatment has been completed to reduce hazardous fuels and improve wildlife habitat.
- Thousands of acres have been put under conservation easements in order to perpetuate agricultural use and protect critical wildlife habitat.
- Ten irrigation diversion structures have been modified to allow for fish passage and in 2011 all remaining irrigation diversion structures in the Little Snake basin are scheduled for modification for fish passage.

Recognition

Since 1991 numerous agencies, organization, and NGO's have recognized the Little Snake River community and the local governmental natural resource agency, the Little Snake River Conservation District (LSRCD), as leaders in natural resource conservation. Following are list of acknowledgments and achievements.

- 1996 USDI–BLM Rangeland Stewardship Award.
- 1996–2000 National Demonstration Project "Seeking Common Ground—Livestock and Big Game on Western Range Lands".
- 1997 & 2002 EPA volume II & III Section 319 Success Stories.
- 2007 National Association of Conservation District South West Region Collaborative Conservation Award.
- 2009 Rocky Mountain Elk Foundation Imperial Habitat Partner.

Numerous articles featuring work conducted by the LSRCD, area land owners, and its partners have been featured in popular publications like *Farm Journal, Beef Today, Bugle Magazine, Wyoming Wildlife,* and *Range Magazine* as well as peer reviewed journal publication in the *Journal of Soil and Water Conservation* (2008) and the *Journal of Rangeland Ecology* (2009).

Lessons Learned

These efforts have all been locally-led. Conservation of natural resources in the Little Snake River Basin integrated with agrarian life style and perpetuation of this culture is the highest priority for the local community in the Little Snake Basin. In Wyoming, the local residents have passed a conservation property tax to carry on this work. Since 1990 this tax has generated approximately $8 million in local revenues. These funds have leveraged over $40 million in project money to implement conservation and development projects in the Little Snake River Basin.

Today the Little Snake River Basin hosts a myriad of wildlife, and robust natural resources while sustaining compatible agricultural uses and natural resource based recreation business. This was accomplished through local leadership and commitment of the Little Snake River Conservation District working collaboratively with over 30 different partner organizations and agencies that have assisted in the conservation of the Little Snake Basin, in a collaborative locally-led process.

Properly managing Federal watersheds and encouraging Federal agencies to work with the agricultural community to solve local water problems is imperative. Through thoughtful planning, the Administration can play a truly important role in helping find the solutions that have proved so elusive to date.

SUBMITTED LETTER FROM JERRY D. PAXTON, COMMISSIONER, CARBON COUNTY, WY; MEMBER, PUBLIC LANDS COMMITTEE, WYOMING COUNTY COMMISSION

May 3, 2010

Hon. CYNTHIA M. LUMMIS,
Member,
House Committee on Agriculture,
Washington, D.C.

Representative Lummis and Congressional Agriculture Committee:

Thank you for the opportunity to comment on the beetle kill problem in Wyoming. I am a Carbon County Commissioner and live near the Medicine Bow/Routt National Forest in Encampment, Wyoming. As you may know the Mountain Pine Beetle has devastated our area. My fellow Commissioners and I have been working for more than three years to find ways to help mitigate the problem. We have become convinced that removing as many dead trees as possible as quickly as possible will help speed up the restoration process. It is our belief that we must engage or re-engage industry to get this done.

We have helped the town of Encampment acquire a sawmill within the city limits of the town and turned the property into an industrial park. We have been working with town official to attract businesses that are interested in removing the trees for timber or for woody biomass uses. We currently have a log home manufacturer, a small custom portable mill and a greenhouse located on the property. It appears that we now have someone interested in opening a portion of the mill to manufacture dimensional lumber. Our biggest problem is how to dispose of the waste materials that will be generated. We realize that there is an emerging interest in the woody biomass industry and have been vigorously pursuing biomass companies to locate in our industrial park.

Our efforts have put us in contact with companies that produce a variety of products from torrified bio-coal to ethanol. The problem we have encountered with the woody biomass industries is a lack of a viable market primarily due to the end cost of the products. We feel it may be necessary to provide some assistance to these companies to help get them started. We are asking that you and your Committee explore ways to help these companies become established in Wyoming. The economic benefits would certainly help offset the devastating effects that loss of the timber industry has had on state. The removal of hazard trees and reduction of fuel would help preserve our tourist industry, reduce wildfire danger, protect the watershed from further damage and protect wildlife habitat. We are also convinced that it would help speed the process of restoring forest health.

Any assistance you could provide would be appreciated. Thank you for the opportunity to comment on this very important issue.

Sincerely,

JERRY D. PAXTON,
Carbon County *Commissioner;*
Wyoming County Commissioners Public Lands Committee *Member.*

SUBMITTED REPORT BY RICK CABLES, REGIONAL FORESTER, ROCKY MOUNTAIN REGION, FOREST SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Fuel Treatments, Fire Suppression, and Their Interactions With Wildfire and its Effects:

The Warm Lake Experience During the Cascade Complex of Wildfires in Central Idaho, 2007

Russell T. Graham, Theresa B. Jain, and Mark Loseke

United States Department of Agriculture / Forest Service
Rocky Mountain Research Station
General Technical Report
RMRS-GTR-229
July 2009

Graham, Russell T.; Jain, Theresa B.; Loseke, Mark. 2009. **Fuel treatments, fire suppression, and their interaction with wildfire and its impacts: the Warm Lake experience during the Cascade Complex of wildfires in central Idaho, 2007**. Gen. Tech. Rep. RMRS-GTR-229. Fort Collins, CO: U.S. Department of Agriculture, Forest Service, Rocky Mountain Research Station. 36 p.

Abstract

Wildfires during the summer of 2007 burned over 500,000 acres within central Idaho. These fires burned around and through over 8,000 acres of fuel treatments designed to offer protection from wildfire to over 70 summer homes and other buildings located near Warm Lake. This area east of Cascade, Idaho, exemplifies the difficulty of designing and implementing fuel treatments in the many remote wildland urban interface settings that occur throughout the western United States. The Cascade Complex of wildfires burned for weeks, resisted control, were driven by strong dry winds, burned tinder dry forests, and only burned two rustic structures. This outcome was largely due to the existence of the fuel treatments and how they interacted with suppression activities. In addition to modifying wildfire intensity, the burn severity to vegetation and soils within the areas where the fuels were treated was generally less compared to neighboring areas where the fuels were not treated. This paper examines how the Monumental and North Fork Fires behaved and interacted with fuel treatments, suppression activities, topographical conditions, and the short- and long-term weather conditions.

Key words: burn severity, wildland urban interface, fire intensity, cold forests

Authors

Russell T. Graham is a Research Forester (Silviculturist) with the U.S. Forest Service, Rocky Mountain Research Station, Moscow, Idaho. His research activities have included the role coarse woody debris plays in forests, large scale ecosystem assessment and planning, describing northern goshawk habitat, and developing forest management strategies (silvicultural systems) for a wide array of management objectives.

Theresa B. Jain is a Research Forester (Silviculturist) with the U.S. Forest Service, Rocky Mountain Research Station, Moscow, Idaho. Her research activities include: understanding how canopy gaps influence forest development, how forest structures and compositions influence both wildfire intensity and burn severity, and how fuel treatments can be designed and implemented to produce desired outcomes.

Mark Loseke is a Fuels Specialist with U.S. Forest Service, Cascade Ranger District, Boise National Forest, Cascade, Idaho. His entire 27-year Forest Service career has been involved with fire, including Fire Management Station Supervisor, Fuels Specialist, and as a Type 1 Burn Boss.

Acknowledgments

First and foremost, we would like to thank the incident management teams and fire crews that managed and worked on the Monumental and North Fork Fires. They provided us with access to the fires while they were burning and many of these individuals provided us with first-hand knowledge of how the fires burned and the suppression tactics they used. Similarly, the fire staffs of both the Boise National Forest and the Cascade Ranger District were outstanding in providing us with flights, ATVs, information, and other help both during and after the fires. In particular Carol McCoy-Brown, District Ranger, Cascade Ranger District; Guy Pence, Aviation and Fire Management Officer, Boise National Forest; Dusty Pence, Fuels Manager, Cascade Ranger District; and the GIS Staff of the Cascade Ranger District deserve special thanks. Also we thank the five reviewers whose excellent suggestions greatly improved our work.

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Contents

All photos and figures in the document are of Forest Service origin except where noted.

Preface

During the summer of 2007, wildfires burned over 500,000 acres within central Idaho. Starting in 1996, fuel treatments were implemented to offer protection to over 70 summer homes and other structures located near Warm Lake, approximately 20 miles east of Cascade Idaho. The wildfires of 2007 burned through and around the treatment areas with a variety of intensities, resulting in a variety of burn severities. This paper examines how the Monumental and North Fork Fires behaved and interacted with fuel treatments, suppression activities, topographical conditions, and the short- and long-term weather conditions.

Our research included a combination of site visits both during and after the fires, flights over the terrain, 22 interviews with people assigned to the Monumental and North Fork Fires, and the experiences of employees involved with the fuel treatments and fire suppression activities on the Boise National Forest. In addition, we used information such as, but not limited to, fire progression maps, remote automated weather station (RAWS) data, and daily action plans associated with the Monumental and North Fork Fires. Given all of the factors that influence wildfire behavior and burn severity, the inferences we present are based on the most accurate, unbiased, and complete information available.

Fuel Treatments, Fire Suppression, and Their Interactions With Wildfire and its Effects: The Warm Lake Experience During the Cascade Complex of Wildfires in Central Idaho, 2007

Russell T. Graham, Theresa B. Jain, and Mark Loseke

Introduction

The Payette Crest and Salmon River Mountain ranges of central Idaho create rugged and diverse landscapes. The highest elevations often exceed 10,000 ft with large portions ranging from 5,500 to 6,500 ft above sea level. The Salmon River and its tributaries dissect these mountains creating an abundance of steep side slopes. The South Fork of the Salmon River, with its origin within the 6,000- to 7,000-ft mountains east of Cascade, Idaho, flows north until it joins the main Salmon at an elevation of 2,100 ft. At 5,300 ft, the Warm Lake Basin near the South Fork's origin is one of the many large and relatively flat basins that occur in central Idaho (Alt and Hyndman 1989; Steele and others 1981) (fig. 1).

The climate of central Idaho is influenced by both maritime and continental air masses that produce conditions where frost is possible throughout the year. In addition, in the high and large basins such as Warm Lake, air inversions often occur where warm air traps cool air near the land's surface. The average winter low temperature nears 10 °F and high summer temperatures average 77 °F. However, because of the 7,000-ft elevational relief in central Idaho, a 23 °F temperature differential between the highest and lowest areas can occur at any time. Because of the diverse topography and elevations, precipitation can be highly variable. Approximately 27 inches of precipitation falls within the area with the majority falling as snow from November through March. July and August tend to be the driest months, averaging less than 0.5 inches of precipitation. Annual snowfall totals of 100 inches are common with a wide variety of accumulations. An average of 24 inches of snow covering the valley floors is the norm (Steele and others 1981; WRCC 2008).

The rugged topography and the relatively cool temperatures throughout central Idaho result in subalpine fir (*Abies lasiocarpa*) vegetative complexes defining most forests. Within these forests, subalpine fir can be the dominate tree species with lodgepole pine (*Pinus contorta*), Douglas-fir (*Pseudotsuga menziesii*), and Engelmann spruce (*Picea engelmanii*) as frequent associates due to vegetative succession, fire frequency, insect mortality, and other disturbances. These vegetative

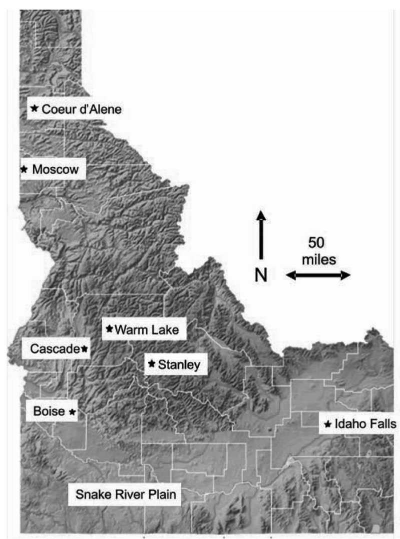


Figure 1. Warm Lake is situated east of Cascade, Idaho, which is located in Valley County in the heart of central Idaho.

complexes dominate central Idaho. At low elevations (e.g., 5,000-5,500 ft) and on south facing aspects, ponderosa pine (*Pinus ponderosa*), Douglas-fir, and lodgepole pine often prevail. Ground level vegetation includes huckleberry (*Vaccinium* spp.) and false huckleberry (*Menziesia ferruginea*), which can create dense shrub layers to rather depurate layers of grasses (e.g., Idaho fescue, *Festuca idahoensis*) and sedges (e.g., elk sedge, *Carex geyeri*) (Steele and others 1981).

Throughout central Idaho, wildfires shape, rejuvenate, and modify vegetation at variable frequencies and intensities creating an abundance of mosaics occurring at a variety of scales, ranging from small (≤0.25 acres) burned patches to large (thousands to hundreds of thousands of acres) affected landscapes (Crane and Fischer 1986). Wildfires have been a major forest disturbance influencing forest regeneration and development for hundreds if not thousands of years. Additionally, the control of wildfires shaped and impacted land management laws and policies from the beginning of public land management in the United States (Lewis 2005). These policies, especially in the western United States, led to successful and widespread fire exclusion. Minimal fire presence in concert with domestic livestock grazing (or the lack thereof) timber harvesting, and land use (e.g., urbanization, agriculture) tended to simplify, homogenize, fragment, and otherwise modify forest structures and compositions from those that occurred historically (pre-1900) (Graham and others 2004; Steele and others 1981). These changes, along with a lengthening fire season, have contributed to more intense, large, and severe wildfires occurring throughout the United States in recent years compared to fires that burned in previous decades (Dale and others 2001). In 2006, a record 9.9 million acres burned in the United States and a second high 9.3 million acres burned in 2007. Nearly 2.2 million acres burned in Idaho and a large proportion of this burning occurred in central Idaho (NIFC 2008) (fig. 2). Over the past 10 years (1997-2006), an average of 156 wildfires burned on the Boise National Forest, located in southwestern Idaho, changing approximately 17,000 acres (BDC 2007). In contrast, during 2007, 113 wildfires on the Boise burned nearly 347,000 acres or approximately 10 percent of the Forest (BDC 2007). Such fires not only burn trees and other vegetation but they also affect the soil and water resources, wildlife habitat, and in many places homes, lodges, communities, towns, and even large cities (Radeloff and others 2005; Robichaud and others 2000).

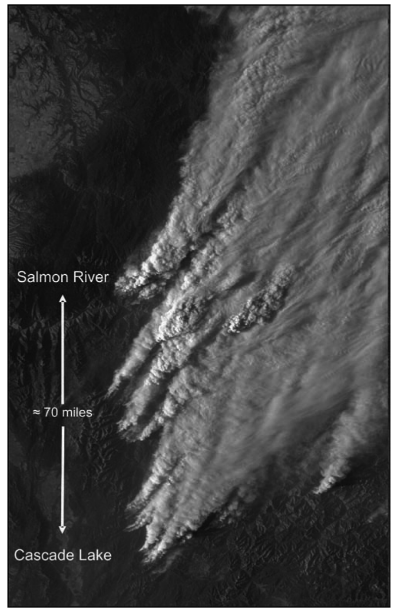


Figure 2. A satellite view of smoke from wildfires burning in central Idaho during August, 2007 (http://earthobservatory.nasa.gov/NaturalHazards).

Forest Treatments in the Wildland Urban Interface Near Warm Lake ___

A large proportion (>66%) of Idaho lands are owned and/or administered by state and federal governments (NRCM 2008). In addition, there are over 30,000 residences located on lands in the wildland urban interface (WUI) with many of these residences being on lands leased from state or federal governments. Valley County, located in the central part of the Idaho, has over 2,200 residences located in the WUI with a concentration of structures near Warm Lake (Headwaters Economics 2007) (fig. 1). Within the Warm Lake area, approximately 20 miles northeast of Cascade, there are roughly 70 residences and other structures (fig. 3). In addition to the summer homes, the area contains two commercial lodges, two organizational camps, and a Forest Service Project Camp. The Warm Lake Basin is the headwater for the Salmon River, which is home to both Chinook salmon (*Oncorhynchu tshawytscha*) and steelhead trout (*Oncorhynchus mykiss*). Both species are listed as threatened under the Endangered Species Act, which highlights the Salmon River's ecological and commercial value. Because of these threatened species, the amount of vegetative manipulation occurring within the Salmon River drainage since the mid-1970s has been minimal (USDA Forest Service 2003).

In general, owners and residents living near or in forests tend to cherish or favor wildlife, privacy, naturally appearing forests, and recreational opportunities over reducing the risk of their property to wildfire (Kent and others 2003; Monroe and others 2006). Within central Idaho, this trend was exemplified by the homes near Warm Lake, as many were surrounded by dense (2,500 + trees/acre) forests of lodgepole pine and other conifer mixes even though large wildfires had recently burned in the area (figs. 4, 5). The winds driving these fires and winds in general in the Warm Lake Basin tend to blow from the southwest, occasionally from the west, and on rare occasions, winds created by thunderstorms blow from the east and north. The real property, and to a

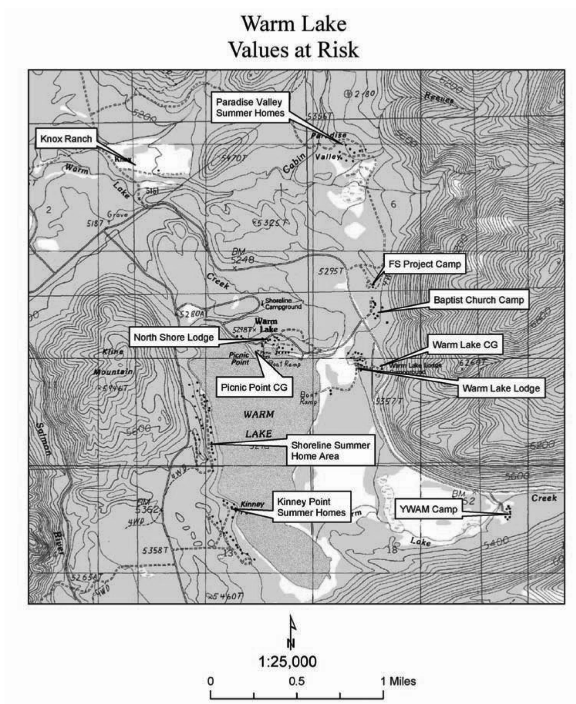


Figure 3. Several homes, lodges, camp grounds (CG), Forest Service camps (FS), and other developments are located within the Warm Lake area of central Idaho.

Figure 4. A Warm Lake summer home (designated by the arrow) (A) was surrounded by a dense lodgepole pine forest that was treated, significantly reducing the surface, ladder, and crown fuels (B).

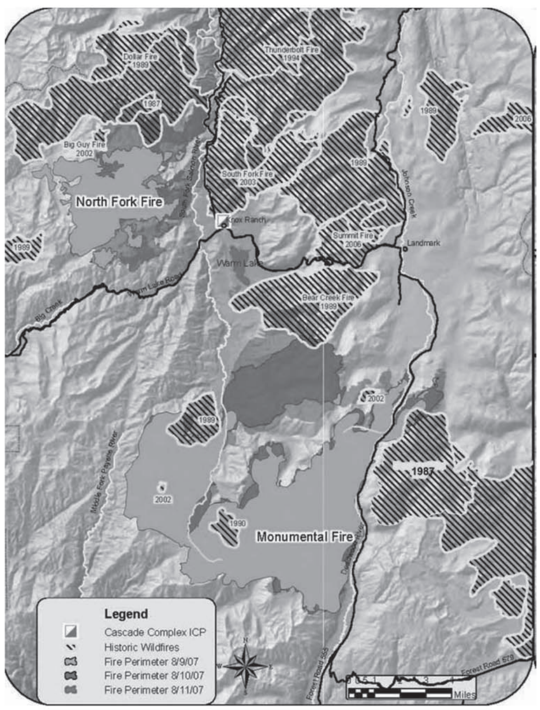


Figure 5. Several large wildfires near Warm Lake burned between 1987 and 2006 that were approached and burned by either the North Fork or Monumental Fire. The Incident Command Post (ICP) of the Cascade Complex was located at Knox Ranch (Bull and others 2007).

limited extent resource values present in the Warm Lake Basin, plus the threat and hazard of wildfire impacting these values, provided the impetus for the Forest Service to plan and execute multiple fuel treatments within and near the basin.

Beginning in 1996, forest treatments were designed and implemented to reduce the risk of a wildfire adversely affecting the structures and other areas of value within the basin. Because the prevailing winds blow from the south and southwest, a priority was to treat fuels west, south, and southwest of residences in the Kinney Point and Shoreline area along the west shore of Warm Lake (fig. 6). In addition to these areas, the fuels south, west, and east of the Paradise Valley summer homes, Forest Service Project Camp, and Baptist Church Camp located northeast of Warm Lake were treated. These fuel

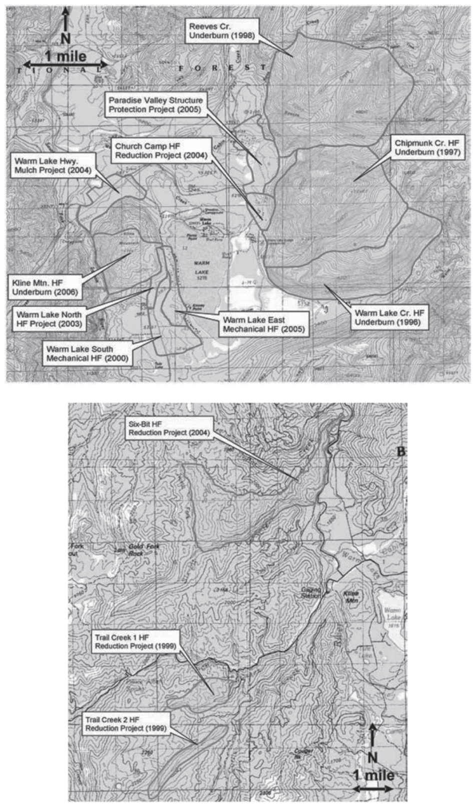


Figure 6. Forest structures and compositions (hazardous fuels – HF) near Warm Lake were modified using both prescribed fire and mechanical methods to modify both wildfire intensity and burn severity if a wildfire was to occur. The treatments were located and designed to offer protection to the many residences and other structures of value near the lake.

treatments not only offered wildfire protection to these locales, but some protection to the North Shore Lodge, Picnic Point Campground, Youth With a Mission Camp (YWAM), Warm Lake Camp Ground, and the Warm Lake Lodge (figs. 3, 6). Surface fuels, ladder fuels, and crown fuels (in this order of importance) determine both fire intensity and burn severity and strongly contribute to fire resilient forests (Agee and others 2002; Graham and others 2004). With this in mind, the first fuel treatments executed in the basin were aimed at reducing amounts, distribution, and juxtaposition of surface and ladder fuels.

Prescribed fires were the first fuel treatments used in and near the Warm Lake Basin, starting with the Warm Lake Creek Burn in 1996 (fig. 7). Seven burns ranging from 438 acres to over 2,300 acres were conducted, and by 2006, a total of 8,328 acres were burned (table 1). These fires occurred predominantly in ponderosa pine and Douglas-fir forests located on south and west facing slopes. These burns, for the most part, were aerially ignited using Delayed Aerial Ignition Devices (DAID) or ping-pong balls dropped from helicopters. Some hand ignition (drip torches) occurred near structures (Rauscher and Hubbard 2008) (fig. 7). The fires left a mosaic of forest structures, cleaned the forest floor of litter and fine woody fuels (≤3 inches in diameter), and killed and/or consumed many small trees (≤5 inches in diameter) or ladder fuels.

The Warm Lake south, north, and east projects treated lodgepole pine forests near the cabins along the lake shore (fig. 6, table 2). Similar to the prescribed fires,

Figure 7. Aerial ignition was used for the Warm Lake Creek prescribed fire in 1996. The fuel treatment was located northeast of Warm Lake near the YWAM camp (see figs. 3, 6).

Table 1. Beginning in 1996, prescribed fire was used in and near the Warm Lake Basin to alter the amount, juxtaposition, and distribution of surface and ladder fuels (see fig. 6).

Year	Burn season	Project	Size (acres)
1996	Spring	Warm Lake Creek	480
1996	Spring	Curtis Creek[1]	882
1998	Spring	Reeves Creek	1,636
1997	Fall	Chipmunk Creek	1,958
1999	Spring	Trail Creek	612
2004	Spring	Six-bit Creek	2,342
2006	Fall	Kline Mountain	438
Total acres			8,348

[1] Curtis Creek is located approximately 5 miles west of Warm Lake outside of the Warm Lake Basin.

Table 2. Mechanical treatments removed standing and down fuels through commercial harvest, mastication (Mast.), slashing (tree falling and cutting), pruning, hand-piling and burning of the piles, and prescribed surface fire (Rx fire). On two occasions mechanical treatments were followed by prescribed fire to further reduce the surface fuels (see fig. 6).

Year	Project	Size	Comm. harvest	Hand slash	Hand prune	Hand pile&burn	Rx fire	Mast.
		Acres						
2000	Warm Lake south	221	221	221	221	221		
2003	Warm Lake north	71	71	71	71	71		
2004	Warm Lake Highway	182						182
2004	Church Camp	110		110	110	95	15	
2005	Paradise Valley	124		124	124	124	124	
2005	Warm Lake east	59		59	59	59		
Total acres		767	292	585	585	570	139	182

these mechanical treatments cleaned the forest floor and removed ladder fuels. In addition, the spacing between tree boles was increased to approximately 10 to 15 ft, thereby increasing the distance between tree canopies. The lower limbs of the residual trees were pruned to a height of 5 ft, further reducing the ladder fuels. The unwanted trees were cut (slashed), as was the material on the forest floor (up to 12 inches in diameter), into lengths that could be hand-piled. All of the cut material was piled and the covered piles were burned either in the late fall or early spring. Because of the urban setting, the burning piles were attended to ensure that the majority (>80%) of the material was consumed to leave a clean and well kept look to the forest floor (fig. 8).

Before treatment

Slash hand piles

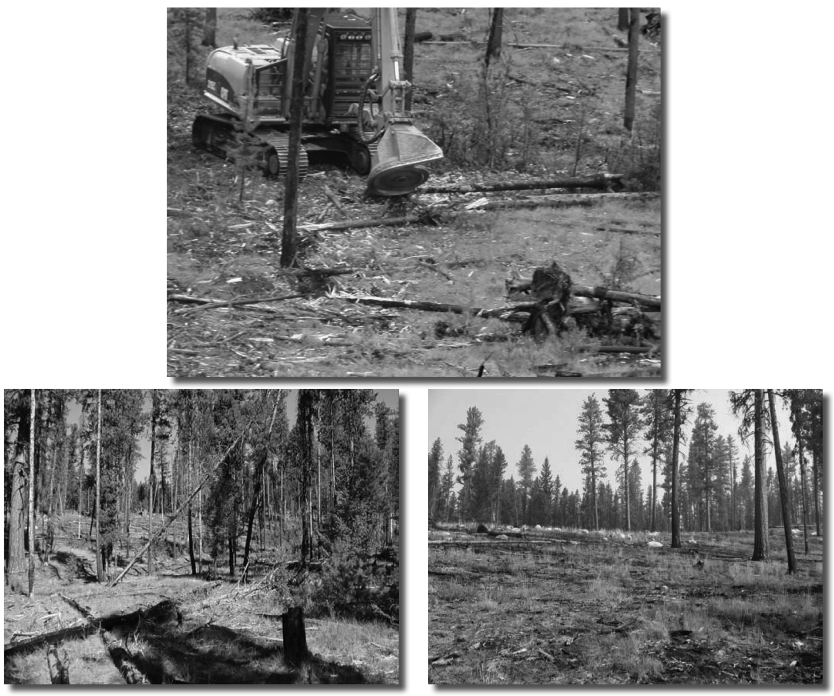
Burning slash piles

After treatment

Figure 8. The Warm Lake south mechanical fuel project treated the lodgepole pine ladder and canopy fuels on 221 acres on the west side of Warm Lake. The fuels were slashed, hand-piled, and burned in 2000 (see fig. 6, table 2).

Northeast of Warm Lake, 234 acres of fuels were treated using a variety of mechanical and fire methods (table 2). Around the Paradise valley summer homes, 124 acres of surface and ladder fuels were masticated using a vertical shaft cutting head (fig. 9). After the fuels were mechanically treated, they were burned to further clean the forest floor. The Church Camp project used a combination of mechanical methods and prescribed fire to treat 110 acres of lodgepole pine and mixed ponderosa pine/ Douglas-fir forests. Near the cabins, the predominantly lodgepole pine fuels were slashed and hand-piled and the residual trees pruned. After slashing, approximately 15 acres of the surface fuels in the ponderosa pine/ Douglas-fir forests were burned (fig. 10). Both of these treatments not only provided protection to the summer homes and camp cabins, but afforded some protection to the Forest Service Project Camp located nearby (fig. 3).

Mastication was also used to treat the lodgepole pine forest along the Warm Lake Highway on the north side of the lake (table 2, figs. 6, 11). One-hundred and eighty-two acres of lodgepole pine trees were thinned and the material masticated using a vertical shaft machine. The chips and chunks were spread across the forest floor creating conditions similar to those produced in the forests



Pre-treatment forest **Post-treatment forest**

Figure 9. Surface and ladder fuels on 124 acres in Paradise Valley were treated with a vertical shaft masticator and subsequently burned (see fig. 6, table 2).

Forest conditions prior to treatment **Forest conditions after treatment**

Figure 10. Predominantly ladder and surface fuels (110 acres) near the Church Camp were slashed, the material near the cabins hand-piled and subsequently burned, and 15 acres of the slashed fuel were treated with prescribed fire (see fig. 6, table 2).

around the homes on the west side of the lake (fig. 8). Even though the treated area was not exactly adjacent to the North Shore Lodge or Knox Ranch, this treatment was designed to disrupt the progress of a fire if one was to approach either of these areas from the west. Contrary to the other areas masticated, no additional prescribed fire was used (fig. 11).

From 1996 through 2006, a total of 9,095 acres was treated within and near the Warm Lake Basin (tables 1, 2). The treatments were designed to improve protection of the numerous summer homes and other structures that exist around Warm Lake and affect wildfire behavior on 10,000 to 12,000 acres. The projects cost approximately $1,643,600, or $181 per acre. Most treatments were funded by the Forest Service and occured on Forest Service lands. However, the Paradise Valley and Church Camp projects were funded with Resource Advisory Committee funds. The fuel treatments near Warm Lake, especially around the homes, significantly changed the character of the forests (figs. 4, 8-11). In addition, the surface fuels, which are a major determinant of wildfire ignition and spread, were reduced in all of the areas mechanically treated and on over 8,000 acres that were burned with prescribed fires. Even though the treatments were conducted for the advent of a wildfire, no one expected the treatments to be tested to the degree they were during August of 2007.

Lodgepole pine forest before treatment **Lodgepole pine forest after treatment**

Figure 11. Surface, ladder, and some canopy fuels were treated along the Warm Lake Highway using a vertical shaft masticator. No additional treatments were applied to the surface fuels (see fig. 6, table 2).

2007 Wildfire Season in Central Idaho

As noted, the amount of precipitation that falls in the mountains of central Idaho is highly variable. However, beginning in the fall of 2006 and continuing into the spring of 2007, precipitation tended to be about 50 percent of the long-term averages reported by several Idaho weather stations (e.g., Boise, Cascade, Stanley) (WRCC 2008) (fig. 1). With this reduced precipitation, the snow pack for the winter of 2007 was also below the long-term average (1971-2006) within the Warm Lake Basin (NRCS 2003, 2008). Over the last few decades, by mid-April about 35 inches of water, on average, accumulates in the form of snow within the basin and the snow pack often persists until mid-June. However, during the winter of 2007, only 25 inches of water accumulated in the form of snow and was gone by the first of June, deepening the already droughty conditions (fig. 12). Dry conditions prevailed throughout the spring and summer and in several central Idaho locales (e.g., Cascade, Boise, Stanley) monthly precipitation amounts were 40 to 100 percent below their long-term averages (fig. 1). During July and August 2007, southern and central Idaho experienced an abnormal number of hot days with many exceeding 100 °F with minimal rainfall (WRCC 2008). As a result, by April 2007 a moderate drought existed in central Idaho. By May it was severe, and by July it was extreme (fig. 13) (Heim 2002).

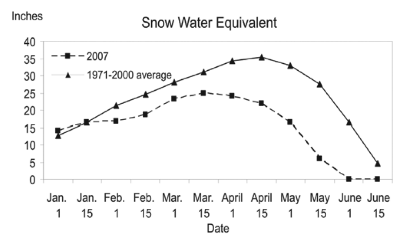


Figure 12. The 2007 snow pack near Warm Lake was below the long-term average as recorded at the Big Creek Summit National Resources Conservation Service SNOTEL site located approximately 5.7 mi west of Warm Lake (NRCS 2003).

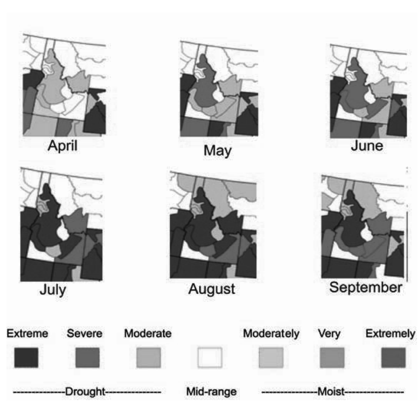


Figure 13. The drought within central Idaho was noticeable by April of 2007, severe by May, and extreme by July as depicted by the Palmer Drought Index (Heim 2002, http://www.ncdc.noaa.gov/oa/climate/research/drought/palmer-maps/).

As would be expected with the low and early departure of the snow pack combined with dry conditions, the moisture concentrations of the dead 100 hour fuels (≥1.0<3.0 inches diameter) throughout central and southern Idaho were less than 5% by the first of July and the moisture concentrations of the dead 1000 hour fuels (≥3.0 inches diameter) were below 10% (Brown 1974; Brown and others 1985). By mid-July, the moisture concentrations in the large fuels also dropped below 5% in southern Idaho and by July 24, they were below 5% in central Idaho. Consequently, both the weather and fuel conditions resulted in a high fire danger in the region that persisted throughout much of July and very high and extreme fire danger was observed by mid-August. In addition, unstable air masses frequented the area during July and August as measured by the Haines Index, with several days experiencing dry and unstable air occurring low in the atmosphere (Haines 6, fig. 14).

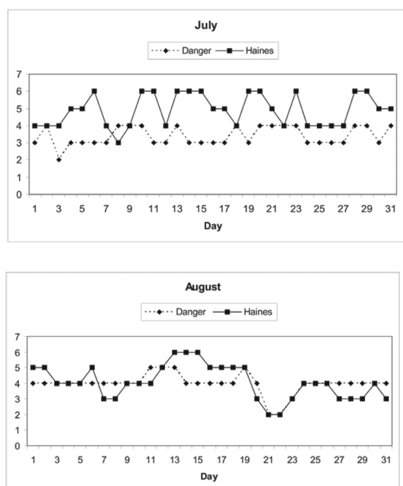


Figure 14. By July, the fire danger in southwestern and central Idaho was high (3) or very high (4) for most of the month and this trend continued in August with extreme (5) fire danger occurring by the middle of the month. In addition, the air masses over the region were relatively unstable as indicated by the Haines Index. The Haines Index can range between 2 and 6. The drier and more unstable the lower atmosphere is, the higher the index.

By late June and early July of 2007, several large wildfires were burning in northern Nevada. By mid-July, over 500,000 acres had burned on the Snake River plain in southern Idaho (fig. 1). The Boise National Forest, located in central and southwestern Idaho, is accustomed to robust fire seasons and has considerable resources to fight wildfires, including local helicopters, engines, and highly trained crews, as well as access to regional and national resources. Similar fire organizations occur throughout the United States and the number of fires and the amount of area burning in the United States by the middle of July, 2007, overwhelmed these available resources that required assets to be shifted and prioritized as new fires were ignited.

Confounding the high and extreme fire danger present throughout much of central and southern Idaho and the scarcity of firefighting resources locally, regionally, and nationally, was a series of thunderstorms that developed in mid-July and moved across the area. A thunderstorm with minimal rain occurred on July 17, igniting over 25 fires on the northern part of the Boise National Forest and several on the adjacent Payette National Forest. The Boise National Forest triaged which fires had priority depending on values at risk and two-thirds of these fires were staffed by July 18. Nevertheless, the Monumental Fire near the headwaters of the South Fork of the Salmon River escaped suppression efforts (fig. 15). This fire, located some 10.5 miles south of Warm Lake, and additional fires (i.e., Riordan, Sandy) burning in the Warm Lake vicinity exceeded local fire fighting capabilities. To manage these fires, two Type 2 Incident Management Teams (IMT2) and one Fire Use Management Team (FUMT) were ordered and assumed responsibility for these fires on July 20. On July 21, the Yellow Fire was discovered west of the Monumental Fire and grew rapidly, ultimately merging with the Monumental Fire (fig. 15). The same lightning storm that ignited the Monumental Fire started the North Fork Fire that was discovered on July 25, approximately 8.8 miles northwest of Warm Lake (fig. 15). Even though it was located on the Boise National Forest, it was assigned to the East Zone Complex of fires burning on the southern part of the Payette National Forest (Bull and others 2007).

Wildfire and Fuel Treatment Interactions Near Warm Lake

The basin, in which Warm Lake sits, generally extends from Cabin Peak northeast of Warm Lake to Monumental Peak some 20 miles to the south. A difference of over 3,000 ft in elevation occurs between the peaks and mountain ranges that circumscribe the basin and its floor

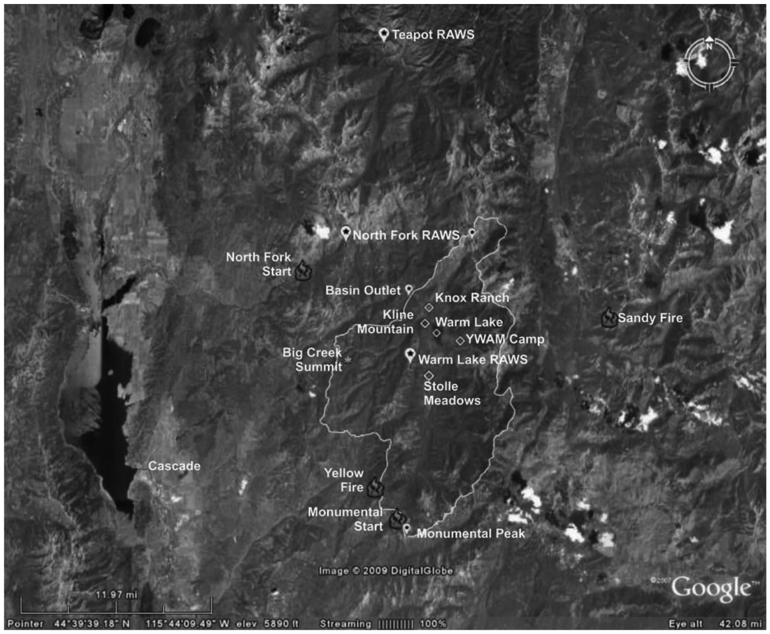


Figure 15. The Warm Lake Basin (outlined) is flanked by peaks over 8,000 ft in elevation on the east and in the range of 7,500 ft on the west. The basin narrows as the South Fork of the Salmon River exits the basin at nearly 5,100 ft above sea level. Both the North Fork and Monumental Fires were ignited by a dry lightning storm on July 17, 2007. The Monumental Fire was discovered on July 19 and the North Fork Fire on July 25. An automated snow content recorder (SNOTEL) is located at Big Creek summit. A permanent remote automated weather station (RAWS) is located north of Warm Lake and two temporary RAWS were established for the fires.

near Warm Lake (fig. 15). This topography lends to the development of air inversions that trap cool air near the land's surface (fig. 16).

At the time the Monumental and North Fork Fires were burning, the fuels in the Warm Lake vicinity were extremely dry. Dead 1000 hour fuel moisture concentrations averaged 9%, dead 100 ($\geq$1.0< 3.0 inches) hour fuel concentrations averaged less than 6%, as did the moisture concentrations of the 10 hour ($\geq$0.25< 1.0 inch) fuels (Readings less than 6% do not register on the protimeter used to estimate the fuel moisture concentrations.). Similar to the dead fuels, the live fuel moisture concentrations, determined by using a COMPUTRAC moisture analyzer, were also very low for the beginning of August. For example, the moisture concentration of elk sedge, a grass-like perennial 8 to 20 inches tall, was 108%. The moisture concentration of huckleberry leaves with berries present on the shrubs was 238%, and the moisture concentration of lodgepole pine and Douglas-fir needles were 106 and 113% respectively. With the exception of the moisture concentration of the huckleberry shrubs, the other live fuel moisture conditions were extremely low and reminiscent of moisture concentrations of those occurring late in the fall when leaves turn color and begin dropping from deciduous plants and the conifers enter dormancy.

Figure 16. Air inversions are common in central Idaho where cool air and smoke in the valleys are trapped by warm air above. These inversions of different strengths often last well into the afternoons.

The fires in and around the Warm Lake Basin increased in size and complexity and, by August 1, over 40,000 acres had burned. For the next 10 days, the Monumental Fire, often driven by strong winds and supported by many days with single digit relative humidity readings, continued burning in a northerly direction toward Warm Lake (figs. 15, 17). The North Fork Fire, driven by the same windy and dry conditions with peak wind gusts exceeding 40 mi/hr, tended to move to the east and northeast. In addition, on August 9, the Monumental Fire made one run 5 miles to the northeast and a second run 1½ mi to the north (fig. 15). In addition to these two fires, the Sandy and Riordan Fires located to the east of Warm Lake continued to burn aggressively, potentially impacting the Warm Lake area and its inherent property and resource values from all directions (fig. 15). The forest treatments aimed at minimizing the impacts from unwanted fire in the area would be put to the test in earnest beginning on August 12.

August 12

August 12, 2007, was considered a Red Flag Day by the Monumental Fire Meteorologist, predicting low air relative humidity, high air temperatures, and gusty winds (table 3). As the Monumental Fire was burning south and east of Warm Lake, the North Fork Fire was burning north and west of the lake, and for the most part since its start, it burned to the northeast away from the lake. However, by August 12, it was burning down slope toward the South Fork of the Salmon River (fig. 18).

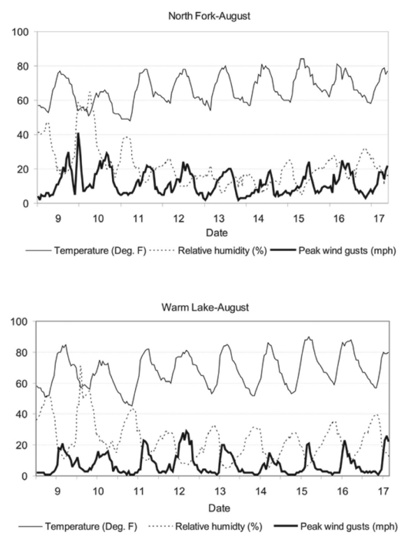


Figure 17. As the Monumental and North Fork Fires approached Warm Lake, wind gusts were strong, air relative humidity was low, and air temperatures were high as recorded by the North Fork and Warm Lake Remote Automated Weather Stations (RAWS) that were established for the fires.

Table 3. Several weather and fire behavior characteristics were observed and predicted by Meteorologists and Fire Behavior Analysts assigned to the Cascade Fire Complex and recorded by the Tea Pot Remote Automated Weather Station (RAWS) located approximately 18.5 miles north of Warm Lake at an elevation of 4,400 ft above sea level (see fig. 15).

Weather/fire	Day of month – August, 2007						
behavior characteristic	12	13	14	15	16	17	18
	- - - Observed fire weather - - -						
Wind direction[1]	SW	W-SW	SW	S-SW	W-NW	SW	SW
Wind gusts (mph)[2]	31	29	20	36	23	27	31
Relative humidity (%)[3]	8	7	8	12	11	11	9
Temperature (°F)[4]	86	88	90	91	90	85	83
	- - - Predicted fire weather and fire behavior characteristics - - -						
Haines index[5]	5 mod	5 mod	4 low	6 high	4 low	6 high	5 mod
Predicted wind gusts (mph)[6]	30-40	to 30	15-20	15-20	to 20	to 30	to 35
Probability of ignition (%)[7]	85	90	95	90	80	80	85
Spotting distance (miles)[8]	1.0	1.0	0.5	0.75	0.5	1.0	2.0
Crowning potential[9]	Ex	Ex	Ex	Ex	Ex	Ex	Ex
Burn index[10]	98	79	62	65	65	88	105
Energy release component[11]	85	90	88	89	89	85	90
Fire weather watch[12]	N	N	N	TS	TS	TS	N
Fire weather warning[13]	RF	N	N	N	RF	RF	RF
Inversion strength[14]	S	W	S	S	W	W	W
Inversion mixing time[15]	1100	1100	1400	1300	1000	1000	1100

[1] Dominant wind direction occurring late morning through evening (N = north, E = east, S = south, W = west).
[2] Maximum wind gust observed.
[3] Lowest relative humidity observed.
[4] Highest temperature observed.
[5] Haines index indicates atmosphere instability with 4 being low and 6 being highly unstable air occurring near the terrain surface.
[6] Wind gust speed predicted by the meteorologist assigned to the Monumental or North Fork Fires.
[7] Probability of a single fire brand landing and igniting a receptive fuel.
[8] Distance spot fires would likely be ignited.
[9] Crowning potential indicates the potential for a surface fire to ignite crowns of standing trees (Ex = extreme).
[10] Burn index indicates potential fire intensity. The index divided by 10 provides an estimate of potential surface fire flame lengths.
[11] The energy release component describes the available energy (BTU) per unit area (ft^2) within the flaming front at the head of a fire that is modified by both dead and live fuel moisture concentrations.
[12] No (N) watches and thunderstorm (TS) watches were issued between August 12 and 18.
[13] Red Flag (RF) warnings for gusty winds, high temperatures, and low relative humidity were issued (N = No).
[14] Strong (S) and weak (W) air inversions were predicted for the Warm Lake Basin where warm air traps cooler air near the terrain's surface.
[15] Time of day when the air inversion was predicted to lift.

During the morning of the 12th, a strong air inversion covered the basin, trapping cool air and smoke, which in turn decreased fire intensity (fig. 16). During the inversion, Monumental Fire crews burned the surface fuels ¼ to ½ miles south from Kinney Point between Road 427 and the lake shore (figs. 6, 18, 19). This burning took place in the Warm Lake south and portions of the Warm Lake east fuel treatment areas consuming the small amount of surface fuels present (figs. 6, 19, table 2). These activities were designed to offer additional protection to that already provided by the fuel treatments to the summer homes in the Kinney Point area as the Monumental Fire approached (figs. 3, 15, 18, 19).

When the inversion lifted at approximately 1100 hours, winds were predicted to gust between 30 and 40 miles per hour, crowning potential was to be extreme, and the Burn Index predicted surface fire flame lengths over 9 ft (table 3). On August 12, the three RAWS providing weather information to the fires recorded wind gusts over 29 miles per hour, with most winds blowing from the southwest (table 3, figs. 15, 17). As predicted, air humidity readings at the three RAWS were less than 10% and air temperatures exceeded 80 °F by mid-afternoon. These conditions caused considerable crowning as the fire moved east up Camp Creek to the southeast of Warm Lake. In contrast, the areas southwest of Warm Lake that

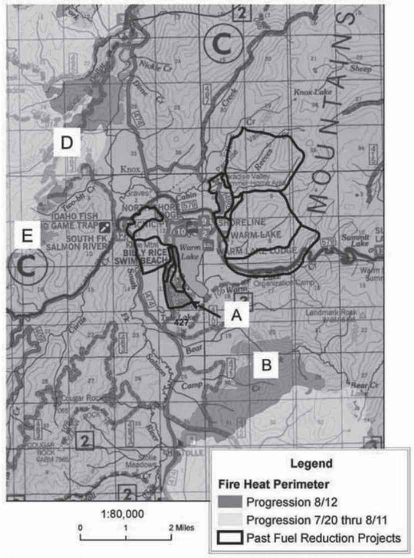


Figure 18. On August 12 a Monumental Fire crew burned the surface fuels within the treatment areas on the southwestern edge of Warm Lake (A) and the Monumental Fire burned into both the Bear and Camp Creek drainages (B). The North Fork Fire tended to burn toward the northeast (D) with some burning occurring down slope toward the Warm Lake Highway and the South Fork of the Salmon River (E).

Figure 19. A Monumental Fire crew burned the surface fuels on August 12 in the Kinney Point area on the west side of Warm Lake where both the surface and canopy fuels were treated in 2000 or 2005. Note the burning is occurring in the morning when the air inversion is in place (see fig. 6).

were treated and subsequently burned by a Monumental Fire crew on the morning of the 12th only experienced several spot fires that were easily suppressed after the flaming front subsided. On August 12, the Monumental Fire burned about 1,200 acres and became well established in both Bear and Camp Creek drainages some 1½ to 2 miles southeast of Warm Lake (fig. 18).

August 13

During the early morning of August 13, the inversion developed in the basin and air temperatures dropped briefly to low as 54 °F and relative humidity approached 20% (fig. 17). Similar to the previous day, predicted crowning potential was extreme, potential spotting distances were a mile, and wind gusts up to 30 mi/hr were predicted (table 3). In contrast to August 12, the inversion was weak, which allowed the winds and temperatures to increase early in the day and the relative humidity of the air to decrease to single digits earlier and remain there longer. Wind gusts to 20 mi/hr were observed at both the Warm Lake and North Fork RAWS and wind gusts to 29 mi/hr were recorded at the higher elevation Teapot RAWS (table 3, fig. 17). These gusts, and winds in general, blew out of the south and southwest throughout the basin and within the surrounding mountains. By mid-afternoon on the basin floor, air temperatures exceeded 80 °F and its relative humidity was 5%. Similarly, at Teapot, the air temperature was nearly 90 °F and its relative humidity was 7%. Needless to say, these weather conditions and the topographic position the Monumental Fire achieved in the lower and southern portions of the Bear and Camp Creek drainages set the stage for intense wildfire behavior.

Because of the weak inversion on August 13, intense fire activity within both the Camp and Bear Creek drainages started early in the day. Pushed by southwesterly winds that aligned perfectly with the topography, the Monumental Fire burned the majority of both watersheds by 1600 hours (fig. 20). The fire not only burned to the northeast approximately 5 miles, but, moved into the Warm Lake Creek drainage directly east of Warm Lake. Driven by hot, dry, and strong southwesterly winds, the Monumental Fire, with 100- to 200-ft flame lengths, burned the entire Warm Lake Creek drainage (fig. 21). As it was burning, it moved through the 480 acres located on the north side of

Figure 20. On the east side of Warm Lake, the Monumental Fire burned the entire Camp and Bear Creek drainages on August 13.

Figure 21. Monumental Fire produced a large smoke column (A) as viewed from Knox Ranch as the fire ran to the northeast on August 13 and burned the entire Warm Lake Creek drainage (B).

Warm Lake Creek that were treated with prescribed fire in 1996. In addition, the fire burned the northerly aspect directly across from the Warm Lake prescribed fire that was previously burned by the Bear Creek Fire of 1989 (fig. 22). Situated between these two side-slopes in the bottom of the Warm Lake Creek valley is the Youth With a Mission Camp (YWAM) (figs. 3, 22).

The exact timing of when the fire passed the YWAM Camp is unknown, but it was most likely in the late afternoon or early evening. Immediately to the south of the camp, in the area that was burned by the 1989 Bear Creek Wildfire, the Monumental Fire burned intensely, consuming the majority of both the live and dead vegetation (figs. 22, 23). In contrast, the burning that was north of the camp on the south facing slope was far less intense, leaving much of the vegetation intact (fig. 23). Multiple cabins are spread throughout the YWAM Camp with large trees nearby (fig. 24). Prior to the fire approaching the camp, the grounds were wetted using sprinklers and they continued to sprinkle until a large (20+ inches in diameter) Engelmann spruce within the compound toppled, disrupting the irrigation. The fire on the north facing slope burned with such intensity that an Engelmann spruce located next to a cabin within the compound ignited at least 20 ft above the ground surface and ultimately torched the remainder of the tree crown above (fig. 24). However, there was minimal surface fire in the camp that was easily extinguished by fire crews when the flaming front(s) had passed.

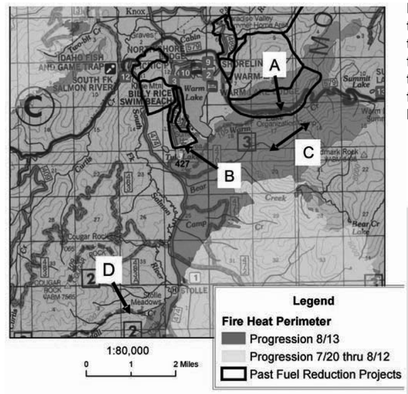


Figure 22. On August 13 the Monumental Fire burned through the Warm Lake Creek (1996) prescribed fire area (A), spotted into the Warm Lake east and south project areas where the surface fuels were burned on August 12 (B) (see fig. 19), burned through the area charred by the Bear Creek Fire of 1989 (C), and became fully established in the South Fork of the Salmon River near Stolle Meadows (D).

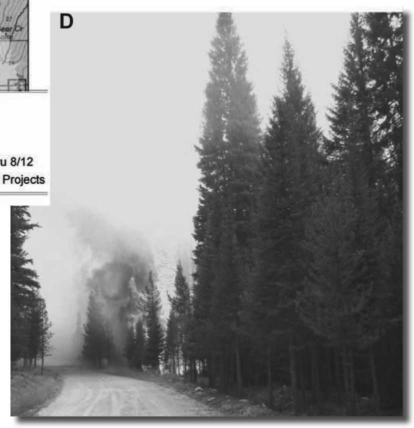


Figure 23. The Monumental Fire burned intensely on the north facing slope adjacent to the Youth With a Mission (YWAM) Camp and consumed a large portion of the of the dead fuels remaining after the 1989 Bear Creek Fire and most of the live vegetation that developed (see fig. 3) (A). In contrast, the fuels that were treated with prescribed fire in 1996 on the south facing slope (B) burned rapidly, but the intensity was lower than that exhibited by the fire on the north facing slope.

Figure 24. Large trees often adjoined the cabins in the Youth With a Mission (YWAM) Camp. The Monumental Fire when it passed the camp, did so with sufficient intensity to ignite the crown of this Engelmann spruce some 20 ft above ground level.

On August 13, the Monumental Fire burned to the north, primarily staying on the east side of Roads 474 and 427 (fig. 22). The fire burned into the areas on the west side of Warm Lake where the fuels were treated in 2000 and 2005, and the surface fuels were subsequently burned by Monumental Fire crews on the morning of August 12 (figs. 18, 19). The fire stayed on the east side of Road 427 as it approached Kinney Point area, and only spot fires were ignited where the fuels had been treated and they were easily suppressed by fire crews (fig. 22). Even though the fire mostly stayed on the east side of Road 474, it again established itself in a key topographical position for future burning — the west side of Road 474 near Stolle Meadows (fig. 22). Approximately 5,800 acres were burned by the Monumental Fire on August 13.

August 14

On August 13, a noticeable amount of burning by the North Fork Fire occurred in the Two Bit Creek drainage just northwest of Warm Lake (fig. 25). Realizing that both the South Fork of the Salmon River and the Warm Lake Highway would offer ready made fuel breaks, North Fork Fire crews began burning the untreated fuels located between the fire and the Warm Lake highway, as well as between the fire and the river. These previously untreated areas were burned during the night of August 13 and the morning of August 14 (fig. 26). In contrast to

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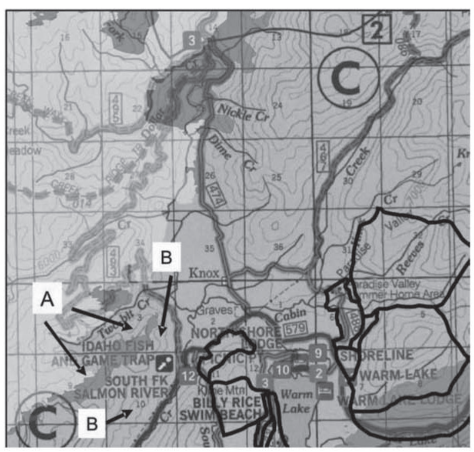


Figure 25. On August 13, t
Fork Fire burned down slop
the South Fork of the Salmon
toward the Warm Lake Highw
addition, North Fork Fire crew
untreated fuels from Two B
south to the Warm Lake
and up toward the advancing

Figure 26. Torching occurred during burnout operations in the untreated fuels on the west side of the South Fork of the Salmon River (A) (see fig. 25). By 2400 hours on August 13, considerable flaming from the burnout operations was evident as viewed from Knox Ranch (B).

have been treated, burnout operations in untreated fuels can result in more intense fires (figs. 19, 26). This intense burning ignited several spot fires in the forests located to the east toward the river and Knox Ranch (fig. 25).

Once again, a strong air inversion set up during the morning of August 14. Once it lifted, predicted wind gusts were to approach 20 mi/hr, air temperature 90 °F, and relative humidity of the air in the single digits (table 3). The inversion was not expected to disperse until 1400 hours; however, the North Fork Fire Meteorologist issued a weather update at 1245 indicating that air was mixing and the inversion was lifting. By 1300 hours, winds gusting to 20 mi/hr were observed at the North Fork, Warm Lake, and Teapot RAWS (table 3, fig. 17). By mid-afternoon, the hot (≈90 °F) and dry (relative humidity 5-7%) winds blew from the west (as recorded by the North Fork and Teapot RAWS) instead of prevailing from the south and southwest.

After the inversion lifted, trees were torching within the main North Fork Fire perimeter and in areas where the burnout occurred (fig. 25). This intense fire behavior produced more spot fires on the east side of the South Fork of the Salmon River and south of the Warm Lake Highway (fig. 25). Even though heavy helicopters and several crews attempted to suppress these fires, the North Fork Fire rapidly increased in intensity. As the North Fork Fire was burning northwest of Warm Lake, the Monumental Fire was burning intensely east of the lake along the ridge separating Warm Lake Creek from Johnson Creek (figs. 27, 28). Driven by strong westerly winds, and possibly pulled by winds generated by the plume of the Monumental Fire, the North Fork Fire burned through the Knox Ranch and subsequently burned two uninhabitable structures (fig. 29). The North Fork fire burned through a portion of the area on Kline Mountain that was treated with prescribed fire in 2006 and through the Warm Lake Highway Project area where the ladder and surface fuels had been masticated in 2004 (figs. 6, 11, 27, 28). Even though the North Fork Fire had ample opportunity, it did not burn into the area occupied by the Picnic Point Campground, North Shore Lodge, and other structures located on the north side of Warm Lake (figs. 3, 28). In fact, on August 14 the southern perimeter of the fire tended to be very straight as it burned to the east (fig. 28).

By the end of August 14, the Monumental and North Fork Fires were about 1½ miles apart as they moved to the northeast of Warm Lake and were burning both north and south of the Paradise Valley summer homes (fig. 28). On the 14th, the North Fork Fire burned approximately 1,000 acres within the basin and the Monumental Fire burned an additional 1,200 acres. By burning into the Johnson Creek drainage, the Monumental Fire had traversed approximately 18 miles or nearly the entire length of the Warm Lake Basin (fig. 15).

August 15 and 16

Relatively unstable air was predicted over the basin for August 15 as indicated by the Haines Index (table 3). Similar to the previous day's weather, winds were going to be gusty, air temperatures high, and air relative humidity low. By mid-day, winds were gusting over 35 mi/hr at the Teapot RAWS and the air temperature was over 90 °F. Similarly, on the basin floor, the Warm Lake RAWS recorded air temperatures over 90 °F and the North Fork

Figure 27. After the inversion lifted on August 14, the North Fork Fire rapidly increased in intensity as it burned to the east. In this view of the fire (A), it had just passed through the area along the Warm Lake Highway where the fuels were masticated as it approached the Knox Ranch (see figs. 6, 11). In addition to be driven by strong winds from the west, the fire may have been pulled by winds created by the Monumental Fire as it burned on the ridge separating Warm Lake Creek from Johnson Creek located to the north (B) (see fig. 28).

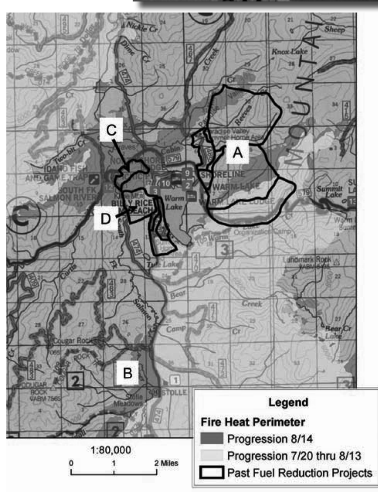


Figure 28. On August 14, the Monumental Fire burned north into the Johnson Creek and Reeves Creek drainages that were burned by prescribed fires (A) and continued to burn in the South Fork of the Salmon River headwaters (B). Driven by dry westerly winds, the North Fork Fire burned to the east through an area where the fuels were treated along the Warm Lake Highway (C) and into areas where prescribed fires occurred on Kline Mountain (D).

Figure 29. Heavy helicopters were used as the North Fork Fire approached the Knox Ranch where the Cascade Incident Command Post was located (A). Within the Knox Ranch, two structures were burned by the North Fork Fire (B).

Figure 30. Relatively benign fire behavior was exhibited by the North Fork Fire on August 15 and 16 as it burned near the Knox Ranch and Paradise Valley summer homes (arrow).

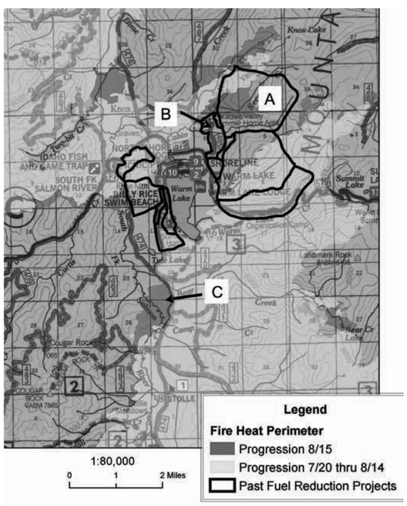


Figure 31. On August 15, the North Fork Fire burned through portions of the Reeves Creek (1998) (A) fuel treatment area and near the Paradise Valley summer homes (B). The Monumental Fire continued to burn along the South Fork of the Salmon River (C).

RAWS recorded air temperatures over 80 °F. Peak wind gusts observed at both RAWS were approximately 20 mi/hr and the air humidity values were less than 6% (fig. 17).

Although the weather was favorable for intense fire behavior, both the North Fork and Monumental Fires did not burn aggressively as previous days. The North Fork Fire continued to burn northeast of Warm Lake as it moved south toward the Paradise Valley summer homes (figs. 3, 30). A portion of this burning occurred in the Reeves Creek drainage where the surface fuels were treated in the spring of 1998 (table 1, figs. 6, 31). The Monumental Fire continued to burn in the Stolle Meadows area south of Warm Lake and burned small areas on its eastern perimeter. In total, on the 15th, the Monumental Fire burned around 750 acres while the North Fork Fire burned approximately 600 acres.

Hot and dry weather continued to prevail on August 16 but the winds, especially those recorded at the Teapot RAWS, tended to blow from the west and northwest. In addition, milder wind gusts were experienced at all of the RAWS than on previous days. This resulted in a predicted fire spotting distance of ½ mile compared to ¾ mile on the previous day (table 3). Also, compared to previous days, the air inversion over the basin on August 16 was weak, allowing air to more readily mix between the high and low elevations. As a result, the intensity of both fires was rather benign, their growth was small, and their perimeters were similar at the end of the day to what they were on August 15 (fig. 31).

August 17

A weak air inversion developed over the basin on the night of August 16 and morning of August 17. This weak inversion allowed winds on the basin floor to gust to over 15 mi/hr by 1000 hours and nearly 20 mi/hr by noon. At 1300 hours, gusts of hot (≈ 80 °F) and dry (≈ 10% relative humidity) winds were approaching 30 mi/hr on the basin floor (fig. 17). Similar to August 15, these weather conditions resulted in a high Haines Index, indicating highly unstable air occurring near the terrain surface and predicted surface fire flame lengths approaching 9 ft (table 3). By mid-afternoon, the Warm Lake RAWS showed the majority of the winds blowing generally from the south while the winds recorded by the North Fork RAWS blew from the west. This Red Flag Day once again set the stage for both the Monumental and North Fork Fires to test the efficacy of the fuel treatments implemented near Warm Lake.

On August 15, a spot fire was apparently ignited on the ridge separating Curtis Creek from the South Fork of the Salmon River, over 2 miles southwest of Warm Lake (fig. 32). This spot fire merged with the main Monumental Fire and the combined fires burned northward. The north/south alignment of the South Fork's topography matched perfectly with the southerly winds to produce intense fire behavior (fig. 33). The fire ignited several spot fires along the west side of Warm Lake, which were readily suppressed in areas where the surface fuels were previously treated. These treatment areas included Warm Lake North, East, and South fuel reduction projects, as well as the areas within these projects that were burned by the Monumental Fire crews on August 12 (figs. 6, 8, 18, 19). The Monumental Fire also burned into areas where the surface fuels were treated on the south, east, and west sides of Kline Mountain in 2006 (figs. 6, 32, 33). On August 17, the Monumental Fire merged with the North Fork Fire on the northwestern side of Warm Lake and burned approximately 1,400 acres (fig. 32).

The Monumental and North Fork Fires also merged on the northeastern side of Warm Lake as they burned in and around the Paradise Valley summer homes, Forest Service Project Camp, and Baptist Church Camp (figs. 3, 32). The Reeves Creek under burn (1997), and the Paradise Valley (2005), Church Camp (2004), and Chipmunk Creek (1998) fuel treatment areas were either burned through or approached by the fires (figs. 6, 32). As the fires burned, spots were ignited in the mechanical fuel treatments associated with the homes and were quickly extinguished by the North Fork Fire crews (fig. 34). The North Fork and Monumental Fires burned approximately 600 acres on the eastern side of Warm Lake.

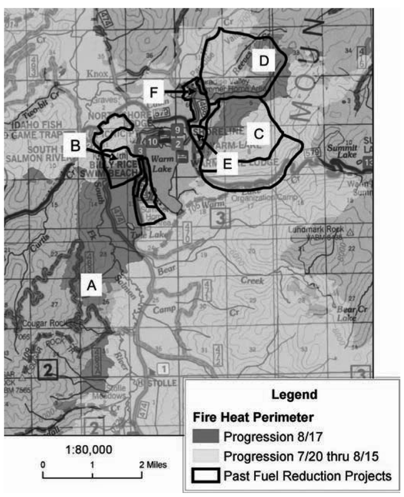


Figure 32. On August 17, the Monumental Fire burning from a spot (A) on the ridge between the South Fork of the Salmon and Curtis Creek aggressively burned to the north burning into the Kline Mountain area in which the surface fuels were burned in 2006 (B). Also, it merged with the North Fork Fire both along Kline Mountain (B) and in the vicinity of the Paradise Valley summer homes (F). The fire(s) in this area burned through or approached the Chipmunk Cr. (C), Reeves Cr. (D), Church Camp (E), and Paradise Valley (F) fuel treatment areas.

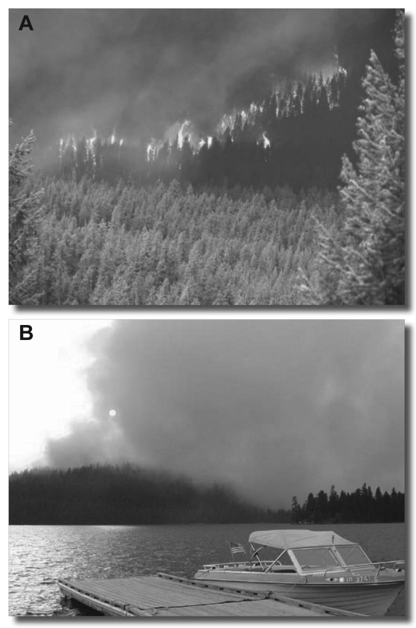


Figure 33. On August 17, the Monumental Fire burned intensely as it moved north along the west slope of Kline Mountain (A). More than once, Warm Lake itself served as a safe zone for firefighters (B).

Figure 34. A spot fire near a cabin in the Baptist Church Camp was readily extinguished by a North Fork Fire crew. Note the open forest condition and the relatively clean forest floor.

August 18 to Snow Fall

On August 18, a Burn Index of 105, one of the highest ever recorded for the Boise National Forest, indicated weather conditions were very favorable for the expansion of the North Fork and Monumental Fires (table 3). Winds continued to be gusty within and near the basin with speeds over 30 mi/hr recorded at the Teapot RAWS. Once again, the relative humidity of the air was in the single digits. On the 18th, the North Fork and Monumental Fires continued to burn rather intensely, with the major burning occurring in the Johnson Creek drainage located to the north and east of Warm Lake. Additionally, to the south and west of Warm Lake, the Monumental Fire burned approximately 600 acres (fig. 35).

The North Fork and Monumental Fires continued to burn in central Idaho until early October when snow finally arrived and brought an end to the 2007 fire season on the Boise National Forest. Over 150,000 acres burned in the vicinity of Warm Lake yet only two rustic buildings were destroyed. The investment in fuel treatments over the previous 11 years appeared to contribute significantly to these results.

Efficacy of Fuel Treatments _______

Physical setting (e.g., topography, elevation, orientation), fuel amounts, structure, composition, moisture content, and the arrangement of each element and its juxtaposition to the start and progression of a fire and suppression activities, along with the long- and short-term weather, determine the intensity and the effect or burn severity of a wildfire (Agee and others 2002; Graham and others 2004; Jain and Graham 2004, 2007). All of these elements and their interactions came into play as the Monumental and North Fork Fires burned near Warm Lake.

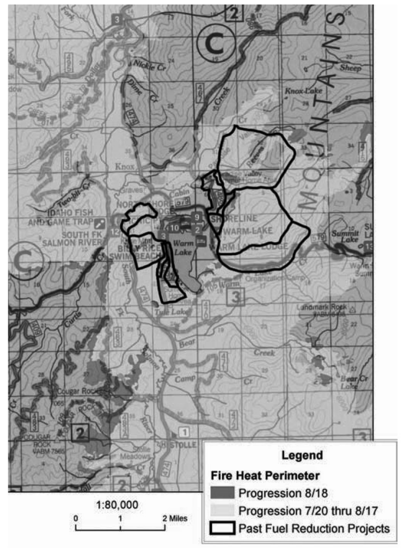


Figure 35. By August 18, the Monumental and North Fork Fires, while burning near Warm Lake, burned through or approached over 5,000 acres (outlined) that were treated to influence both fire behavior and burn severity.

Weather, Fuel Treatments, and Suppression

Weak and strong air inversions prevailed over the Warm Lake Basin on most of the days the Monumental and North Fork Fires burned. When warm air aloft traps cool air near the land's surface, air temperatures tend to be cool, relative humidity of the air high, and winds light (figs. 16, 17). Such conditions provided opportunities for Monumental and North Fork Fires fire crews to conduct burnout operations, often within areas where the fuels had been treated (fig. 19). When the inversion lifted and air mixed between the high and low layers, rapid changes in winds, air temperature, air humidity, and resulting fire behavior would occur. Where the fuels had been treated, fire behavior was often noticeably different from that which occurred in neighboring untreated fuels. In addition, the inversion tended to lift at the higher elevations or within the southern part of the basin before the northern or lower portions of the basin. This knowledge and the location of fuel treatments constrained the timing of when burnout operations occurred and also influenced fire suppression activities. For example, when the inversion lifted in the Stolle Meadows area to the south of Warm Lake, air operations personnel on the Monumental Fire planned their activities and estimated when they could operate within other locales near the fire. The timing of the air mixing also predicted when fire intensity would increase, making direct fire suppression difficult. During the inversion, burnout operations in areas where fuels were treated were very effective and created low intensity, easily managed surface fires (fig. 19). In contrast, during the inversion, rather intense fires were often created during burnout operations with the torching and crowning in fuels that were not treated (fig. 26).

Topography, Fuel Treatments, and Wind Alignment

The location an intensity of the fuel treatments used to protect the real and resource values occurring near Warm Lake were influenced by the prevailing winds and how they interacted with the topography (e.g., slope angle and aspect, drainage orientation, and their juxtaposition). For example, prescribed fires were most often used to treat fuels on southerly and westerly aspects and within east to west aligned drainages containing steep side slopes (fig. 6). Several times the location of the Monumental Fire, orientation of the topography, and winds aligned perfectly to produce intense fire. As the fire burned on August 12 and 13 along the east side of Warm Lake, it became established near the mouths of the Warm Lake, Bear, and Camp Creeks. Subsequently, driven by strong westerly winds, the fire burned intensely through the entirety of these drainages (fig. 36). In particular, when the fire burned the Warm Lake Creek drainage, it burned around if not over the YWAM Camp (figs. 22, 23, 24).

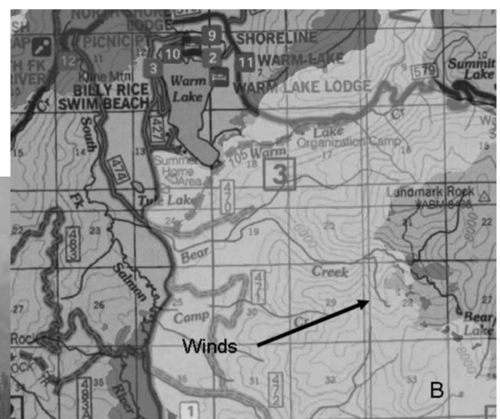
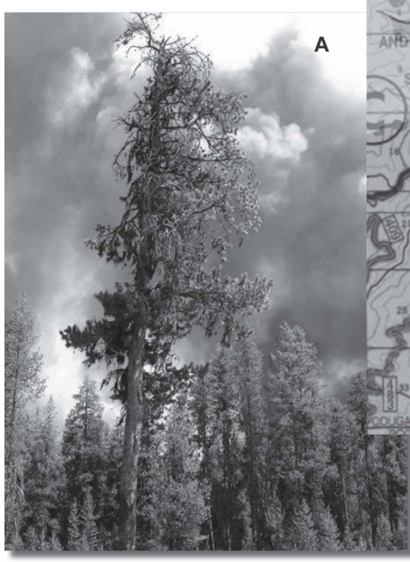


Figure 36. The winds blowing from the southwest aligned perfectly with the orientation of the Warm Lake, Bear, and Camp Creek drainages and facilitated intensive fire behavior (A) as the Monumental Fire burned the entirety of these watersheds (B).

Another example of wind and topography aligning occurred on August 17 when the strong southerly winds aligned with the topography of the South Fork of the Salmon River and resulted in intense behavior by the Monumental Fire (fig. 37).

Fuel Treatments and Suppression Activities

Not only did the presence of the fuel treatments directly impact the survivability of the many structures located within the basin, but they also influenced fire suppression strategies and the location of the Incident Command Post (Bull and others 2007). Even before the strategic direction was changed from confinement to point defense, the location and presence of the fuel treatments were integral to the development of the appropriate management response (AMR). Knowing that the fire intensity was most likely going to be low to moderate in the areas where the fuels were treated led to the prioritization of both firefighting resources and specific tactics during the fires. For example, mechanical fuel treatments to the south and west of the Kinney Point summer homes were critical in determining where burnout operations were applied (figs. 18, 19). These treatments had a very positive effect on protection capability of these homes, especially when the Monumental Fire intensely approached on August 13 and 17 (figs. 22, 32, 33). These treated areas, along with those on Kline Mountain, were responsible for markedly decreased fire intensity, which allowed fire crews to easily suppress the many spots that were ignited in the fuel treatments. Often these spot fires were near one of the many summer homes located in the area. The fuel treatment areas, in addition to Warm Lake itself, often provided a safe zone for firefighters as the fire(s) burned.



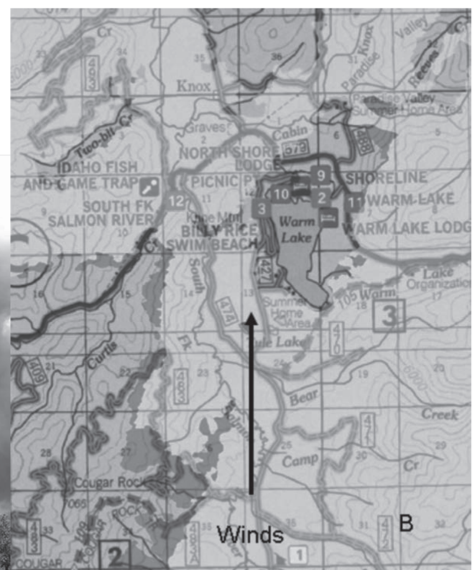


Figure 37. Winds blowing from the south aligned perfectly with the orientation of the South Fork of the Salmon River (A) and created an intense fire as the Monumental Fire burned to the north and ultimately into areas charred by the North Fork Fire (B).

Within the Paradise Valley summer home vicinity (northeast of Warm Lake), the location and presence of fuels treatment areas also influenced suppression activities (fig. 38). Both hand- and mechanical-fire line constructions used the presence and location of the fuel treatments to determine line locations (fig. 38). Similar to areas along the lake, numerous spots were ignited by the North Fork Fire in the Paradise Valley summer homes, Project Work Camp, and Church Camp fuel treatment areas and they were easily suppressed (fig. 39). As with near the lake, burnout operations could be safely executed where the fuels had been treated. This strengthened protection to that already offered by the fuel treatments to the homes and other buildings in the area.

Figure 38. Burnout operations occurred in the masticated fuels near the Paradise Valley summer homes (A, B) in anticipation of either the Monumental or North Fork Fires approaching. The burn severity (soil and tree) as a result of both fires was less in the areas treated compared to the untreated fuels (C). Note the fire line along the treated fuels.

Figure 39. Spot fires were readily suppressed (A) in the Baptist Church Camp where the fuels had been treated (B).

Although not as obvious as other examples of how fuel treatments influenced suppression activities, the mechanical treatments located along the Warm Lake Highway influenced fire management. The location of the area where the fuels had been masticated played into the decision to burnout the fuels located between the Two-bit Road and the southeastern perimeter of the North Fork Fire (figs. 25, 26) (Bull and others 2007). Even though this burnout operation was less successful than others at interrupting the progression of the North Fork Fire, the location of the fuel treatment was a determinant in burning the fuels on the morning of August 13. The burnout, in addition to the South Fork of the Salmon River and the area where the fuels were masticated along the Warm Lake Highway, was thought to offer protection to Knox Ranch as the North Fork Fire approached (Bull and others 2007). If the fire would not have spotted to the south side of the Warm Lake Highway, these areas may have interrupted the fire's incursion into the Knox Ranch (figs. 27-29).

As the Monumental and North Fork Fires quickly increased in size and complexity, and containment, the traditional approach to suppressing wildfires, became unattainable. From July 19 through August 15 the Wildland Fire Situation Analysis (WFSA) prescribed containment as the approach to managing the fires and during this time only, 18% of the fires were contained (Bull and others 2007). Therefore, on August 15, rather than trying to contain the fires, the decision was made to protect values within the area from the fires, or switch to point protection (Bull and others 2007). The areas around Warm Lake where the fuels were treated fit well into this fire management strategy (figs. 6, 8-11).

Fuel Treatments and Fire Behavior

On more than one occasion during the Monumental and North Fork Fires, the fuel treatments and their resulting forest structures and compositions modified the behavior of the fires compared to areas where the fuels were not treated. Fuel composition, moisture content, and structure are major determinants of fire behavior and are easily modified by fuel treatments (Agee 1993; Graham and others 2004; Jain and others 2008). Their disposition, combined with topography, fire locations, and interaction with fuel suppression activities ultimately determines how a fire behaves.

A telling interaction of fuel treatments and fire behavior was observed when the Monumental Fire burned by, and possibly over, portions of the YWAM Camp (figs. 21-24). Fire suppression strategies for the Monumental Fire assumed that the forests previously burned by the Bear Creek Fire (1989) would most likely confine and/or slow the spread of the Monumental Fire (fig. 5) (Bull and others 2007). As such, the fuel treatment area south of Kinney Point on the west side of the lake, and areas burned by the Bear Creek Fire, in combination, led to the burning of the fuels between these locations to further hinder the movement of the Monumental Fire. However, the burning conditions on August 13 overwhelmed the effects that both the fuel treatments and past wildfires had on the fire, as it burned intensely and rapidly spread to the east (figs. 28, 29).

The Monumental Fire burned with such intensity (≈100 to 200-ft flame lengths) that spot fires were ignited on the north side of Warm Lake Creek by embers produced over a mile away (figs. 21, 22). Weather and fuel conditions were such that these spots spread rapidly and over 200 acres were burning within minutes (≈10 minutes). On the opposite slope, the area burned by the Bear Creek Fire of 1989 burned with such intensity that it ignited tree canopies mid-crown and toppled trees within the YWAM Camp (figs. 23, 24). In contrast, even though the fire spread rapidly on the south facing slope immediately to the north of the camp where the surface and ladder fuels had been treated (1996), lower fire intensity was observed (figs. 6, 23). Most likely, if high fire intensity would have occurred on both the north and south side of the YWAM Camp simultaneously, the flaming front would have been continuous across the drainage. Such flaming would have most likely burned the majority, if not all, of the cabins within the camp (figs. 22-24).

Warm Lake's location in relation to the camp also contributed to the YWAM Camp surviving the fire. When flaming fronts pass non-burnable areas such as lakes, rock out-croppings, and in some cases, where fuels have been treated, a fire's continuity can be disrupted. This "eddy effect" is much like the calm water that is present in a stream after water passes around a rock (Finney and others 2003). After a fire passes such an area, even when driven by strong winds such as with the Monumental Fire, it takes time for the fire to regain the same intensity it had before hitting the change in fuels. This eddy effect was noticeable within the meadow and forests immediately to the east of Warm Lake that were minimally impacted by the fire (fig. 35). Monumental Fire crews readily suppressed several spot fires that occurred in this area as the fire was burning intensely to the east.

The Monumental Fire burn area adjacent to the YWAM Camp also illustrates how forests can regenerate and develop after a fire or fuel treatment to create fuels that can burn intensely. The Bear Creek Fire of 1989 burned the north facing slope located to the south of the YWAM Camp leaving abundant dead fuels (fig. 5). The vegetative development over the intervening years (1989 and 2007), in combination with fuels remaining after the 1989 fire, created conditions that facilitated intense fire behavior (figs. 21, 23). This observation illustrates that both fuel treatment longevity and effectiveness are dependent on location, dead and live fuel ratios, and rate, composition, and structure of vegetative recovery (development) (Jain and others 2008).

Kline Mountain, rising 600 ft above the west side of Warm Lake Warm Lake, is a small bluff that separates the lake from the South Fork of the Salmon River (fig. 6). The fuels on its east, south, and west sides were burned in 2006. The Monumental Fire approached the mountain from the south on August 13 and 17, and the North Fork Fire burned the north side on August 14 (figs. 22, 27, 28, 32, 33). The Monumental Fire intensity was highly variable in areas on Kline Mountain where the fuels were treated compared to areas on the west side of the Salmon River where the fuels were not treated and the area was severely burned (fig. 40).

Figure 40. High burn severity to the water's edge was a result of the Monumental Fire intensely burning along the South Fork of the Salmon river on the west side of Kline Mountain (A). In contrast, a mosaic of burn severities occurred directly to the east on Kline Mountain where the fuels were burned in 2006 (B).

Fuel Treatments and Burn Severity

The mechanical treatments and fire suppression activities conducted on the west side of the lake and near the Paradise Valley summer homes contributed significantly to no loss of structures. Altered fuels on the slope directly adjacent to the YWAM Camp to the north, while less obvious, very likely contributed to the survival of YWAM Camp (figs. 3, 6, 21-24). Similarly, the fuel treatments located near the Forest Service Project Camp, Baptist Church Camp, Warm Lake Camp Ground, and Warm Lake Lodge modified fire behavior and offered suppression opportunities that allowed these areas to stay intact while the North Fork and Monumental Fires burned (figs. 34, 38, 39).

Following camps, lodges, and homes, vegetation is the most cherished structure in a forest. Trees are valued for lumber as well as wildlife habitat, scenery, sense of place, and soil and water protection (DeBano and others 1998; Franklin and others 2002; Monroe and others 2006). A large portion of trees survived in the areas along the west side of the lake where the mechanical fuel treatments were conducted and spot fires were quickly extinguished (fig. 41). When the North Fork Fire burned through the area along the Warm Lake Highway where the fuels were masticated, intense fire behavior occurred (fig. 27). When the fire made its major run, one would have expected all trees in its path to be severely burned and all of the foliage consumed. However, near the center of the treatment area, several trees did survive, as did many small seedlings and lower plants. Although the area was severely burned, the remnant trees and green vegetation within this area will lead to more rapid vegetative recovery compared to adjacent areas where all trees were black (fig. 42).

Figure 41. Contrasting burn severities to soils and trees were noticeable as a result of the Monumental Fire burning into the Warm Lake south mechanical fuel treatment area (A) and an adjacent untreated area (B).

Figure 42. The soils experienced far greater heating (higher burn severity) in areas that were not mechanically treated (A) compared to adjacent areas where they were treated in the Warm Lake Highway mastication unit (B) (see figs. 6, 11).

Soil condition after a wildfire determines how quickly a forest will recover and the quality of the water running from burned lands (Debano and others 1998; Robichaud and others 2003). Vegetation loss increases the potential for both wind and water erosion. The heat of a fire, depending on soil characteristics, often alters the soil's biological, chemical, and physical properties. Reducing and/or altering fuels in proximity to the soil's surface can lessen the amount and duration of the heat impacting the soil (Hungerford and others 1991). In most prescribed fire areas, a mosaic of soil and tree burn severities was left after being burned by either the North Fork or Monumental Fires (fig. 43). In these areas, a large number of trees were often killed and several had their crowns scortched. However, if the needles were not consumed by the fires, they will fall and provide protection and organic matter to the soil, which aids in the forest's recovery (Pannkuk and Robichaud 2003; Robichaud and others 2000) (figs. 43, 44). Similarly, in mechanically treated areas that were burned during burnout operations, the wildfires, or by both tended to have mosaics of soil burn severities (figs. 41, 42, 45).

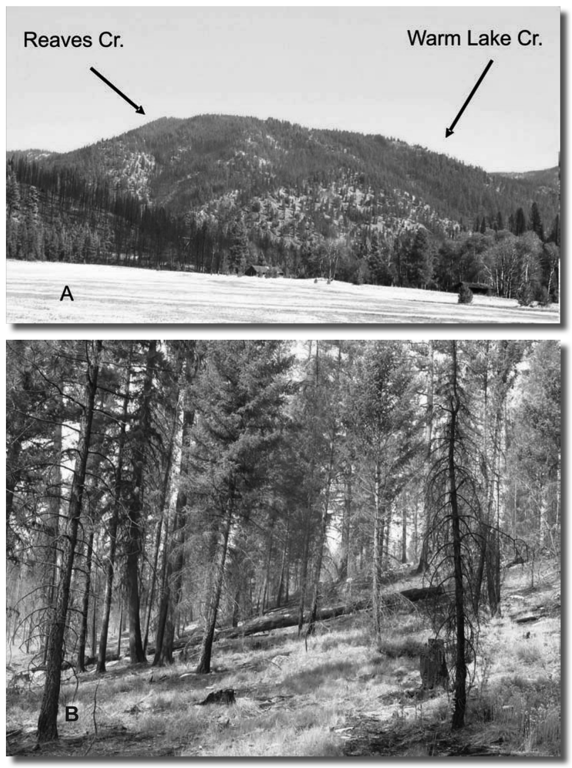


Figure 43. From a distance (Knox Ranch) (A) and within the forest (B), a variety of burn severities were noticeable within the Reaves Creek and Warm Lake Creek fuel reduction projects after they were burned by the Monumental and North Fork Fires.

Figure 44. Abundant green trees and minimal soil heating were evident on the east (A) and west (B) sides of Kline Mountain that had been treated with prescribed fire and burned by the Monumental Fire on August 17.

Figure 45. Burn severity to both trees and soils was minimal after burnout operations (A) and subsequent wildfire (B), as exemplified within areas where the fuels were mechanically treated during the Warm Lake south project.

Conclusions

The Forest Service and cooperators spent over $1.6 million treating the fuels near Warm Lake. The treatments were strategically placed to offer protection to the many summer homes and other values at risk to wildfire in the area (figs. 3, 4, 6). As a result, the North Fork and Monumental Fires burned only two rustic buildings. Depending on their veracity and longevity, the fuel treatments disrupted the progress of both the Monumental and North Fork wildfires and influenced the burn severity or what was left after the fires (Jain and Graham 2007; Jain and others 2008). Contrary to what is often expected, the fuel treatments did not stop the progression of either fire and when combined, the fires burned over 150,000 acres (fig. 35).

By modifying the fires' behavior, the fuel treatments presented suppression opportunities that otherwise may not have been available. These opportunities included providing locales to conduct burnouts to locating both hand and machine constructed fire lines (figs. 38, 45). The presence of the Warm Lake Highway mechanical fuel treatment contributed to the decision to keep Incident Command Post in Knox Ranch as the North Fork Fire approached (figs. 27, 28) (Bull and others 2007). Similarly, the mechanical fuel treatments in the Kinney Point area along the west side of the lake were the preferred locations for burnouts and fire line construction, as were the treatment areas near the Paradise Valley summer homes (figs. 19, 38, 45).

The intensity of the North Fork and Monumental Fires, in general, was lower on areas where the fuels had been treated compared to areas where they had not, regardless of whether the burning occurred during a burnout or one of the wildfires (figs. 41, 42, 44, 45). In particular, the mechanical fuel treatments were very effective in creating conditions where surface fires dominated. Because of the lower intensity observed in these areas, they often provided safe zones for firefighters and crews were able to readily suppress the numerous spot fires that often occurred (fig. 39). Wildfire spread rates were not lower in areas where the fuels were treated compared to areas where they were not. For example, the prescribed fire conducted in 1996 along Warm Lake Creek opened the stand and led to the development of a lush herbaceous layer (fig. 6). These fuel conditions were very receptive to ignition and rapid fire spread (figs. 22, 23).

By strategically placing fuel treatments within the basin, their presence and location were instrumental in developing the appropriate management response (AMR) to the wildfires. With large and complex fires such as those exhibited in central Idaho in 2007, point or area protection can become the AMR. As such, the presence and location of fuel treatments were influential in determining which values could be protected. In addition, there was evidence that the mechanical fuel treatments near Warm Lake disrupted the fires' progression through landscapes, much like Finney (2001) and Jain and others (2008) have suggested, although the ultimate size of the fires was not impacted (fig. 35).

Homes and other domestic structures are not the only objects that fuel treatments may protect when a wildfire burns. For example, in most cases where the fuel treatments were burned by suppression crews, wildfires, or both, a mosaic of burn severities to both vegetation and soils was observed (figs. 38-45). Intact soils, in combination with varying amounts of live vegetation, will lead to faster vegetative recovery after a wildfire compared to areas where the soils were damaged (Debano and others 1998). When fires heat soils, depending on the temperature achieved and the soil type, nutrients can be volatized, organic matter consumed, and water repellent layers produced (Hungerford and others 1991). A telling contrast displaying this fire result occurred on the west side of Kline Mountain where the fuels had been treated in 2006. In this area, ½- to ¾-acre patches of soils were minimally impacted by the Monumental Fire compared to the west side of the river where the fuels had not been treated and discolored soils dominated. Needless to say, the vegetation on the east side of the river will recover faster than the vegetation on the west side (fig. 40).

Naturally, the vegetation in most forests does not develop with uniformly spaced plants and species mixes, nor when they burn do they burn in such a way to leave uniform vegetative and soil conditions (Finney and others 2003; Oliver and Larson 1990). For example, the mixed species forests that prevailed on the southerly and westerly aspects within the basin tended to have mixed severity fires that left a variety of vegetative and soil conditions. This outcome was especially evident where the forests had been treated with prescribed fire. Also, the mixed severity of burning by the wildfires was apparent across landscapes, even within the more regularly structured lodgepole pine forests. Again, this mixed outcome was enhanced by the presence of fuel treatments as exemplified by how the North Fork Fire burned through the Warm Lake Highway mastication (figs. 27, 28, 46). These observations suggest fuel treatments that create irregular forest structures and compositions, both within and among stands, tend to produce wildfire resilient forests (Graham and others 2004). In addition, these mixed fuel conditions present a more natural look and feel to forests that many wildlife species and people often favor, and such conditions can be

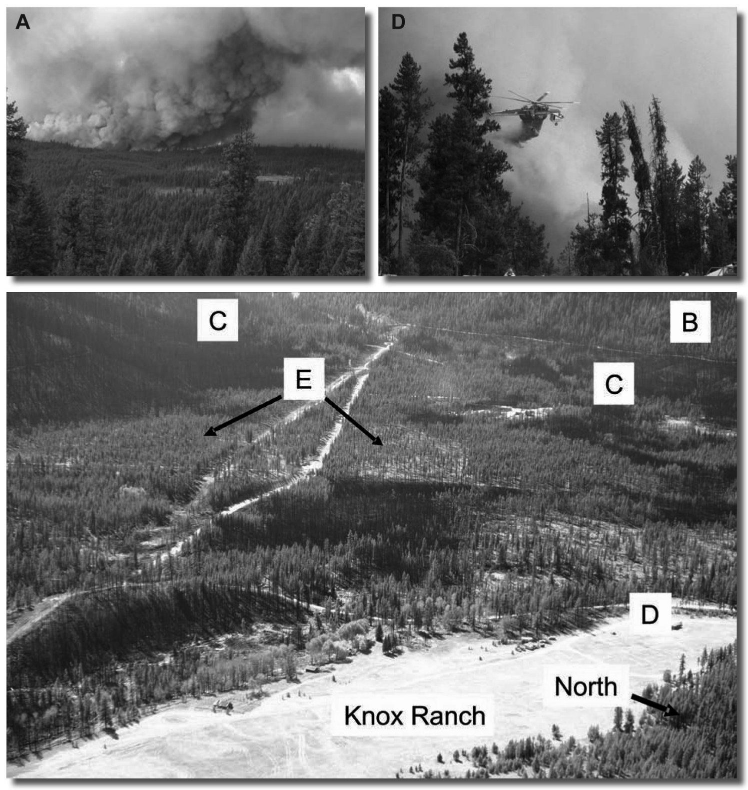


Figure 46. A variety of burn severities are noticeable as a result of the North Fork Fire burning on August 14 (A, D). The burnout operations were ineffective (B) at preventing the fire from spotting (C) and making a major run to the east toward Knox Ranch (A, D). Low burn severity is noticeable within the 182 acres where the fuels were masticated in 2004 (E) (see fig. 28). (Bottom photo by Bull and others 2007).

created and maintained through silvicultural treatments (Franklin and others 2002; Graham and Jain 2005).

Forests regenerate and develop in response to a variety of disturbances, including weather, fire, harvesting, insects, and diseases (Oliver and Larson 1990). How fast a forest develops is highly dependent on its biophysical setting; however, the moist and cold forests tend to develop faster than dry forests (Haig and others 1941; Lotan and Perry 1983; Pearson 1950). For example, the Bear Creek Fire of 1989 burned the north facing slope near the YWAM Camp (figs. 3, 5). In the subsequent 18 years, this cold forest was able to produce sufficient fuels, combined with the remnant dead fuels, to facilitate a very intense wildfire (figs. 21, 23). This outcome illustrates the necessity to revisit and, if necessary, retreat forests to maintain fuel conditions that produce the desired wildfire intensity and burn severity (Jain and others 2008; Graham and others 2004).

While the Monumental and North Fork Fires burned in the Warm Lake Basin, the disposition of surface fuels was a major determinant of how the fires progressed. Minimal independent crown fire was evident in the mechanical fuel treatment areas even as the North Fork Fire made its major run toward Knox Ranch (fig. 46). Tree crowns were scorched and burned by surface fires in areas where the fuels were masticated and by the burning of adjacent untreated fuels. Independent crown fires did burn in the basin, especially when the topography, winds, and fire position aligned perfectly as they did when Warm Lake, Bear, and Camp Creeks burned on the east side of Warm Lake (figs. 20, 21, 36). The way the North Fork and Monumental Fires interacted with fuel treatments, roads, and associated suppression efforts reinforce that treatment location and juxtaposition and the treatment of surface fuels, ladder fuels, and crown fuels (in this order of importance) are major determinants of both wildfire intensity and burn severity (fig. 46) (Agee 1993; Finney 2001; Finney and others 2003; Graham and others 2004; Jain and others 2008; Robichaud and others 2003).

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HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

FRIDAY, MAY 14, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Morrow, GA.

The Committee met, pursuant to call, at 1:40 p.m., in the National Archives Southeast Region, 5780 Jonesboro Road, Morrow, Georgia, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Scott, Marshall, Goodlatte, Rogers, Smith, and Thompson.

Staff present: Aleta Botts, Dean Goeldner, John Konya, Clark Ogilvie, Anne Simmons, April Slayton, Kevin Kramp, John Mathis, and Jamie Mitchell.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

The CHAIRMAN. The hearing of the Committee on Agriculture to review U.S. agriculture policy in advance of the 2012 Farm Bill will come to order.

I want to welcome everybody to the hearing today. This is our fifth hearing in a series of eight hearings that we have been doing for the last couple of weeks. We have a number of folks here on the Committee from the area and so instead of me taking up the time to do a statement.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good afternoon, and thank you for joining us for today's House Agriculture Committee hearing. We are glad to be here in Morrow to hear from area farmers and ranchers about the issues facing agriculture and rural communities.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business. But we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture.

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of this busy time of year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. A bill this large and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process that is open, transparent, and bipartisan.

For all those joining us today in the audience, I hope that you will also participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on our Committee website, and we have cards available today with that web address so that everyone has a chance to tell the Committee about what is working and what new ideas we should consider for the next farm bill.

We have a lot of ground to cover, so let's get started.

The CHAIRMAN. I am going to yield my time to our host today, one of our Subcommittee Chairmen that deals with livestock issues and dairy and so forth on the Committee. He does an outstanding job for us, and we appreciate him hosting the Committee here today, David Scott from this district. We are glad to be here with you.

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

Mr. SCOTT. I am glad to have you here, Mr. Chairman, and I just want to say how appreciative we are to our Chairman, who is doing just an excellent job and has a great deal of care and concern about our farm bill and our agriculture policies all across the states. The Chairman wanted to make sure that he got down here to Georgia, to make sure that we opened a discussion up to get the input of the people in the agriculture community from Georgia, to make sure we are putting together the right elements of the farm bill as to how they relate to the interests of Georgia. And I want to thank you, Mr. Chairman, for making that decision to bring the full Committee down here.

And so I welcome everyone on the Committee to my district here in Morrow, in Clayton County, to our wonderful facilities here. I certainly want to thank the Georgia Archives and Clayton State University for hosting us. And I want to welcome, and we certainly appreciate all of our panelists, some of whom have had to travel far to get here. We appreciate you coming from south Georgia, west Georgia, east Georgia, all down by the coast, to travel up today. And I certainly want to express appreciation to all of my colleagues. We have an excellent turnout of my colleagues from all across this state and other parts of the nation. I just want to say thank you.

Mr. Chairman, agriculture has always been central to Georgia's identity—Vidalia onions, Georgia peaches, peanuts, poultry, king cotton, watermelon from a great part of our state down in Cordele. Agriculture has always been what Georgia does and does very well. Agribusiness is our leading business here in Georgia. Our farmers and our ranchers producer over $7 billion in goods every year, so it is especially important that we in Washington make sound policies that allow Georgia producers to continue to thrive and have profitable farm operations.

As such, I very much look forward to the perspectives of our panelists and the insights that they can provide us into the unique challenges and opportunities in Georgia agriculture. And of course, Georgia does more than just grow things well. Our state and its institutions are at the cutting edge of agricultural research and development. We are just down the road from the Centers for Disease Control and Prevention, which of course is the world's preeminent epidemiology laboratory. And we cannot forget the great work of the University of Georgia, one of our nation's largest land-grant universities. The University of Georgia does yeoman's work in not only improving production agriculture, but improving our food safety systems as well. As many of you know, we have one of the most excellent food safety programs right down the street, the University of Georgia's south campus down near Griffin. We do surprisingly well, but not to others, those wonderful engineers who populate the North Avenue trade school that we affectionately call Georgia Tech. And of course, our friends in middle Georgia at Fort Valley State are at the forefront of research and education.

But I think most importantly, agriculture is ultimately about people, not institutions. And no person is more important than the American farmer. So I am especially interested in hearing from the producers on our second panel, their perspective on the farm bill and how these programs play out here in Georgia. It will be invaluable to our efforts to craft well functioning agricultural policy.

So without further delay, Mr. Chairman, I just want to thank you again and I welcome everyone, and especially our Members that have come from all over the nation to be with us today. Thank you very much, Mr. Chairman.

The CHAIRMAN. I thank the gentleman for his hosting the Committee here today, we appreciate it.

And now I am pleased to recognize a former Chairman of the Committee and today the Ranking Member, Mr. Goodlatte from Virginia, for his opening statement.

OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM VIRGINIA

Mr. GOODLATTE. Well, thank you, Mr. Chairman. I want to thank you for calling these hearings and being so proactive in preparation for the debate we will have on the future of farm policy in the 2012 Farm Bill. It seems like we just completed the 2008 Farm Bill, seems like it was not long ago I was sitting next to you although I was there and you were here——

[Laughter.]

Mr. GOODLATTE.—in the hearings for that last farm bill. It is hard to believe we already need to start the process all over again.

Those who observed the 2008 Farm Bill process will remember that it was a very difficult task. Other committees were asked to help pay for the spending in the bill. Not only did they bring money to the table, but they also brought their non-farm priorities to the table.

The Chairman has already stated that process will not be duplicated and that, if necessary, we will write a baseline bill. Simply translated, that means we will only have the money currently spent on our programs to work with. But even that is not a certainty. Writing a baseline bill could be further complicated by the fact that we do not have a budget right now. The current Congress shows no signs of passing a budget. And without a budget, our already difficult task will become much harder. Writing that budget is a major challenge. No matter which party may be in the majority in the next Congress, it will be a difficult thing and it may entail a reduction in that baseline.

With that in mind, the 2008 Farm Bill was an investment in the future of rural America. Not only did we provide a viable safety net for producers, but we also made substantial investments in conservation and nutrition programs during a time of need for many Americans.

It is important to note that 75 percent of farm bill spending goes to nutrition programs, leaving less than a quarter of the funding for all of the other functions, including the traditional farm and conservation programs. I fear that trend of shifting money out of farm-focused programs will continue. Recently, during a hearing in Washington, I was concerned to hear that the Administration's priorities differed greatly from my producers' priorities. In a presentation to the Committee, there was barely a mention of the safety net, conservation program, or many of the programs my farmers appreciate.

I think it is imperative that Congress work together with the Administration to come up with workable solutions to the main problems our rural communities face. Converting rural America into bedroom communities, however, is not what I consider a workable solution.

I have concerns beyond the USDA. I want to learn if you share my serious concern about the effect of an over-reaching Environmental Protection Agency. It seems every day the EPA is coming out with a new regulation that makes it harder for farmers and ranchers to make a living. Can we do something about those impediments or at least give you the access to tools that can help mitigate some of the adverse effects of regulations?

I look forward to listening to the producers today. I look forward to hearing your concerns about the way government can make it easier for you to make a living at a very high-risk enterprise. But I also look forward to hearing from you ways that we can save money in our current farm programs. I am very concerned about the fact that in this coming year, we are projecting spending $3.8 trillion, based on the President's budget, and yet expecting only $2.2 trillion in revenues, a $1.6 trillion deficit in just 1 year. That endangers our economic future for the entire country, but it also poses a threat to the ability of this Committee to fund programs for agriculture. So areas that you can identify that will help us to save money, or to spend the money that we do have in a more efficient fashion, are very welcome today.

I thank you all for coming today and it is a great opportunity for us to hear from you.

The CHAIRMAN. I thank the gentleman.

We are also pleased to have with us two other Members of the Georgia Delegation, one of whom is an outstanding Member of our Committee, one of whom was an outstanding Member of the Committee before he went on to bigger and better things on the Appropriations Committee, but he is helping us in agriculture over there. I would like to recognize them for a brief opening statement. Mr. Marshall, one of our Committee Members, the floor is yours.

OPENING STATEMENT OF HON. JIM MARSHALL, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Mr. MARSHALL. Well, thank you, Mr. Chairman. I do not have any prepared remarks. I would like to thank everybody who is here as witnesses, I see a lot of friendly faces, folks I have known for the last few years who are very important to agriculture in Georgia and in the United States because you are advocates. You give us guidance and we are here to get guidance from you.

I would simply observe that this Friday we are in District 13, so drive safely when you go home.

[Laughter.]

The CHAIRMAN. I thank the gentleman.

I need to do this before I introduce Mr. Bishop. The gentleman from Georgia, Mr. Bishop, is not a Member of the Committee, but has joined us today. I have consulted with the Ranking Member and we are pleased to welcome him to join us today in the questioning of the witnesses, and also to make a brief statement.

So welcome back to the Committee, Sanford. We have missed you but you are doing great work over where you are, so keep it up.

STATEMENT OF HON. SANFORD D. BISHOP, JR., A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Mr. BISHOP. Thank you very much, Mr. Chairman. I want to personally welcome you and all the Members of the House Agriculture Committee to Georgia.

Mr. Chairman, it goes without saying that we all owe you and Chairman Goodlatte a sincere debt of gratitude for the leadership that you have exhibited in guiding all of us in shaping our nation's agriculture policy and related issues.

I want to thank my friend and colleague, David Scott, who is Chairman of the Subcommittee of Livestock, Dairy, and Poultry, for hosting the hearing here in his district. I would also like to thank and welcome each of the panelists for coming and for bringing very valuable testimony from your respective areas. I might add that many are from the Second Congressional District of Georgia, which I am privileged to serve—Dr. Mark Latimore of Fort Valley State University; Mr. Andy Bell of Climax; Mr. Ronnie Lee of Bronwood, who happens to be the new Chairman of the Georgia Farm Service Agency State Committee; and Mr. Hilton Segler from my hometown in Albany.

The rest of the panel may not be from the Second Congressional District but they are all great friends, and my staff and I often confer with them on various topics pertaining to agriculture. So I thank you for what all of you do to make agriculture the number one economic engine in the State of Georgia.

As a former Member of this Committee and as a Member of the House Agriculture Appropriations Subcommittee, I look forward to continuing the relationship that I have had with the Committee over the years and with the panelists that are here today.

Mr. Chairman and Members of the Committee, I do not have to tell you that our country is facing one of the toughest economic periods in the history of our nation, and of course agriculture is no exception. The uncertainty of the marketplace, the volatility of input prices and devastating natural disasters force our producers to face difficult decisions every day. I commend this Committee for starting early to craft this important 2012 legislation.

I would also like to add my thanks to you. When I am traveling through the Second District, the farmers tell me that they are adapting well to the 2008 Farm Bill and the changes that were made in that legislation—the safety net, crop insurance, other programs always seem to come up in those conversations that I have. I fully understand that the budget situation is more challenging than it was while putting together the 2008 Farm Bill. The budget constraints will likely place pressure on the Committee to look at modifications to the commodity payment levels and the payment limit structure. However, given their importance to Georgia's producers, and throughout the southeastern United States, particularly in our district, I look forward to working with the Chairman and Members of the Committee to assure that these important programs are reauthorized and continued in the next farm bill. So, if changes are made, that none will be made to jeopardize the ability of Georgia farmers and other farmers across the nation to be successful and compete favorably in the global marketplace.

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

I am grateful that all of you panelists have come to share your insight—folks who work in agriculture every day, who understand first hand the challenges that we face in Georgia and the Southeast, folks who live and work in agriculture, literally where the rubber meets the road.

Finally, Mr. Chairman, and Members of the Committee, thank you for holding the hearing here and for allowing me to share my brief remarks.

The CHAIRMAN. I thank the gentleman and you are very welcome to be with us. You have always been—you, Mr. Marshall, and Mr. Scott have always been great champions of agriculture in Georgia and we look forward to continuing to work with you.

We will have the panelists come forward, I think you know who you are. I am going to introduce you when you get up here. While you are moving forward to the table, I want to introduce—we have from USDA the State FSA Director Mr. Charles Stripling in the audience I think. Stand up. Yes.

[Applause.]

The CHAIRMAN. The Rural Development State Director Shirley Sherrod. Shirley, welcome.

[Applause.]

The CHAIRMAN. And the State Conservationist, Mr. James Tillman.

[Applause.]

The CHAIRMAN. Welcome, all of you, and you do a great job on behalf of USDA and agriculture.

I also want to announce that for those of you who have additional thoughts, we have to limit the testimony or we would never have time to get through everything. So those of you that haven't had time, we are taking testimony from anybody that wants to offer it on our website, which is *www.agriculture.house.gov.* We find a lot of times we get some great ideas, great suggestions, great input from folks that maybe are not always the ones that are at the table. So we encourage people to put forward any information or any ideas that they might have as we move into this new process.

As Sanford said, we want to maintain risk management, the safety net, the ability of farmers to continue to do what they do. I just think that we can probably do this in a simpler, more coordinated way, and maybe if we make those kinds of corrections, maybe in a more efficient way. And that's what we are trying to do here, but we are of no mind to undermine the safety net that we have for our producers.

So gentlemen, welcome to the first panel. Dr. Scott Angle, who is Dean and Director of the College of Agricultural and Environmental Sciences at the University of Georgia; Dr. Mark Latimore, the Interim Dean of the College of Agriculture, Home Economics and Applied Programs, Fort Valley State University, Fort Valley, Georgia; Mr. Gary McMurray, Chief, Food Processing and Technology Division, Georgia Tech Research Institute in Atlanta; and Mr. Robert Farris, Director of the Georgia Forestry Commission in Dry Branch, Georgia. Gentlemen, welcome to the Committee.

Your full statements will be made part of the record. We urge you to summarize down to as close to 5 minutes as you can make it happen.

Dr. Angle, welcome to the Committee and you are recognized.

STATEMENT OF J. SCOTT ANGLE, PH.D., DEAN AND DIRECTOR, COLLEGE OF AGRICULTURAL AND ENVIRONMENTAL SCIENCES, UNIVERSITY OF GEORGIA, ATHENS, GA

Dr. ANGLE. Thank you, it is an honor to be able to speak to all of you today. I am the Dean of the College of Agricultural and Environmental Sciences at the University of Georgia. I am also the incoming head of the Board on Agriculture Assembly, which is the organization that represents agricultural land-grant universities around the United States. Our college, along with our friends and partners at Fort Valley State University, represent the land-grant system in Georgia, where agriculture is the largest industry, and is responsible for 16 percent of our total economy.

While the world has plenty of food to eat today, it is clear that much more food will be needed in the near future. It is predicted by the year 2050 food production will have to double. Unfortunately, many areas of the world will be unable to respond to this need.

Asia has poor soils and limited rainfall and will be hard pressed to significantly increase food production. Africa remains hopeful, yet until political instability is resolved, the continent will not be able to feed itself. South and Central America, while blessed with good soils and rainfall, will not likely cut down rain forests for additional production. And Europe, also with good soil and rainfall, will likely produce less food in the future due to a variety of social policies that are causing the continent to agriculturally stagnate.

This leaves North America as the world's hope for meeting the challenge of producing more food and feed. But even here, production patterns are changing. As you know, water availability in the western U.S. is declining. There will be less food produced west of the Rockies 10 years from now than today. And in the northern part of the United States, temperature and sunlight will limit the amount of new food that can be produced.

U.S. production must increase and the Southeast, in my opinion, is where much of this additional production will have to happen.

This is not just an obligation, it is an opportunity. In 2007, the U.S. imported $79 billion worth of food, feed and fiber, while we exported $116 billion of the same. We have the opportunity to widen this surplus even further.

The only way the Southeast can increase food production is through science and technology. Yet, science and technology development in agriculture are unlike any other industry.

Agriculture's disparate nature means that no single farmer is capable of supporting the needed research and development for future improvements. The vast majority, 90 percent, of American farms are privately owned. Individually, they do not have the means to invest in technology development and education; hence, the need for the land-grant system of higher education.

Some crops or commodities, such as specialized fruits and vegetables are grown in small quantities and do not generate sufficient income to attract outside investment.

Technologies that have a "public" good also see little investment from private companies. Reduced pesticide and fertilizer use, integrated pest management, water-use efficiency, and natural resource conservation are all public goods. We need research and outreach programs in each of these areas and only local, state and Federal Governments will support this investigation.

The land-grant system was established to fill the void of agricultural research, education and extension when no one else was able to do that.

Land-grant universities are crucial in most states. Note that I did not say in all states. There are some areas where information and research may indeed overlap. Today could be that historical juncture when we take a critical look at the entire land-grant system. A study to investigate potential improvements in our national structure may well be needed and productive to set our future course, and ensure our continued success. We can no longer afford any duplication within our system.

Keeping the land-grant system positioned to create and support necessary agricultural production increases requires a reliable, sustainable funding system. As you know, Federal funds are provided to the land-grant system through three basic routes. The first route is competitive funding primarily through the USDA. This is the life blood of agricultural research, and to a lesser extent, to extension and teaching. The funding level for research has been growing and we hope that it will eventually rise to the level where funding success rates mirror that of other competitive science programs. Thank you for your support of competitive funding for competitive research in agriculture.

Earmarks are the second important source of funding. As some of you know, I have been an advocate for Federal earmarks to support agriculture research. Federal earmarks remain the only process for supporting vital research that falls between the cracks of the high-minded studies supported by the National Science Foundation, USDA's AFRI, and that of profit-driven research that private companies might support. So until the scientific system is changed to recognize the importance of this highly applied research, Federal earmarks are just about the only way for this very important research to be supported. More transparency, limited high level peer review, and greater accountability may allow a skeptical public to feel greater comfort with this process.

The third source of funding is traditionally referred to as formula funds. The formula is a complicated equation that takes into account farmer numbers and the number of farms to distribute available Federal funds to each state. For more than 30 years, I have been in the land-grant system, and the drum beat against formula funds has been steady. Yet, each year we make protecting these funds our highest priority.

We so strongly support these funds against a background of concern for the process, because formula funds provide the infrastructure that allows both competitive and earmarked funds to be used successfully. Unlike many other disciplines, you cannot turn on and off our infrastructure when competitive and earmarked funds come and go. Herds of cattle, flocks of chickens, or orchards of oranges must be maintained in a system of research and training for use by our faculty.

We are proud of the advancements we have helped agriculture reap, environmental improvements we have furthered in the industry and hands-on, extension education we have provided that contributed to the remarkable success of agriculture in the United States. But challenges loom large on the horizon. We need help in four major areas that will be discussed in the 2012 Farm Bill. These are especially important to the Southeast where biomass and specialty crops are rapidly growing.

Specialty crop block grants to states for research and marketing: This is a very rapid method to get money to research and education system when new and emerging diseases, weeds and insects are found.

Second, Specialty Crop Research Initiative: Many specialty crops, as previously noted, are not of sufficient acreage to warrant industry funding, nor is the basic research environment competitive for these crops. Therefore, specialty crop research initiatives again are one of the few sources for funding for these relatively small crops.

Biomass research and development programs: Most of us realize that biomass is important to agriculture and our society. The exact role agriculture will play in energy production has not yet fully been defined and needs additional government support before the private sector can fully carry this burden.

And last, the Biomass Crop Assistance Program. Scale up for production remains risky obviously in biomass production. The USDA assumption of some degree of risk will encourage the private sector to enter this segment of agriculture and forestry more quickly.

So to conclude, agriculture has a bright future in most of the United States. It is going to change, but the unique partnership between local, state and Federal Governments as well as the private sector will make sure this industry continues to be successful. Strategic security needs for the United States, a pressing need for a positive trade balance and the humanitarian need to feed the world are coming together in a way today that makes agriculture more important than ever.

Thank you.

[The prepared statement of Dr. Angle follows:]

PREPARED STATEMENT OF J. SCOTT ANGLE, PH.D., DEAN AND DIRECTOR, COLLEGE OF AGRICULTURAL AND ENVIRONMENTAL SCIENCES, UNIVERSITY OF GEORGIA, ATHENS, GA

Thank you for the opportunity to speak to you today. I am the Dean of the College of Agricultural and Environmental Sciences at the University of Georgia. I am also the incoming head of the Board on Agriculture Assembly which is the organization that represents agricultural land-grant systems around the United States. Our college, along with our friends and partners at Fort Valley State University, represent the land-grant system in Georgia, where agriculture is the largest industry and is responsible for 16 percent of the state's economy.

My background is in the area of soil science. I have specifically worked on ways to use agriculturally friendly means to clean up polluted soil. And, I am a farm owner.

I am here to talk about my assessment of agriculture of today and to discuss what I see as the primary issues facing agriculture both in the short term and the long term. Most of what I discuss will relate to the southeastern region of our nation.

While the world has plenty of food today, it is clear that much more food will be needed in the near future. It is predicted that we need to double world-food production by the year 2050. Unfortunately, many areas of the world will be unable to respond to this challenge.

Asia has poor soils and limited rainfall and will be hard-pressed to significantly increase food production. Africa remains hopeful, but until political instability is resolved, the continent will never be able to feed itself. South and Central America, while blessed with good soils and rainfall, will not likely cut down rainforests for enhanced production. And Europe, also with good soil and rainfall, will likely produce less food in the future due to a variety of social policies that are causing the continent to stagnate.

This leaves North America as the world's hope for meeting the challenge of producing more food and feed. But even here, production patterns are changing. As you know, water availability in the western U.S. is declining. There will be less food produced west of the Rockies 10 years from now than is produced there today. And in the northern part of the U.S., temperature and sunlight will limit the amount of new food that will be produced.

U.S. production must increase and the Southeast will be, in my opinion, the primary area where production must and will increase.

This is not just an obligation; it is an opportunity as well. In 2007, the U.S. imported $79 billion of food, feed and fiber while we exported $116 billion of the same. We have the opportunity to widen this surplus even more. As noted, the Southeast is especially well positioned for increased production. The Port of Savannah and an efficient transportation infrastructure make this is an ideal region for growth.

It is my opinion that past Federal policies have not always focused on southeastern agriculture. However, with the need for this region to step up production, we must have good policies coming from the new farm bill that will allow this region to meet the challenge and obligation to produce more food for the rest of the world.

Federal policy can either promote production in the Southeast, allowing this need to be met, or it can limit production, forcing more of the world's poor to continue to go hungry.

The only way that the Southeast can increase food production is through science and technology. Yet, science and technology development in agriculture are unlike any other industry. Boeing Corporation and the Ford Motor Company have in-house research and development capabilities as well as training. They have all the needed support for future innovation. Agriculture, however, is different.

Agriculture's disparate nature means that no single farmer is capable of supporting the needed research and development for future production improvements. The vast majority (90%) of American farms are privately owned. Individually, they don't have the means to invest in technology development and education; hence, the need for the land-grant system of higher education.

Much of the needed research is to find ways to reduce production costs with the goal of increasing profitability. While some research is generated within the private sector, the private sector has no incentive to help reduce inputs which also reduces their profits. Further, no private concern will invest in technologies that have limited potential for economic return.

Some crops or commodities, such as specialized fruits and vegetables, are grown in small quantities and don't generate sufficient income to attract outside investment.

Technologies that have a "public good" also see little investment interest from private companies. Reduced pesticide and fertilizer use, integrated pest management, water-use efficiency, and natural resource conservation are all public goods. We need research and outreach programs in each of these areas and only local, state and Federal governments will support this important investigation.

The land-grant system was established to fill this void of agricultural research, education and extension. Our Federal, state and local partnership has become the envy of the world. Many studies of agricultural policy credit much of the success in American agriculture to the knowledge provided by the land-grant system.

Our country has come a long way since the Great Depression when nearly four out of every ten Americans were involved in food production. Today, as you know, less than two percent of the country's population work on the farm. The cost of our food today is much less of our total income than it was when 40 percent of our population was working on a farm. Many of the improvements that help farmers produce abundant, affordable food for exponentially more people came about through technology developed at land-grant institutions. The land-grant system is poised to continue to increase production efficiency to meet the challenges ahead of us.

Land-grant universities are crucial in most states. Notice that I did not say land-grant colleges of agriculture are needed in every state. There are some areas where information and research may indeed overlap. Today could be that historical juncture when we take a critical look at the entire land-grant system. A study to investigate potential improvements in our national structure may well be needed and productive to set our future course and ensure our continued success.

Until recently, merging land-grant programs was nearly impossible, mainly due to limitations in technology. But, as new and better communications methods are developed, we should begin to look at program and system integration. Reductions in state support may drive this process. The Federal Government should get ahead of the issue now to make sure the needs of agriculture are met, duplication is avoided and efficient use of available resources is maximized.

Making needed systemic changes won't be easy. Agricultural production is quite complex, especially in the Southeast. For example, Georgia produces over 100 major commodities with a value of at least $10 million each. And while similar crops are grown in multiple states, best management production practices vary from state to state because of differences in soil, climate, markets, disease pressure and especially water. Information from one state is often not applicable to production in another state.

Keeping the land-grant system positioned to create and support necessary agricultural production increases requires a reliable, sustainable funding stream. Federal funds are provided to the land-grant system through three basic routes:

Competitive funding via the USDA is the life blood of agricultural research and to a lesser extent, teaching and extension. The funding level for research has been growing and we hope that it will eventually rise to the level where funding success rates mirror other competitive science programs. Thank you for your support of competitive funding for research.

Earmarks are the second important source of funding. As some of you know, I have been an advocate for Federal earmarks to support agriculture research. Federal earmarks remain the only process for supporting this vital research that falls between the cracks of the high-minded studies supported by the National Science Foundation, USDA's AFRI and profit-driven research that private companies might support. So, until the scientific system is changed to recognize the importance of this highly applied research, Federal earmarks are the only source to support it. Changes are needed to make the process more transparent, but I remain adamant that earmark-supported research is vital to the success of our farming community. More transparency, limited high level peer review, and greater accountability may allow a skeptical public greater comfort with the process.

The third source of funding is traditionally referred to as **formula funds.** The formula is a complicated equation that takes into account farmer numbers and the number of farms to distribute available Federal funds to each state. For the more than 30 years I have been in the land-grant system, the drum beat against formula funds has been steady and each year we make protecting these funds our highest priority.

We so strongly support these funds against a background of concern for the process because formula funds provide the infrastructure that allows both competitive and earmarked funds to be used successfully. Unlike many other disciplines, you can't turn our infrastructure on and off when competitive or earmarked funds become available. Herds of cattle, flocks of chickens or orchards of oranges must be maintained in a system of research and training farms for our faculty's use.

When competitive funds are awarded to an institution, research and training can be initiated quickly. Most agricultural problems need quick answers. New diseases or insects can decimate an industry within just a few years if no solution is discovered. The U.S. system of land-grant research and information transfer makes this immediate response to new and emerging problems possible.

I want to emphasize the importance of Cooperative Extension to the system. Without a way to deliver research information to those who need the help, why conduct the research? In fact, most other scientific disciplines are now discovering that information transfer is a vital link to successful research. They are searching for effective information delivery mechanisms. In agriculture, we are fortunate to have discovered this key to success nearly 100 years ago, and that Congress had the foresight to authorize establishing Cooperative Extension systems in each state.

Other countries seeking to improve their agricultural systems typically identify extension-type programs as their greatest need. We are the envy of the rest of the world.

At the university level, other colleges and disciplines see Cooperative Extension's value and remarkable tradition of success. Many are looking for ways to tap into extension's grassroots-education capabilities or to reinvent similar information delivery systems.

We are proud of advancements we have helped U.S. agriculture reap, environmental improvements we have furthered in the industry and hands-on, extension education we have provided that contributed to this remarkable success. But, challenges loom large on the horizon. We need help in four major areas that will be discussed for the 2012 Farm Bill. They are especially important to the Southeast where biomass and specialty crops are rapidly increasing.

1. Specialty crop block grants to states for research and marketing.

   This is a very rapid method to get money to the research and extension system when new and emerging diseases, weeds and insects are found.

2. Specialty Crop Research Initiative.

   Many specialty crops, as noted previously, are not of sufficient acreage to warrant industry funding, nor is the research basic enough for competitive funding.

3. Biomass research and development program.

   Most of us realize that biomass is important to agriculture and our security. The exact role agriculture will play in energy production has not been fully defined and needs additional government support before the private sector can carry the burden.

4. Biomass Crop Assistance Program.

   Scale up for production remains risky. USDA assumption of some degree of risk will encourage the private sector to enter this industry.

Agriculture has a bright future in most of the United States. It is going to change, but the unique partnership between local, state, Federal Governments and the private sector will make sure this industry continues to be successful. Strategic security needs for the U.S., a pressing need for a positive trade balance and the humanitarian need to feed the world are coming together in a way that makes agriculture more important today than ever.

The CHAIRMAN. I thank the gentleman.

Dr. Latimore, before you start—at the Committee in Washington, we do not normally introduce the Members, I should have done that before we got started, because we are not in Washington, obviously.

So I would like to welcome a couple of neighbors here, Mr. Rogers from Alabama—who I will do by seniority—a Member of the Committee has joined us today, as well as Mr. Bright from Alabama, one of our new Members on our side of the aisle. And, Mr. Adrian Smith from the western ⅔ of Nebraska. You have what, 65 counties or something.

Mr. SMITH. Sixty eight.

The CHAIRMAN. A big area out there—from Nebraska. And, Mr. Glenn Thompson from Pennsylvania, who is also a relatively new Member of the Committee. So we appreciate them being with us today. And I apologize for not introducing them earlier.

Dr. Latimore, welcome to the Committee and you are recognized.

STATEMENT OF DR. MARK LATIMORE, JR., INTERIM DEAN, COLLEGE OF AGRICULTURE, HOME ECONOMICS AND APPLIED PROGRAMS, FORT VALLEY STATE UNIVERSITY, FORT VALLEY, GA

Dr. LATIMORE. Good afternoon. Mr. Chairman and Members of the Committee, we just recently had a name change at the College of Agriculture to the College of Agriculture, Family Sciences and Technology. As Interim Dean——

The CHAIRMAN. Dr. Latimore, we will try to get these microphones right. That one works I guess. Okay, that sounds good.

Dr. LATIMORE. All right. As I said, we just recently had a name change to the College of Agriculture, Family Sciences and Technology which we are very happy about and we are still trying to get used to. To the Committee, especially the Members that are not from the State of Georgia, Fort Valley State University is an 1890 land-grant university, about 115 miles south of here. We have about 3,500 students, there are about 50 disciplines at the University, 11 in the College of Agriculture. We have a Masters program as a graduate program in animal science, as well as biotechnology.

I am testifying this afternoon on behalf of Fort Valley State, but also keep in mind the other 1890 land-grant universities as well as our colleagues at the 1862s, especially when we engage in the National Institute of Food and Agriculture Sciences.

The restructuring of some USDA agencies and the creation of the National Institute of Food and Agriculture was clearly a key element in the Title VII of the 2008 Farm Bill. So with the structural change, this afforded the 1890s opportunities that they did not have in the past.

For example, the 1890 Capacity Building Grants Program was expanded to include extension activities in addition to research activities and education.

The Expanded Food and Nutrition Education Program was amended to provide at least $100,000 to 1890s and the formula for distribution of future funds was changed.

Authorization of 1890 Cooperative Extension Program was changed to index it to the Smith-Lever Program at a higher level, and there were a few others as well.

As we look at the changes that are taking place, we still, in the 1890 community and the 1862 community, we still suffer in the area of agriculture research from the lack of funding, to really conduct a program in order to aid in solving the problems that our clients, rural America, is faced with.

The 1890s have never forgotten the expectation that as a historical black land-grant university or institution, they must be relevant to the multitude of the beginning, the small and medium sized farmer, as well as the limited resource producer and entrepreneur. With that in mind, we have to provide programs that are going to bring about a wider range of skills and ideas for agriculture, improve the quality of life for these individuals in rural America. We have a mobile technology unit that we have been using for quite some time, and it has been instrumental in affording us the opportunity to really educate rural America, not only to different programs in agriculture, but also to the use of computer technology. So that has been very successful for us.

Services to the country's low-income and limited resource families and communities is no less—and may be even more—important today as it was in the early days of the national land-grant system. So these are challenges which we are faced with in 2010.

So when we look at the 1890s, and of course Fort Valley State University, we are engaged in an integral part in creating opportunities that will build a wholesome living and learning through responsible pursuit of their goals and aspirations. So stronger partners, this is one of the things that we definitely need to engage in, partnerships, increasing partnership sizes. What this means is increasing the size of the funding amount, not simply including us as eligible to compete in a funding pool that has not increased in size. So as we continue to increase and try to solve the problems which we are faced with, we have to consider the opportunities that are there and take advantage of those.

So when we look at the 1890 land-grant universities and the mission which they serve, we have a need to increase funding. There is a need to increase the funding in order for any of these opportunities to take place.

Agriculture diversification and marketing strategies are some things that we definitely need to enhance. These are: increasing the viability and competitiveness of farms through sustainable practices; improving the nutrition, diet and health of rural Americans; improving their economic viability; after-school enrichment programs definitely through 4–H and skills in science, technology and math; improving the technology proficiency for farmers, senior citizens, youth and other rural Americans; and providing educational outreach to the community regarding affordable housing is also a part that we must consider.

Without additional funding, the 1890 Extension will be unable to address the needs that are core to its mission, and will also fail to respond to the clients that need their assistance. The 1890 Extension funding is authorized at 20 percent of Smith-Lever, but is currently funded at 14.3 percent. So when we look at programs, not only through extension, but also research, we have a strong small ruminant—the Georgia Small Ruminant Research Center, bioenergy activities as well as other sustainable agricultural practices. These are just as important to the small farmers as other farmers throughout the country.

We would like to thank you for the opportunity for sharing with you some of our concerns and some of the opportunities which we are faced with through the 1890 land-grant system.

[The prepared statement of Dr. Latimore follows:]

PREPARED STATEMENT OF DR. MARK LATIMORE, JR., INTERIM DEAN, COLLEGE OF AGRICULTURE, HOME ECONOMICS AND APPLIED PROGRAMS, FORT VALLEY STATE UNIVERSITY, FORT VALLEY, GA

Mr. Chairman and Members of the Committee, I am Mark Latimore, Jr., Interim Dean of the College of Agriculture, Family Sciences and Technology at Fort Valley State University, Fort Valley, Georgia. Thank you for the opportunity to testify at today's hearing to offer our views on the U.S. Department of Agriculture's Research, Education, and Extension Programs, especially those that benefit the 1890 Land-Grant Universities.

Fort Valley State University was established in 1895 and was designated a land-grant university pursuant to the Second Morrill Act (1890). Presently, Fort Valley State University has more than 3,500 students in over 50 disciplines. Our particular college offers undergraduate programs in 11 areas and graduate programs in Animal Nutrition, Reproductive Biology, and Animal Products Technology, Plant Biotechnology, Animal Biotechnology and Applied Biotechnology.

While I am testifying today on behalf of Fort Valley State University, I should also point out that we are a member of the Association of Public and Land-grant Universities (APLU) where we work closely with our colleagues at other 1890s and 1862s land-grant universities to support the periodic reauthorization of the agricultural research, extension, and teaching programs at the National Institute of Food and Agriculture (NIFA) and the annual appropriations for these programs.

Restructured of some USDA Agencies and creation of the National Institute of Food and Agriculture was clearly the key element of Title VII of the 2008 bill. This structural change in the research organization at USDA will foster better coordination between the department's extramural capacity building programs for 1890 Institutions (Evans-Allen and 1890 Extension) and their sister programs for research and extension at 1862 Institutions (Hatch and Smith-Lever, respectively). The new structure will also ensure better coordination and integration of USDA's intramural research, conducted by the Agricultural Research Service (ARS) and U.S. Forest Service.

As you know, the 2008 Farm Bill included many provisions specifically intended to benefit 1890 Institutions including Fort Valley State University:

- The 1890 Capacity Building Grants Program was expanded to include extension activities in addition to research and education.
- The Expanded Food and Nutrition Education Program (EFNEP) was amended to provide at least $100,000 per year for 1890 Institutions and the formula for distribution of future funds was changed.
- The 1890 Universities were authorized to participate in the Animal Health and Disease Research Program.
- Authorization for the 1890's Cooperative Extension Program was changed to index it to the Smith-Lever Program at a higher level.
- The Smith-Lever Act was revised to allow the 1890 Universities to participate in the Children, Youth and Families Research Program.
- And, the 1890 Universities were made eligible to participate in the McIntire-Stennis Cooperative Forestry Program.

Working through APLU, the land-grant system has begun a comprehensive process to develop recommendations for the next farm bill and we expect to have our suggestions fully developed well in advance of any Committee action. However, in the absence of specific recommendations for new programs or amendments to existing programs, I can assure you that the greatest need in agricultural research remains funding—regardless of whether such research is conducted at an 1890 Institution, a state agricultural experiment station, or USDA. Many of the opportunities for 1890 Universities provided by the 2008 Farm Bill are only beneficial to us if Congress actually increases funding for these programs.

For example, funds provided for the McIntire-Stennis Cooperative Forestry Program are allocated to governors—who then divide those dollars among institutions of higher learning within their state. Adding 1890 Institutions to the list of eligible schools without also increasing funding for the program is just a reallocation of already-too-scarce resources.

The 1890s have never forgotten the expectation that as Historically Black Land-Grant Institutions, they must be relevant to the multitude of smaller, limited resource producers and entrepreneurs. When these clientele are assisted, as is the 1890 mission, these individuals have great potential of (1) bringing a much widened range of skills and ideas for agriculture and natural resource practices, (2) improving the quality of life of rural Americans through computer literacy training via the Mobile Technology Laboratory, (3) of bringing economic activity to rural communities, and (4) of supplying a variety of specialized market niches. Without this segment of the food and natural resource system, the nation would be lacking in the richness of its agricultural and renewable natural resource based businesses. Service to the country's low-income or limited resource families and communities is no less (and may be even more) a land-grant mandate today as in earlier days of the National Land-Grant System. The 1890s, and of course Fort Valley State University, are integrally involved in creating a society where all people have opportunities for wholesome living and learning through responsible pursuits of their goals and aspirations. We are able and anxious to be stronger partners in establishing a region and a world with a safe and plentiful supply of food, fiber, fuel and water for all, where natural resources and businesses are managed in ways that are sustainable and serve the common good. Increased funding allows more inclusiveness of universities like ours to help solve the complexities of our times. That means increasing the size of the funding amounts, not simply including us as eligible to compete in a funding pool that has not increased in size.

The 1890 Land-Grant Universities have a unique mission of serving the beginning, small to medium limited-resource and hard to reach clientele. The public outreach effort of these universities is known as Cooperative Extension.

These universities have been enormously successful in addressing issues and challenges confronting the limited resource clients, but the unmet needs have become more demanding. These clients are confronted with severe difficulties during normal conditions, but the economic recession has escalated their needs for assistance from the 1890 Universities.

These Universities depends primarily on Federal funds allocated through NIFA to meet the needs of the clients. These funds are matched by the state, but state funding remains stagnant if the Federal funds are not increased. It is evident that these universities are faced with increasing needs from their clientele, but the level of funding has not kept pace.

Additional funding is needed to develop programs that are critical to the clients served by the 1890 Universities. An increase in funding will enable Extension to focus on the following:

1. Agricultural diversification and marketing strategies to reverse the decline of small minority owned farms.

2. Increasing viability and competitiveness of farms through sustainable practices.

3. Improving nutrition, diet and health of limited-resource families with emphasis on reducing obesity, utilizing the Mobile Technology Laboratory as planned through Fort Valley State University Cooperative Extension Program Family and Consumer Sciences Program.

4. Improving the economic viability of rural families, including reducing energy consumption.

5. After school enrichment programs to enhance 4–H and youth skills in science, technology and math.

6. Protecting the environment and natural resource management.

7. Improving technology proficiency for farmers, senior citizens, youths and other rural Americans through our Mobile Information Technology Center.

8. Landowner Initiative for Forestry Education (LIFE) Program designed to provide education opportunities for landowners in sustaining and/or increasing their land productivity.

9. Financial Literacy and Consumer Economics

10. Providing educational outreach to the community regarding affordable housing.

Without additional funding, the 1890 Extension will be unable to address the needs that are core to its mission, and will also fail to respond to the clients that need their assistance. 1890 Extension funding is authorized at 20% of Smith-Lever, but is currently funded at 14.3%. In the 2012 Farm Bill, we would like to see an increase in the authorization level for 1890 Extension. This will enable the 1890 universities to continue to receive Extension funding at a level to respond to the needs of its clientele.

Research (Evans-Allen and 1890 Capacity Building Funding at Fort Valley State University, ongoing.)

Small Ruminant Research

The Georgia Small Ruminant Research and Extension Center (GSRREC) at Fort Valley State University (FVSU) is the largest facility of its kind east of the Mississippi River and is recognized as a national leader in goat research. Small ruminant scientists, producers, and individuals interested in goat production from all over the world visit GSRREC to learn more about our research programs. Current programs include increasing muscle mass in native goats by modifying the genome (particularly the myostatin gene), embryo transfer technology in goats, developing basic roughages and dietary supplements for dairy and meat goats, developing a year-round grazing system, genetic-marker assisted selection for internal parasite control in sheep, invasive vegetation management with sheep and goats, breed characterization and genotype x environment interaction studies with meat goats and sheep, improving meat goat management methods, improving meat quality in small ruminants using pre- and post-slaughter methodologies, developing value-added goat meat and dairy products, and food safety.

The resources and project activities of the 1890 Capacity Building grant helped us achieve successful simulation of goat milk to human milk with respect to milk fat and protein compositions. The resources and project activities of Evans-Allen formula project provided us with the opportunity to develop and evaluate the reduced-fat goat milk cheeses. Studies on food and nutritional qualities of reduced fat goat milk cheeses are almost non-existent. Consumer demand for reduced-fat cheeses has been continuously increasing due to the relationship between dietary fat consumption and coronary heart diseases, stroke, and diabetes. The production and marketing of reduced-fat dairy goat products is expected to have great impacts not only on health of consumers but also on the economic viability of limited resource dairy goat farmers and the industry. Although the reduction of fat in goat milk cheeses have some challenges in consumer acceptability of the products due to defects in texture, flavor and sensory qualities with reference to the full-fat counterparts, the results of the project confirmed that reduced-fat goat cheeses can be successfully produced. Through these project activities and resource allocations, we have been able to produce a Ph.D. student at the Department of Food Science & Technology, University of Georgia, Athens, GA, who finished her degree in 2007 by undertaking part of this research project as her Ph.D. dissertation research and experimentations. In addition, we have been able to produce an MS student in Animal Science program at Fort Valley State University, who has performed parts of this research project as his Master's thesis research. These projects greatly helped us in training and producing minority food scientists at FVSU.

Development of value-added products using goat meat (chevon) and quality studies conducted at FVSU, and dissemination of information through our outreach activities have increased awareness among consumers on the benefits of chevon. Food companies have approached FVSU regarding releasing chevon products to national and international markets. So far, six graduate students have been trained in chevon product technology and food safety.

FVSU is the lead institution for the Southern Consortium for Small Ruminant Parasite Control (SCSRPC), an international research group dedicated to finding non-chemical methods of controlling gastrointestinal nematodes in sheep and goats. Small ruminant parasitology research was initiated at FVSU 14 years ago, and the University is now the lead institution for an international consortium of Scientists, Extension Educators, Veterinarians, and producers developing and testing novel, non-chemical methods of controlling gastrointestinal nematodes (GIN) in goats and sheep. The Southern Consortium for Small Ruminant Parasite Control (SCSRPC) includes 20 institutions from ten states in the southern USA, and from Puerto Rico, the U.S. Virgin Islands, and South Africa. The Institutions include, but not limited to Land-Grant 1890 Universities (Delaware State, Langston, Kentucky State, North Carolina A&T State, Virginia State), 1862 Land-Grant institutions (Auburn, Louisiana State University, North Carolina State University, Texas A&M University, The University of Georgia, Virginia Tech) and USDA Research Stations (Booneville, AR; Brooksville, FL) in the U.S., as well as overseas institutions, including The University of Puerto Rico, University of the Virgin Islands, and Pretoria University (South Africa).

All of the research of our Consortium to date has included a strong extension component, with emphasis on information dissemination to producers and the general public through extension publications, a consortium web site (*SCSRPC.org*), and producer workshops. Including producers in our SCSRPC research and outreach planning meetings has allowed our work to remain relevant to producer needs. These meetings are held twice per year (at least once at FVSU) to foster unity and creativity in developing new initiatives and overcoming challenges. Following this principle, FVSU and our Consortium members have been very successful at attracting funding to support this program, published numerous scientific and producer-oriented manuscripts, and positively impacted sustainability of small ruminant industries in the U.S. and overseas. Parasite research at GSRREC and other institutions of the SCSRPC have greatly impacted small ruminant producers in the U.S. and overseas by reducing dependence on expensive, ineffective anthelmintic drugs. Specific impacts of the Consortium are listed below:

1. Over 16,000 FAMACHA (Parasitologist **Fa**fa **Ma**lan, **Cha**rts) cards sold for on-farm use at over 300 FAMACHA workshops held throughout the United States, Puerto Rico, and the U.S. Virgin Islands.
2. Average farmer can save 70–80% of his drug treatment costs for controlling internal parasites using this system (Savings of $200–$400/year for every 100 breeding ewes or does)
3. Research with *Sericea Lespedeza* (low-input, warm-season legume high in condensed tannins) to control sheep and goat parasites has created a tremendous surge in interest with U.S. farmers in planting this forage for grazing, or making hay or pellets, particularly for use in organic livestock production systems.
4. Changed perception of U.S. farmers from the exclusive use of chemical dewormers (anthelmintics) to try to eliminate internal parasites in grazing animals, which has led to a world-wide epidemic in anthelmintic resistance, to using integrated systems, including grazing management and other non-chemical control strategies, to keep parasitic infection rates below an economic threshold (Increasing profits by managing parasite levels rather than trying to eradicate parasites).

Specialty Plant Biotechnology

The recent sociodemographic changes have created enormous opportunities for the American farmers to grow high value specialty crop plants. Research activities on specialty plants biotechnology to benefit wholesome healthcare and balanced nutrition are geared to identify medicinal plants through phytochemical screening, application of biotechnology to regenerate plants and enhance their value-added characters, and investigations on the biomedical evaluation. We also plan to emphasize conservation of these plants for their sustainable uses. The introduction of nutraceutical plants for health benefits and developing them as premium crops for local growers has been a major spotlight. Our fundamental goal is aimed at improving wholesome healthcare and balanced nutrition through specialty plants biotechnology research.

In collaboration with Wayne State University, we have been able to establish that oral administration of *Scutellaria* (medicinal plant) extract could significantly delay the *in vivo* growth of gliomas in both intracranial and subcutaneous tumor models.

The *in vitro* studies also showed significant dose-dependent inhibition of F98 (rat malignant glioma cell line) cell proliferation by specific inhibitors of PI3K as well as NF-kB, confirming important roles for these signaling molecules in glioma survival and proliferation.

Bioenergy

Biofuel Research for lowering dependence on foreign oil is also timely. Plants are a rich source of non-edible oil (for biodiesel) and selected carbohydrates (for fermenting into ethanol). This research aims at screening plants for rapid biomass production, oil yield and ways to convert the high sugar reserve trapped as cellulose into ethanol. Biofuel Research may lower dependence on foreign oil. Selected specialty plants, those with medicinal, nutraceutical and biofuel/bioenergy values, are being studied for their *in vitro* plant regeneration, genetic enhancement for value-added traits including quality and quantity of phytomedicines, healthy nutrients, and biofuels. The goals of our biofuel research are to produce biodiesel and ethanol for lowering dependence on foreign oil utilizing sweet sorghum and native grasses and *Paulownia*.

Paulownia elongata is being studied as a fast growing tree to meet biomass feedstock requirement for South-Eastern USA. Preliminary analysis is encouraging as compositional analysis revealed 50% cellulose, 13% hemicelluloses and 21% lignin.

Power generation companies have visited our experimental research farm to see the potential uses of *Paulownia* in moving toward biomass-based power generation.

Sustainable Agriculture

The highlights of our sustainable agriculture research findings are as follows:

Due to the hard pan below the plow layer in the coarse textured soils of the Southeast, the best option for conservation tillage in this region was strip-till rather than no-till.

Winter cover crop can substitute up to half the nitrogen fertilizer needs of a number of crops.

Napier grass is among the highest biomass yielding energy feedstock in the southern United States yielding more than switchgrass and energy cane.

An organic garden/classroom demonstration (approximately 12 acres) is being developed.

Teaching

Classroom/Laboratory to Enhance Teaching and Training

Forestry. Future Farmers of America (FFA) Forestry Career Development Events have been conducted annually since 2008 at the Outdoor Forestry Classroom/Laboratory site. One hundred and fifty high school students from nine high schools have participated in this activity each year. At least twenty high school teachers have attended. Foresters employed with USDA, the Georgia Forestry Commission and Weyerhaeuser assisted with the Forestry Career Development Event activities. Foresters from these agencies interacted with the high school students discussing career opportunities with the forestry industry.

Two Summer Forestry Camps have been conducted that were attended by 80 students and ten teachers.

Biotechnology. Fort Valley State University (FVSU) received three NIFA grants to establish and support an undergraduate degree program in Plant Sciences with a major in Biotechnology in 2001 through 2010. Since its inception, scholarships have been awarded to more than 50 deserving students. Four new courses in Biotechnology/Genetic Engineering have been introduced into the curriculum.

Environmental Soil Sciences. An 1890 Capacity Building Grant afforded this Program GPS/GIS equipment to include an ATV mounted soil probe for sampling.

Extension (1890 Extension Funding Formula)

Successes in Extension at FVSU range from:

- Collaborative production of sweet sorghum with local industry in the production of ethanol.
- Utilizing the Mobile Technology Transfer Center (Mobile Laboratory with 25 computer stations) to train small farmers, migrant workers, seniors for medicare programs for seniors, youths and seniors on successful test taking skills, *etc.*
- One-on-one county extension agents training from proper fertilization of crops to nutritional food consumption.
- Seeking enterprises for farmers to diversify or replace existing enterprises that are no longer profitable.

USDA 1890 Facilities Grant

Projects funded through USDA Facilities Grants for Fort Valley State University include but are not limited to:

- Agricultural Technology Conference Center (a Cooperative Extension training facility), 2007.
- Agricultural Arena and Pavilion, under construction.
- Stallworth Agricultural Research Station, 1983.

From USDA/NIFA Website (for the period 2003–2005)

Results and Impacts for 1890 Land-Grant Institutions Programs:

- 1890 Institution Teaching and Research Capacity Building Grants Program.
- Evans-Allen 1890 Research Formula.
- 1890 Extension Formula.
- 1890 Facilities Grant Program.

1890 Institution Teaching and Research Capacity Building Grants Program

The following represents results and impacts for the 1890 Institution Teaching and Research Capacity Building Grants Program from activities that occurred between June 2003 and June 2005.

Alabama A&M University

The NIFA funding has enabled Alabama A&M University to incorporate advanced technology into the department's degree programs in Environmental Science, Soil Science, Forestry, and Plant Science. It established a minor (18 course credits) in Remote Sensing, GIS, and GPS technology for each degree program in the School of Agricultural and Environmental Sciences. The laboratory can accommodate 20 students for individual instruction or a maximum of 40 students (two per computer) for introductory courses. The GIS laboratory is shared with faculty in the Department of Community Planning and Urban Studies to enhance courses and degree programs in Urban Planning.

Delaware State University

A NIFA teaching grant at Delaware State University (DSU) provides service-based field experience in resource management at Trap Pond State Park (TPSP) in Delaware. The project has linked DSU with the Department of Natural Resources and Environmental Control (DNREC) headquarters in Dover, DE. In 3 short years, the research program at TPSP has become a major field program in the Department of Agriculture and Natural Resources, providing an ongoing research area in which student projects and masters' theses can be developed and carried out. The equipment and field training provided by this project enabled DSU undergraduate and graduate students to participate in real-time research projects of present-day interest to resource managers in the state. This project played a central role in the rewriting of the undergraduate curriculum in Environmental Science and the masters' curriculum in Natural Resources. All students in the Environmental Science and Natural Resource education programs (30 majors as of 2003–2004) have been exposed to the equipment and newly modified curricula and courses. The project is providing valuable man-hours for park research and data sets that would otherwise not be obtained. Data from the project have been made available to the state for use in park management both at TPSP and at other parks in Delaware, and the data are being made available to the public on an outreach website.

Fort Valley State University

Fort Valley State University (FVSU) received two NIFA grants to establish an undergraduate degree program in Plant Science with a major in Biotechnology in 2001. Since its inception, FVSU has awarded scholarships ($2,000/year) to 32 deserving students. Four new courses in Biotechnology/Genetic Engineering have been introduced. Twenty-eight students participated in the Research Experience for Undergraduate Program in Biotechnology during the academic year, working in the developed infrastructure facilities to perform cutting-edge research in Molecular biology/biotechnology at Fort Valley State University. In addition to receiving hands-on experience in the laboratory, these students also participated in enrichment activities such as GRE workshops and interacted with distinguished speakers. The invited speakers represent regional diversities, Federal labs and industry. FVSU has successfully established a partnership with major research institutions to provide summer research experiences for undergraduate students. Twenty-five (25) students travel to different destinations throughout the nation each summer. These students conduct independent research work and have made more than 45 scientific award-winning presentations at national meetings. Four students graduating with biotech training joined the graduate/professional schools for higher education in Biotechnology. In addition, these programs allowed FVSU to provide resources for more than 15 high school students to participate in the Summer Research Apprenticeship Program (SRAP). The funding helped the foundation to bring additional funding from other Federal agencies such as NSF and EPA totaling over $3 million to strengthen technology, teaching, and research programs in Biotechnology under the Plant Science Department in the College of Agriculture, Economics, and Allied Programs.

North Carolina A&T State University

With funding from NIFA, North Carolina A&T established a centralized research facility integrating the use of state-of-the-art survey methodologies with computer and communication technologies. This Applied Survey Research Laboratory has the capacity to conduct and analyze mail, telephone, Web-based, self-administered, and face-to-face surveys, focus groups, and other survey research methodologies. In addition, North Carolina A&T's agricultural programs have infused instructional technologies throughout the curricula, and distance learning has become an alternative, yet very important, mode of instruction. Hands-on learning is greatly facilitated by access to "smart classrooms" (interactive whiteboards, multimedia cabinets, and software that facilitate teaching and research) and state-of-the-art laboratories. Finally, the program has allowed North Carolina A&T to establish a graduate program (M.S.) in International Trade.

Southern University and A&M College

Southern University and A&M College received a NIFA grant to enhance teaching and recruitment in Food and Fiber Sciences through computer technology. This project has had far-reaching impact in improving teaching and equipping students with the necessary skills they need for employment. The project provided funds to establish a modernized computer aided design laboratory in the Division of Family and Consumer Sciences. Computer hardware and software was purchased to integrate Computer-Aided-Design and Manufacturing for textiles (CAM/CAM), Computer-Aided Diet Analysis and menu planning, and use of the Internet in the curriculum. Textile students gained hands-on experience using high tech textile equipment. The University has recognized this project as one of the most innovative on campus. This project has also helped bring the University to national prominence. A second NIFA grant to conduct textiles research was won by Southern University as a direct result of this project. The capacity-building research project merges computer-aided-design and textile testing. Another very significant impact was a $1.8 million software donation from Lectra Systems, Inc. This donation places the Apparel Merchandising program at Southern University among a few select institutions worldwide that are using industry standard software. In addition, Dr. Grace Namwamba (PI) received the NASULGC Excellence in College Teaching for the Southern Region in 2003.

Tennessee State University

The NIFA funding has provided Tennessee State University with the ability to respond to stakeholder concerns in the Southeast U.S. nursery industry. By establishing a program on integrated disease management for powdery mildew, improved flowering dogwood selections have been developed that will reduce homeowner dependence on chemical pesticides while improving the profitability of the regional nursery industry. The capacity-building grant program has facilitated the establishment of state-of-the-art equipment and collaborative linkages for research in nursery crop disease management.

University of Arkansas—Pine Bluff

NIFA funding has enhanced research and teaching needs in three areas at UAPB: agriculture, fisheries, and human sciences. Support of programs for student recruitment and retention, curriculum development, faculty and student development, and academic enrichment have greatly strengthened and increased enrollment. Capacity-building funds were instrumental in curriculum design, resource and equipment acquisition, and faculty development for (1) implementing the M.S. degree program in aquaculture/fisheries that enrolls 23 students, (2) creating the nutrition intervention and research program for the study of nutritional needs and food security of families in the Mississippi Delta, and (3) developing the only regulatory science degree program in the nation. The regulatory science program enrolls 27 students in three options: Agriculture, Industrial Health, and Safety and Environmental Biology.

University of Maryland—Eastern Shore

Capacity-building funds have allowed the University of Maryland Eastern Shore (UMES) to establish an impressive, collaborative, multi-state research nutrient management program focused on reducing phosphorus loading levels to the Chesapeake Bay and Maryland Coastal Bays. This work provides protection for the economic viability of watermen and the tourism industry on the Delmarva Peninsula. Another NIFA grant is being used by the Department of Human Ecology at the University of Maryland Eastern Shore to establish an interactive video teleconferencing classroom of courses. The department is partnering with Chesapeake Community and the Eastern Shore Community College in Virginia to offer courses leading to a bachelor's degree for students residing in remote areas on the Eastern Shore who are pursuing a career in child development.

Evans-Allen 1890 Research Formula

The following represents results and impacts for the Evans-Allen 1890 Research Formula from activities that occurred between June 2003 and June 2005.

Alabama A&M University

Alabama A&M University is conducting research to study the various forms of phosphorus over time in poultry manure, or litter, amended soil, using cutting-edge technology to enhance management of animal waste applied to land. Discoveries will aid in the development of remediation strategies to reduce phosphorus mobility in soils. Fractionation studies are identifying differences in phosphorus levels at various soil depths using different treatment methods and advanced instrumentation testing.

Alcorn State University

The profitability of American agriculture is extremely important to the nation's vitality, yet rising input costs and low market prices for agricultural commodities increasingly jeopardize the industry's profitability. Since American producers have little ability to affect market prices, it is critical that they have and understand how to use new technologies that can optimize their input costs with respect to profits. Alcorn State University recently completed a project to monitor the growth of sweet potatoes to optimize production using remote sensing methods. This research shows that remote sensing, GPS/GIS, and ground truthing should help identify the most suitable areas in the field for high sweet potato yield and areas that are problematic. Results from the study will be helpful to small limited-resource producers, will assist extension in the application of the research findings, and will provide researchers with necessary tools for additional study.

Delaware State University

The Claude E. Phillips Herbarium is a resource center for researchers at Delaware State University. Researchers have included in the herbarium native and cultivated plants from across the globe. Those research specimens have been pressed, dried, and mounted on archival paper, then housed in a state-of-the-art, climate-controlled environment. The holdings are available to researchers, students, and the general public.

Florida A&M University

Development of environmentally sound sustainable practices is paramount to the successful growing of hot peppers, an alternative niche enterprise identified for small farmers. Florida A&M University researchers evaluated the effects of bio-solid waste material on plant growth and fruit yield of Scott Bonnett and Caribbean Red hot pepper varieties and on quality characteristics of the soil on which the crop is grown. Results showed that poultry manure, mushroom compost, and earthworm castings produced fruit yield that were numerically, but not statistically, different compared to fruit yield from inorganic fertilizer treatment, but significantly higher compared to fruit yield from control treatment. Fruit yield from cow manure was significantly lower than all other treatments except the control.

Fort Valley State University

Sweet potato potential for human nutrition and future energy needs can be realized through the application of biotechnology, but a reliable *in vitro* regeneration would be required for the application of recombinant DNA technology. Fort Valley State University completed a research project to develop an efficient tissue regeneration system via organogenesis and embryogenesis for sweet potato and to transfer genes of desirable traits into sweet potato using recombinant DNA technology. Establishment of reliable and efficient plant regeneration protocol and gene delivery protocol for sweet potato will ensure introduction of the designed "value-added" genes into this crop through genetic engineering.

Kentucky State University

Kentucky State University researchers developed a program to grow freshwater shrimp in farm ponds to further reduce the state's dependence on tobacco. Economic analyses indicate net incomes of between $2,500 and $4,500 per acre for freshwater shrimp. So far, 18 farmers have adopted the practice, bringing the total additional income derived from shrimp to about $185,250 annually.

Langston University

Langston University continues its research on goat production. A recent study showed that the number of Boer crossbred meat goats has been increasing rapidly, although how their growth and harvest traits compare with those of Spanish goats and influences of maternal genotype has not been thoroughly evaluated. This information would be useful to achieve optimal meat goat production systems and yield of goat products desired by consumers. Langston University's scientists studied post-weaning growth and harvest traits of Boer x Spanish, Spanish, and Boer x Angora wethers consuming a concentrate-based diet. Research shows that live weight gain was greater for Boer crossbreds than for Spanish wether goats, with little or no difference between Boer x Spanish and Boer x Angora goats. Because of more rapid growth of Boer crossbreds than Spanish goats, weights of the carcass and primal cuts were greater or tended to be greater for Boer crossbreds.

Lincoln University

Lincoln University is investigating an indoor water recirculating aquaculture system for the production of bluegill sunfish. There is a high demand for 5 to 6 inch bluegill for pond stocking. Producing suitable sized bluegill for pond stocking, however, requires an inordinate amount of time and increased labor costs because variable growth requires continual sorting and grading to obtain fish of a desirable size. The research is aimed at raising bluegill fingerlings over winter in controlled temperature systems that will produce 5 to 6 inch fingerlings by spring to meet current market demands.

North Carolina A&T State University

Greensboro waters drain into the Jordan Lake, an essential drinking water supply in the Chapel Hill-Raleigh-Durham area. The lake is a "nutrient sensitive water," since it has a nutrient over-enrichment problem. North Carolina A&T State University is in its second year of a study to determine sources of nutrients coming into the Jordan Lake so best management practices can be implemented to remove nutrients draining into the lake. Soil and Water Assessment Tool (SWAT) model inputs were collected for the farm. A nearly complete set of SWAT peer-reviewed literature has been listed on the project's website, providing SWAT users a centralized source for information.

Prairie View A&M University

Goats are an important livestock species in many parts of the world and their prevalence in the U.S. is rapidly increasing. Nonetheless, knowledge of goat nutrient requirements lags behind that of cattle and sheep. To help with this, a database of treatment means observations from goat feeding/nutrition studies was constructed and used to develop and describe nutrient requirements of goats by scientists at Prairie View A&M University. Research will yield more knowledge about accurate estimates of nutrient requirements of goats, including composition of tissue being accreted or mobilized, changes in maintenance energy requirements with advancing maturity and differences among nutritional planes, energy costs of activity, and conditions influencing the supply of ruminally under grade protein. A clearer understanding of these factors is being revealed and will improve feeding programs as well increase accuracy of predicting performance by goats.

South Carolina State University

South Carolina State University purchased a mobile technology learning center with NIFA funds. The customized Winnebago, which travels across the state, is equipped with a 12-station Internet-ready computer lab, a child development classroom, dual generators, a satellite, and an instructor workstation. By design, the mobile technology center delivers the services that 1890 Extension provides such as 4–H and youth development, family life and nutrition, adult leadership and community development, small farm assistance, and computer literacy classes to citizens. The mobile center also provides 1890 Extension with the opportunity to take programs to the people and enhances efforts to address the digital divide.

Southern University

Southern University is furthering research into the effects on animal performance of grazing cattle and goats together and separately. The goal of this project is to assist small and limited-resource producers in increasing their production and economic base by efficiently using the available natural and farm resources. Results of this project are determining the most efficient method of resource use by two or more species.

Tennessee State University

Production efficiency of the doe herd is a major determinant of annual income in a commercial meat goat enterprise; however, doe performance has received little attention when assessing new meat goat breeds in the United States. Most pastures in the Southeast have endophyte-infected tall fescue, posing a risk of endophyte-induced reductions in animal performance. Tennessee State University has undertaken a project to evaluate doe-kid performance for economically important reproductive and growth traits as influenced by breed and forage type. The study recognizes that understanding genetic diversity among breeds for economically important traits and endophyte effects on goat performance can aid in enhancing meat goat herd productivity. Further results of this study should provide producers with information useful for genetic management and breed selection within seedstock and commercial meat goat operations.

Tuskegee University

Land loss phenomena and efforts to recoup it continue to be a challenge for African American farmers and other minority communities in Alabama and the rural South. Rural communities and the underserved families in the Black Belt region have problems accessing government programs. Access of programs and policies affecting the underserved in the Black Belt region of Alabama are being assessed by Tuskegee University. The approach involves multidisciplinary teams within the social sciences, as well as among the social sciences, Cooperative Extension, and continuing education. Target areas are being assessed in terms of economic growth, equity, and quality of life as they apply to sustainable rural development. As a result of the study, specific policies, strategic directions, and programs will be proposed to enhance the potential for sustainable rural development, and a database including a "State of Black Belt" report will be generated on each of the target areas.

University of Arkansas—Pine Bluff

Insect damage to alternative crops produced by small and limited-resource farmers has a significant effect on production. University of Arkansas—Pine Bluff scientists have conducted studies to evaluate Bt sweet corn insect suppression and initiate Bt gene field corn trials, work on bionomic and integrated pest management (IPM) methods for cowpeas in Arkansas, and evaluate insects on new lines of hot peppers. They have also evaluated insect infestation on promising pigeon pea lines, designed an IPM system for control, conducted verification trials on hot peppers and pigeonpeas, and constructed an economic model of production costs. This research has developed a sufficient data base needed to develop insect management and control strategy for multicrop production by limited-resource farmers.

University of Maryland Eastern Shore

The University of Maryland Eastern Shore has established a private-public partnership with Bell Nursery to help the university and its constituents enhance economic development opportunities for surrounding rural communities. The 2.5 acre hydroponic greenhouse was funded at $3.2 million through NIFA, state, county, university and private industry funds to engage in floral production that links the University of Maryland Eastern Shore with a commercial business. The hydroponic greenhouse project sponsored by the University's Rural Development Center and Small Farm Institute is demonstrating that, through formal alliances, economic development strategies can bring needed resources to the Delmarva Peninsula of Maryland.

Virginia State University

In the United States, the need for healthful food is a driving force in the search for nutritious alternative crops. Among the alternative vegetable crops, soybean has the distinction of being low in saturated fat and active in reducing blood cholesterol level. Direct consumption of vegetable soybean is very popular in the Orient; however, the cultivars used in Asia are not adapted to U.S. production systems. Virginia State University recently completed a study to determine the physiological and/or chemical basis of vegetable soybean that could serve as reliable indicators in predicting the proper stage of harvest; to develop vegetable soybean with large seed size, high seed yield, and with desirable agronomic traits and nutritional values; and to identify vegetable soybean cultivar ideotypes that fit into mechanical harvesting.

West Virginia State University

Societies worldwide produce large quantities of waste organic matter. This material arises from human population growth, industrial byproducts, and agricultural sources, such as animal farms. The overall goal of the environmental microbiology program at West Virginia State University is to understand the fundamental microbial processes that produce anaerobic digestion and to apply this knowledge to improve the control and performance of anaerobic digesters. The scientists found that the organic waste bioconversion process can also transform agricultural industrial organic wastes into a valuable agricultural commodity (fertilizer) and renewable energy (methane).

1890 Extension Formula

The following represents results and impacts for the 1890 Extension Formula from activities that occurred between June 2003 through June 2005.

Delaware State University

The Delaware State University 's Cooperative Extension staff annually participates in Coast Day at the University of Delaware Marine Sciences Lab in Lewes, DE. Information is provided to several thousand people who attend. Media presentations and demonstrations provide information on feeding, diseases, and management for aquacultural species, including oysters, crayfish, and smallmouth bass.

Kentucky State University

Kentucky State University aquaculture researchers and extension specialists assist catfish farmers in western Kentucky who have more than 400 acres stocked with catfish. A local Aquaculture Cooperative operates a processing plant with an average of 30,000 to 40,000 pounds of catfish processed each week. These farmers are expected to supply more than a million pounds of catfish in 1 year.

North Carolina A&T State University

North Carolina A&T State University provides educational resources to improve farm business management skills so that limited-resource, small and part-time farmers can increase their incomes from direct marketing. The program is designed so that program participants learn through practices, discussions, role play, planning, and implementation. It monitors and reports results and uses evaluation for constant program improvement.

South Carolina State University

The Extension Beef Cattle Improvement Project (BCIP) at South Carolina State University has provided assistance to 111 small beef cattle producers in production, improving bloodline, marketing, decision making, and risk and enterprise management. One hundred eighteen heifers and 18 bulls have been placed on limited-resource farms to date. Ninety-two farmers are enrolled in this initiative. Fifty-eight families have been assisted through the animal Pass-on-Project, with 62 heifers and three bulls being passed on to these families. The BCIP participants can effectively compete on the beef cattle market. The top 10% of these participants receive premium prices for their products. The most important accomplishment is that participants have increased their knowledge of quality production (breed selection to improve their bloodline) and, as a result, have increased their farm income by 40 percent to 50 percent.

1890 Facilities Grant Program

The following represents results and impacts for the 1890 Facilities Grant Program from activities that occurred between June 2003 and June 2005.

Delaware State University

The Claude E. Phillips Herbarium is a 3,672 square foot building completed in 1999. The Herbarium is the largest at a historically black college or university. With approximately 106,000 specimens, it ranks 87th out of 525 herbaria in the United States and is an active center for education and research. It includes native and cultivated plants that are pressed, dried, and mounted on archival paper as well as some pickled plant specimens. The facility encloses special holding cases in a climate-controlled environment. Scientists, gardeners, educators, students, physicians, and lawyers regularly consult these holdings for identification and education.

North Carolina A&T University

The Cooperative Extension Program at North Carolina A&T State University faced many new challenges as it moved into the new millennium. The extension program, as well as the academic and research programs, needed to address such challenges as sustainable agriculture and its effect on the environment, biotechnology and its applications to the food chain, burgeoning information technologies, economic revitalization of rural communities, and increased accessibility to international markets. Facilities needs had to be addressed to plan for meeting these challenges. Coltrane Hall, headquarters for the Cooperative Extension program, was constructed in 1951. With funds from NIFA, the university developed and executed plans for construction and renovation of Coltrane Hall. The first floor was renovated, and a second floor added on top of the original first floor, using an open space design. Footage for the second floor equaled that of the first floor—11,521 square feet. The second level features a building face of smoked glass.

Prairie View A&M University

Before receiving the facilities funds, agricultural research at Prairie View A&M University was conducted in facilities built in the early 1940s and 1950s that were designed primarily for teaching. The E.B. Evans Animal Industries building, a 28,000 square foot facility built in the early 1950s, served as the primary Agriculture Teaching and Research facility. This facility did not have the size nor proper design for research, and an inadequate electrical system, poor ventilation, and outdated plumbing could not accommodate state-of-the-art research equipment. Therefore, faculty/research scientists were hampered in their efforts to carry out effective research projects. The funds received were used to construct a new state-of-the-art research laboratory, along with several auxiliary buildings. The Jesse H. and Mary Gibbs Jones Building, completed in 1988, serves as the primary research laboratory for research in the food and agricultural sciences, as well as headquarters for the Cooperative Agricultural Research Center. Auxiliary buildings built with these funds include a poultry complex, a swine complex, a feed mill, greenhouse/headhouse complex, and state-of-the-art laboratory equipment and furnishings.

Southern University

Southern University has completed two facilities. The Ashford O. Williams Hall is a two-story, 55,160 square foot building consisting of more than 45 offices and cubicles to house the research and extension faculty, staff, and administrators; telecommunication equipment with graphics, television, and distance learning components; and more than 20 research labs. The Maurice A. Edmond Livestock Arena has more than 58,943 square feet consisting of a regulation horse ring and swine, sheep, and beef cattle stables. These facilities greatly enhance the capability to conduct research and extend extension programs.

Tennessee State University

Facilities funds at Tennessee State University have been used to renovate an old dairy barn into a contemporary agricultural research and extension complex of 46,220 square feet. The complex provides a multi-purpose meeting room, Docu Tech printing area, storage rooms, first and second floor conference rooms, and offices. This modern facility has enhanced the planning, implementing, and evaluating of educational programs, increased technology for extension program delivery, and increased programming and program visibility among decision makers, stakeholders, and clientele groups. The university's educational programs in agriculture and natural resources, community resource development, 4–H and youth development, and family and consumer sciences have been made more visible, allowing the university to serve a larger clientele base.

University of Maryland—Eastern Shore

The swine facility at the University of Maryland Eastern Shore was constructed with NIFA facilities funds. Research conducted there involves growth, reproduction, and meat quality. The facility includes a 60 sow, total confinement farrow-to-finish unit that includes a metabolism room with crates adaptable for swine, sheep, and goats and other rooms that can accommodate the individual housing and feeding of swine, sheep, or goats as necessary for many experiments. All sows are bred using artificial insemination. Pregnant sows are group-housed in a large pen serviced by a computerized sow feeding apparatus. The facility includes a surgery suite used for hormonal studies to improve reproduction efficiency. The facility has had a positive impact on the Maryland eastern shore farming community. Research results have been generated and disseminated through field days, conferences, workshops, extension bulletins, and scientific journals. The construction of this facility and its equipment provided the necessary infrastructure to engage not only in cutting-edge research, but it provided the resources to enhance undergraduate and graduate courses in biotechnology and molecular biology. The facility also was an attraction for the support from the swine industry and allowed the university to partner with that industry and other agricultural constituents in research, teaching, and outreach activities.

Mr. Chairman, from 1970 to 2005 the population of the world increased by 2.75 billion people, a 74% increase. In 1950, only eight countries had a population of 50 million people. By 2030, the United Nations estimates that 33 countries will have populations in excess of 50 million.

According to a Farm Foundation Issue Report entitled, "Agriculture Research and Productivity for the Future," commodity yields in the United States are increasing at a much lower rate in the period after 1990 than when compared to the period between 1950 and 1989. At the same time the farm productivity orientation of public research and development in the United States dropped from 68% in 1985 to 57% in 2006/2007.

Agriculture represents only 1.8% of the nation's Gross Domestic Product, but it accounted for more than 12% of total productivity growth in the United States' economy between 1970 and 2004. Our competitors are not sitting idly by. Between 1981 and 2000, China's share of the world publicly funded agricultural research grew from 4% to 9%. In the same time period, the United States' share grew from 18% to 19%.

Today, the National Institutes of Health spends $120 on competitive research for every dollar spent by USDA.

While NIH funding is greatly needed, we believe that funding agricultural research, education and extension is as important if not more so. After all, we only feed fuel and clothe the world. Isn't an investment in research that solves the causes of problems—obesity, malnutrition, air and water quality, and carbon emissions to name a few—a better investment than research aimed at the addressing the result of those problems?

We appreciate the long support that this Committee has shown for agricultural research, extension and higher education at land-grant universities and especially the 1890 Institutions. We appreciate the opportunity to testify before you today and look forward to working with the Committee in the development of the next farm bill.

The CHAIRMAN. Thank you very much, Dr. Latimore, and we thank you for the good work you do and the work that the land-grants do, we appreciate it.

I guess you have a microphone there, Mr. McMurray.

Mr. MCMURRAY. I believe so.

The CHAIRMAN. We are technology challenged today. Dr. Latimore, maybe you can give us some advice to straighten us out here.

Mr. McMurray, you may proceed.

STATEMENT OF GARY MCMURRAY, CHIEF, FOOD PROCESSING TECHNOLOGY DIVISION, GEORGIA TECH RESEARCH INSTITUTE, ATLANTA, GA

Mr. MCMURRAY. Thank you. Good afternoon, Mr. Chairman, Committees Members, ladies and gentlemen; thank you for the opportunity to appear here today. My name is Gary McMurray and I am the Division Chief for the Food Processing Technology Division at the Georgia Tech Research Institute. I am honored to lead a team of 17 professionals, four academic professors and 20 students working in the areas of sensing for food quality and safety, robotics and automation, worker safety, energy, and environmental engineering in support of bringing technology to the food processing industry.

Today, we are recognized nationally and internationally for developing new and innovative technology and systems for the food industry. In addition, we are partners with the Georgia Tech Integrated Food Chain Center for sensing throughout the food supply chain. We have been funded for the last 35 years through the State of Georgia Agricultural Technology Research Program. The program's mission is to conduct basic and applied research that improve productivity and efficiency in Georgia's agribusiness community. In addition, the State of Georgia has funded the Food Industry Program that is focused on the commercialization of technology for the broader food industry, including red meat, fruit and vegetable and baking industries.

One of the reasons for the success of our program is in the partnership we have in the food processing industry, our colleagues at the University of Georgia and the Georgia Poultry Federation. With the help and support of the Georgia Poultry Federation, we have assembled a world class advisory board that consists of top management from the nation's leading poultry processing companies.

The USDA NIFA program is an important new program and food safety is a major focus. The manufacturing industry realized many years ago that you cannot inspect quality into a product. Instead, they have learned to control the process with statistical control procedures and effective policies. I believe that this approach needs to be applied to the food system as a whole. A systems-level approach to the food system would focus on identifying the appropriate control points, sampling requirements, sensor requirements, policies and procedures for the system as a whole, and not attempt to sub-optimize for individual substances.

By adopting this approach, the value to the industry and the consumer is two-fold. First, there is increased food safety. It is important to restore the confidence that the public has in the safety of our food. Second, we can reduce the spoilage of products throughout the supply chain. While we need to address the critical issue of food production, the first step should be to drive out the waste in the current system. Researchers can partner with farmers to better understand the initial state of the product at the farm through the use of the appropriate sensing technology and monitor its state throughout the food chain. The information can be used with predictive models to better enable decisions and increase the economic benefit for all participants in the system. I believe that by increasing the flow of data throughout the entire food chain, spoilage of product can be dramatically decreased.

The current RFA from NIFA is largely focused on the development of fundamental science. This is important work to be sure, but it does not address a system as discussed earlier. I encourage NIFA to include broader scope projects that allow for the development of teams with diverse backgrounds to address the system as a whole. I also encourage the USDA to focus on technology development that can be used to focus on technology development that can be translated into commercialized hardware and software systems. Developing systems will benefit the farmer, but it will also sustain an entire industry of equipment companies, distributors, sales people and support staff. This creates real jobs and helps build the nation's rural communities.

GTRI recognizes the important work that USDA NIFA is doing and as such has already submitted three letters of intent for proposals to this program. We believe that collaboration is vital to this work and our proposed team reflects that spirit. Our team includes experts at the University of Georgia, as well as other universities such as Oklahoma State, Florida A&M University, the University of Tennessee and North Carolina A&T State University.

One hindrance to fostering such collaboration between land-grant and non-land-grant institutions is a cap on university overhead rates. Today's major engineering universities drive innovation in every economic sector other than agriculture. These universities will be deterred from participating in USDA opportunities until the overhead issue is revisited. A partnership between engineering universities with their systems approach and technology focus, and land-grant universities with their agriculture expertise would be a powerful team to address food safety issues, and would provide a great service to the food industry and consumers.

The entire Georgia Tech community looks forward to working with USDA and NIFA to solve the problems that face our food industry. We know that these problems are critical to maintaining one of the most important industries to our nation and world. The challenges are large, but I am confident that through a systems approach coupled with integrated, multidisciplinary teams, we can begin to solve these problems in a cost-effective manner. I look forward to working with USDA, the academic community as a whole, and the industry to achieve these goals.

I would be happy to respond to any questions that the Members might have at the end. Thank you.

[The prepared statement of Mr. McMurray follows:]

PREPARED STATEMENT OF GARY MCMURRAY, CHIEF, FOOD PROCESSING TECHNOLOGY DIVISION, GEORGIA TECH RESEARCH INSTITUTE, ATLANTA, GA

Good afternoon, Chairman Peterson, Committee Members, ladies, and gentlemen, thank you for the opportunity to appear here today to discuss the 2012 Farm Bill. My name is Gary McMurray and I am the Division Chief for the Food Processing Technology Division at the Georgia Tech Research Institute (GTRI). I am honored to lead a team of 13 full-time research professionals, four academic professors, and 20 students working in the areas of image processing and sensing (food quality and food safety), robotics and automation, energy, and environmental engineering in support of the food processing industry.

We are primarily funded through the State of Georgia's Agricultural Technology Research Program (ATRP). The program's mission is to conduct basic and applied research focused on the development of new technologies that improve productivity and efficiency in the processing operations of Georgia's agribusiness community. Particular emphasis is placed on the commercialization of these technologies and we work closely with our industrial partners to facilitate this. We have licensed ten systems/technologies to commercial companies in the past 15 years. In addition, we have a mandate to educate engineers to prepare them for careers in the food industry as well as provide technical outreach and assistance to the industry. We also work closely with our colleagues at the University of Georgia (UGA) on many projects. This team approach allows the application and transfer of knowledge from multiple disciplines to deliver the best possible solution for each research challenge.

For more than 35 years, ATRP researchers have developed numerous innovations that have improved food, particularly poultry, processing operations. Food safety technologies have also been a key focus area of the program. ATRP has funded groundbreaking work in the rapid detection of pathogens and chemicals. Our biosensor uses an interferometric optical measurement system for rapid, on-line quantification of various chemicals and pathogens in the food system. The research team, working with UGA and under USDA funding, recently demonstrated the system's ability to quickly and accurately identify avian influenza in live chickens. This system has also led to two commercial licenses.

One of the reasons for the success of our program has been the partnership we have with the food processing industry, our colleagues at UGA, and the Georgia Poultry Federation. With the help and support of the Georgia Poultry Federation, we have assembled a first-class advisory board that consists of top management as well as plant and complex managers from some of the nation's leading poultry processing companies. This advisory board plays a critical role in identifying the industry's technology needs and guiding the technology development process.

In addition to the Agricultural Technology Research Program, the State of Georgia has funded the Food Industry Partnership (FIP) program that is focused on the commercialization of technology for the broader food industry. FIP has funded numerous projects focused on food safety, water conservation, automation, and imaging for the red meat, fruit and vegetable, peanut, and baking industries. This unique program uses an industry-led committee to select projects that have broad industry appeal. Each project brings together an academic research team, an end-user, and a commercial partner to bring the system to market.

The USDA NIFA program is an important new initiative that should generate interest from the research community. Food safety is a major focus of the program and it is one that requires a multidisciplinary team Our approach to food safety, from a technology development point of view, has been to not only consider the specific technologies required to achieve it, but also to consider the food chain as a system, not just individual parts. The manufacturing industry realized many years ago that you cannot inspect quality into a product, but instead, you must learn to control the process with adequate statistical control procedures and effective control policies. You only use inspection to verify that the process is under-control. I believe this approach needs to be applied to our food system as well. A systems-level approach to the food system (farm to fork) would focus on identifying the appropriate control points, sampling requirements, sensor requirements, data requirements, policies, and procedures that would ensure the safety of the food chain but not impose significant costs on the system. Then, the correct handling of the product through the system that would ensure that the product arrives safely to the consumer is defined and a methodology for controlling that process is devised. In addition, the information system to convey that information to the appropriate decision makers is equally important. Requiring 100% inspection of the product at any point along the food chain is neither cost-effective nor necessary as long as the rest of the supply chain is not "in control."

By adopting this approach, the value to the industry and the consumer is twofold. First, there is increased food safety. It is important to instill public confidence in the safety of the nation's food supply. Only through a systems approach can we achieve this. Second, we can reduce the waste/spoilage of product throughout the supply chain. The need for increased food production has been well documented. The population of the world continues to grow and with it, the need for more food. While we need to address the critical issue of food production, the first step should be to drive out the waste in the current system. Researchers can partner with farmers to better understand the initial state of the product at the farm (through sensors) and monitoring its state through the food chain. The information can be used with predictive models (simulating the variety of conditions by product as it is transported through the chain) to enable better decisions and increase the economic benefit for all participants in the system. I believe that by increasing the flow of data throughout the entire food chain, spoilage (or waste in the system) can be dramatically decreased and at the same time overall food safety can be maintained.

The current RFA from USDA NIFA is focused for the large part on very specific issues in food safety. This approach is very appropriate for the development of fundamental science, but it does not facilitate a systems approach as discussed earlier. I encourage the USDA NIFA to craft broader scoped projects that allow for the development of teams with diverse backgrounds to address the system as a whole. I also encourage the USDA to focus on technology development that can be translated into commercialized hardware and software systems. Developing systems that can do more for the farmer brings benefit not only to the farmer, but it sustains an entire industry of equipment companies, distributors, sales people, and support people. This creates real jobs and helps build the nation's rural communities.

The problems facing our agricultural system are complex ones that require multidisciplinary team-based solutions. I believe the best teams can be formed by joining researchers from both land-grant and non-land-grant universities. These teams require skills typically found at the land-grant institutions such as microbiology, food science, and animal science. However, the non-land-grant institutions are an untapped resource that can supplement the research teams and allow them to tackle the larger problems. I strongly feel that the non-land-grant universities have a tremendous amount of technology and skills that can be brought to bear on the problems that face our agricultural system. While GTRI is considered one of the preeminent sensors universities in the nation for the Department of Defense (DOD), very little of that work has translated over to the agricultural community. Within the DOD world, sensors for detection of various chemicals are well known and commonly deployed. In addition, the DOD has invested heavily in multispectral and hyperspectral imaging as a means to collect data and identify objects of interest. This technology has many applications to the agricultural community. Can these non-land-grant universities address these problems alone? No. They still need to partner with the land-grant universities because that is where the domain-specific knowledge resides. They must partner to accomplish the greater goals of USDA.

GTRI recognizes the important work that USDA NIFA is doing and as such we have already submitted three letters of intent for proposals to this program. We believe that collaboration is vital to this work and our proposed team reflects that spirit. Our team includes experts at the University of Georgia as well as other universities such as Oklahoma State, the University of Tennessee, and North Carolina

A&T State University. The multidisciplinary teams include experts in signal processing, sensor systems, environmental engineering, and energy systems that are working with their counterparts in economics, poultry science, microbiology, and food science to work on projects of mutual interest.

One hindrance to fostering such collaborations between land-grant and non-land-grants institutions is the cap on university overhead rates. Today's major engineering universities drive innovation in every economic sector other than agriculture. These universities will be deterred from participating in USDA opportunities until the overhead issue is revisited. A partnership between engineering universities with their systems approach and technology focus and land-grant universities with their agriculture expertise would be a powerful team to address food safety issues and would provide a great service to the food industry and to consumers. They must partner to accomplish the nation's food safety goals.

The entire Georgia Tech community looks forward to working with USDA and NIFA to solve the problems that face our food industry. We know that these problems are critical to maintaining one of the most important industries to our nation and our world. The challenges are large, but I am confident that through a systems approach coupled with integrated, multidisciplinary teams, we can begin to solve these problems in a cost-effective manner that will maintain the public's confidence in the safety of our food supply. I look forward to working with the USDA, the academic community, and the industry to achieve these goals.

I would be happy to respond to any questions that the Members might have.

The CHAIRMAN. Thank you very much, Mr. McMurray.

Mr. Farris, welcome to the Committee and I think we have the microphone working now.

STATEMENT OF ROBERT FARRIS, DIRECTOR, GEORGIA FORESTRY COMMISSION, DRY BRANCH, GA

Mr. FARRIS. Thank you and good afternoon. I will go for the one that is working here, and now if I can just figure out where the reset button is on this little box here.

Good afternoon. I am Robert Farris, Georgia's State Forester. Mr. Chairman, and Members of the Committee, thank you for the opportunity to review agricultural policy as you prepare for the 2012 Farm Bill.

Georgia has over 24 million acres of forestland, more privately-owned, commercially available forests than any other state. In addition to the many environmental and social benefits, forestry has a $28 billion impact on our state's economy and provides over 128,000 jobs here in Georgia. You will find similar statistics throughout the South.

I say all this to emphasize that our forestlands are a strategic national resource. The actions of the Committee on the 2012 Farm Bill are of critical importance to Georgia, the South and indeed the nation. Allow me to review what we see as growing challenges and opportunities to manage Georgia's forest resources.

The 2008 Farm Bill required that state forestry agencies prepare comprehensive assessments and strategic plans as a condition of receiving Federal funds through the Cooperative Forestry Assistance Act. As states engage with many partners to implement these plans, numerous factors require consideration which may also influence development of the 2012 Farm Bill:

Numerous strategies require long-term participation and expanded investment of cooperative forestry assistance and conservation title programs, including forestry measures contained in EQIP and Conservation Stewardship Program.

Flexibility is needed in the program funding process for cooperative forestry assistance. Emphasis should be placed on provisions that assure dependable levels of funding for Federal programs, as well as initiatives identified through the state assessments. Expanded flexibility is strongly encouraged for state-specific priorities.

As state assessments are completed, more will be understood about the opportunities for climate mitigation and adaptation. Certain conservation title programs may need enhancement to better address forest adaptation. The Healthy Forest Reserve Program may be re-examined to address both climate mitigation and adaptation.

As metrics for carbon storage become more reliable, specific incentive payment programs may be appropriate.

Significantly expanding tree planting should be an important consideration in the farm bill.

Ongoing water wars between Georgia, Alabama and Florida clearly demonstrate that water quantity and quality are of ever-growing concern. Two out of every three rain drops that fall in Georgia land on our forests, which filter the water and enhance absorption into our streams. Retaining and properly managing our working forests plays a critical role in the protection of our water resources.

The 2012 Farm Bill may provide opportunities to better recognize and support the role of our extremely effective Forest Water Quality Best Management Practices. We have concerns about recent U.S. Corps of Engineers rulings, and we also have concerns about recent Congressional proposals to change the Clean Water Act and the potential adverse impacts that that may have on silvicultural exemptions.

The 2008 Farm Bill's definition for *renewable biomass* assures reliable and sustainable supplies to manage woody biomass as a component of the national renewable energy policy. Healthy and dependable forest product markets are absolutely essential for encouraging land owner investment in reforestation and keeping their working forests working. Measures to advance sustainable production of woody biomass are appropriate for the 2012 Farm Bill.

Additionally, the U.S. Forest Service FIA program is critical for understanding the current and potential future condition of forest resources as they relate to climate, renewable energy, landscape level conservation and forest health. Potential 2012 Farm Bill considerations may include expanded FIA services including remote sensing capabilities to support facility level supply and demand and impact assessments.

Some forestry-related programs and authorities established in the 2008 Farm Bill remain uncertain, or have not been fully implemented. To date, no progress has been made to implement provisions of the Emergency Forest Restoration Program, the Forest Resource Coordination Committee has not yet been established.

BCAP experienced difficulties as implemented under NOFA. It's our view that BCAP can generate increased investment and commitment to sustainable forest resource management.

On behalf of the Georgia Forestry Commission, I thank the Committee for your recognition of the strategic importance of our nation's forests.

Thank you.

[The prepared statement of Mr. Farris follows:]

PREPARED STATEMENT OF ROBERT FARRIS, DIRECTOR, GEORGIA FORESTRY COMMISSION, DRY BRANCH, GA

Good morning and welcome to Georgia. I am Robert Farris, the State Forester for Georgia. Mr. Chairman and Members of the Committee, thank you for the opportunity to appear here today to review U.S. Agriculture policy as you prepare for the 2012 Farm Bill.

Georgia has over 24 million acres of forestland, of which 92 percent is privately owned. Georgia has more privately-owned, commercially available forestland than any other state in the nation. By any measures you care to use, forestry is important to Georgia. In addition to its many environmental and social benefits, forestry has a $28 billion economic impact on our state and provides more than 128,000 jobs for Georgia citizens. You will find similar statistics throughout the southern U.S., which is well-known as the "wood basket of the world."

I say all of this to emphasize that our forestlands are a strategic national resource, and the actions this Committee takes on the 2012 Farm Bill are of critical importance to Georgia, the South and our entire nation. I would like to take this opportunity to review what we see as growing challenges and opportunities to manage Georgia's forestry resource.

State Assessments and Strategies

The Forestry Title of the 2008 Farm Bill requires that state forestry agencies prepare comprehensive assessments and strategic plans as a condition of receiving Federal funds pursuant to the Cooperative Forestry Assistance Act. These plans must be completed and submitted to the U.S. Forest Service by June 18, 2010. These evaluations have been a significant undertaking, involving considerable collaboration with resource management agencies, organizations, and the public at large. The process has produced important findings and guidance about major issues, priorities and strategic guidance for state and Federal programs, including regional and national perspectives on forest policy. During the next 5 years, as states engage with the Forest Service and other partners to implement these plans, many factors will require consideration which may also influence development of 2012 Farm Bill:

- Numerous strategies will require significant long-term participation and expanded investment of Cooperative Forestry Assistance and Conservation Title programs, including forestry measures contained in the Environmental Quality Incentives Program and Conservation Stewardship Program.
- State plans have helped identify landscape-level initiatives that will require interagency cooperation and multi-program coordination to achieve objectives; depending upon the scope and scale of these projects, the 2012 Farm Bill may facilitate organization and implementation of these types of projects, particularly in cases of multi-state initiatives.
- The current set of Cooperative Forestry Assistance Programs may not be the best configuration of Federal services and policies to efficiently assist states in meeting the challenges identified in the planning process; the 2012 Farm Bill may present opportunities to restructure those programs accordingly.

Budget and Appropriation Processes

The State Assessment and Strategies process, as well as funding challenges experienced by most states, have generated discussion about potential improved efficiencies in budget development, appropriations and grants administration. More flexibility is likely needed in the program funding allocation process for Cooperative Forestry Assistance. Emphasis should be placed on provisions that assure dependable levels of funding for Federal programs as well as additional opportunities to participate in regional and national initiatives which may be identified through the State Assessment and Strategies process. Moreover, expanded flexibility is encouraged for state-specific priorities. Reallocating a portion of funding among Cooperative Forestry Assistance programs may more effectively address high priority forest resource issues. Such alternatives will require careful discussion among the U.S. Forest Service, National Association of State Foresters, and House and Senate Agriculture and Appropriation Committees. The 2012 Farm Bill may present opportunities to institutionalize some of these concepts.

Climate Mitigation and Adaptation

Congressional legislation to develop policies for the management of greenhouse gas emissions remains undefined. However, efforts continue to be made to quantify carbon sequestration and resolve climate change issues. The 2008 Farm Bill set an important stage for potential program development through the current USDA Office of Environmental Markets. As State Assessments and Strategies are completed, more will be known and understood about opportunities, but several concepts may generate additional attention in the 2012 Farm Bill:

- Certain Conservation Title Programs may need enhancement to better address forest adaptation strategies.
- As metrics for carbon storage become more reliable and accountable, specific payment programs may be appropriate in which landowner options to participate in marketplace activities are limited or not preferred.
- Debates about carbon mitigation policies notwithstanding, there is consistent agreement that afforestation and reforestation produce carbon sequestration benefits. Accordingly, initiatives to significantly expand tree planting may be an important consideration in the 2012 Farm Bill.
- A re-examination and revision of the Healthy Forest Reserve Program to address both climate mitigation and adaptation may be suggested.

Water and our Forestlands

Water issues have often been considered a concern of the western United States. However, the recent escalation of the "Water Wars" between Georgia, Alabama and Florida along with Federal court opinions clearly demonstrates that water quantity and quality are of ever-growing concern here in the South. Two out of every three drops of rain that fall in Georgia land on our forests, which filter the water and enhance water intake to our streams. The maintenance and proper management of our working forests play a large and critical role in the quality and quantity of our water.

The 2012 Farm Bill may provide opportunities to better recognize and support the role of our extremely effective Forest Water Quality Best Management Practices (BMPs). The recently completed Georgia Statewide Water Management Plan recognizes our BMPs as a model program that other land use practitioners should emulate. We have concerns about recent U.S. Corps of Engineers rulings and Congressional proposals to change the Clean Water Act and the potential adverse effects on silvicultural exemptions.

Renewable Energy and Woody Biomass

Debates and discussions continue regarding the best combination of Federal and state programs to manage woody biomass as a component of national renewable energy policy and a significant contributor to achieving energy independence. The 2008 Farm Bill's definition for renewable biomass assures reliable and sustainable supplies for meeting such objectives. Healthy and dependable forest product markets are essential for encouraging landowner investment in the establishment and expansion of forest cover, which is otherwise at risk in many areas throughout the South. With continued improvements in technology for the cost-effective utilization of woody biomass for thermal energy, generation of electricity and cellulosic-based fuels, it is more likely that forest resources and their associated multiple benefits will be enhanced. Our view is that one of best ways to conserve our forests and the many economic, environmental and social benefits they provide is to ensure that it remains economically viable for private forest landowners to keep their working forests working. The most effective and efficient way to accomplish this is to ensure that traditional forest markets are maintained and emerging markets are developed by creating forest policies and incentives that promote forest utilization, timber production and wood product research and development. The role of the 2012 Farm Bill in this regard is not certain, but measures to reaffirm and advance sustainable production of woody biomass would seem appropriate. The cooperative efforts between Federal and state forestry agencies to implement the Forest Inventory Analysis Program and the Forest Stewardship Program are excellent examples of measures that reaffirm and advance forest sustainability.

Forest Inventory and Analysis

The Forest Inventory and Analysis Program (FIA) of the U.S. Forest Service is a fundamental database for understanding the current and potential future condition of forest resources. The analytical and reporting services of FIA are routinely relied upon at multiple levels of forest resource assessment. With expanding attention to issues associated with climate, renewable energy, landscape level conservation and forest health, FIA will increasingly be expected to provide meaningful support to state forestry agencies and other forest resource managers. Potential 2012 Farm Bill considerations may include the following:

- Develop expanded and robust inventory and analysis services including remote sensing capabilities at statistical scales of resolution to support facility level supply/demand and impact assessments.
- Achieve inventory and analysis capabilities to assess ecosystem services, particularly carbon sequestration.
- Develop analytical measures to assist in understanding climate adaptation potential.

Status of 2008 Farm Bill Authorizations

The status of some forestry-related programs and authorities established in the 2008 Farm Bill remains uncertain or has not been fully implemented. The Emergency Forest Restoration Program (EFRP) is intended to provide direct services and recovery capabilities for forestlands impacted by natural disasters. To date, no progress to implement provisions of that program has been made. However, we understand that following the recent tornado events in Mississippi, USDA expressed intentions to expedite administrative procedures necessary to implement EFRP. In any event, it would be unfortunate to experience future losses, such as potential damages from the upcoming 2010 hurricane season.

The Biomass Crop Assistance Program (BCAP) has experienced difficulties as it was preliminarily implemented under a Notice of Funding Availability. Forestry agencies including the National Association of State Foresters have filed extensive comments on the proposed rules, which we trust will resolve some of the problems and inefficiencies initially encountered. We understand as well that issues remain regarding disparities in authorized funding levels and expected program needs. In any event, it is our view that BCAP can generate increased investment and commitment to sustainable forest resource management through the requisite forest stewardship plans and technical assistance provisions of that program.

As part of the Forestry Title, the Forest Resource Coordination Committee (FRCC) was established to coordinate nonindustrial private forestry activities within USDA. Among its duties is the significant task of providing advice on allocation of funds, including those subject to competitive application. Thus far, the Committee has not been established and discussions about the findings and implications of the State Assessment and Strategies process may take place without the benefit of FRCC participation. Efforts by the House Agriculture Committee to encourage prompt establishment of the Committee would be appreciated.

We are very grateful for the tremendous work you are doing for American citizens. On behalf of the Georgia Forest Commission, thank you for your recognition of the strategic importance of our nation's forests. We appreciate your track record of working hard to do the right things to maintain our working forests, for taking time to hear from people across the country, appropriately addressing our challenges and for enabling legislation that capitalizes on emerging opportunities. The ongoing partnership between state and Federal agencies, non-government organizations and private industry are critical to the successful conservation and utilization of our nation's forests.

Thank you for your time and commitment. I would be happy to address any questions.

The CHAIRMAN. Thank you very much, Mr. Farris and thank all of the panelists for their fine testimony and being with us today.

Now, we are going to have some questions and my question is how are we doing with microphones up here that work? Has everybody got one that works so we can pass it around, before we get going here? How are we doing? That one doesn't work apparently, Dr. Angle; how about that one? I do not know if the cord is long enough there.

All right, well, we will do the best we can here.

I want to recognize the Chairman of the Livestock Subcommittee Mr. Scott, our host here, for the first questions.

Mr. SCOTT. Thank you very much.

First, Dr. Latimore, may I ask you the first question? In the 2008 Farm Bill, thanks to Chairman Peterson and several of us on the conference committee, we made quite a few significant changes to research funding programs, opening a whole new world of potential funding sources for 1890 land-grant universities. Can you please tell the Committee whether Fort Valley State University has been able to access any of those funds yet? And if so, what have you been using it for? If not, what has prevented you from doing so? And is the story the same for other 1890 institutions? And finally, what recommendations for further changes would you have for our Committee, as we begin the process of reauthorizing these programs for 2012, where we can improve your 1890 institutions for getting this funding?

Dr. LATIMORE. As noted, there were changes in the 2008 Farm Bill. As far as Fort Valley State is concerned, we have not enjoyed a lot of the opportunities that were there. And frankly, my sister universities are in the same situation.

The 1890 Capacity Building Grant opportunity, that continued to be a success for us.

Mr. SCOTT. Would you repeat that success again?

Dr. LATIMORE. The 1890 Capacity Building Program. That has been a success for us and enhanced our research, our extension and definitely our teaching—well, actually our research, teaching and now extension opportunities.

But the move in a lot of the programs, let us say, toward a lot of the more competitive programs, competitive opportunities, we have scientists at Fort Valley State who are engaging those now. The recent proposals that are there, we have scientists that are participating in those as well. But we are still having challenges really accessing these opportunities as a whole.

I mentioned the 1890 Capacity Building, the facility funding. The facility funding has been a plus for us. We have been able to utilize that really to enhance our infrastructure. For an example, we were able to engage in the development of the programming stage for a family development/child development center as a result of the facility funding.

Mr. SCOTT. Could you tell us in the 1890—in just your institution, how much funding have you been able to get through the farm bill, the 2008 Farm Bill?

Dr. LATIMORE. I really cannot answer that now.

Mr. SCOTT. If you could just tell us what recommendations—did you say that this would be true for all the 1890s—Albany State, Savannah State, I think they are all 1890s here—what I am trying to get at is we were trying to put that in—whether you have been receiving the funds, what the difficulty has been where you have not been receiving them, and what recommendations you would make to us where we can improve your ability to access this money, to help the schools.

Dr. LATIMORE. From what we have seen, other than what I mentioned, we have challenges, we have challenges seeking those funds. What we would like is an opportunity in place right now, for example, to visit with the 1890 team so that we can come together and put a recommendation together and present those recommendations to you.

Mr. SCOTT. Okay, fine; thank you very much, I appreciate you doing that.

Dr. Angle, I have had the pleasure of representing your fine university's food safety center down in Experiment Station down in Griffin, that is part of my district and we had an opportunity to tour that program. What challenges remain for you in terms of getting us in Congress to improve the program for you? Are you accessing the funding? Where can we do better for you to help you get more funding down to your institution?

Dr. ANGLE. Well, we have done relatively well. On the competitive side, the University of Georgia ranks number three nationally for land-grant universities only behind the University of California-Davis and much to my dismay University of Florida.

[Laughter.]

Dr. ANGLE. So we feel reasonably good about our ability to compete at the competitive level. I would go back to what Dr. Latimore was talking about and I also have mentioned, the infrastructure. Unfortunately the State of Georgia is significantly reducing its support for land-grant universities, as we see happening around so many other states in the country right now. So we are being hit from both sides with state and potentially Federal reductions impending, as the severity of the deficit becomes more obvious over the next couple of years.

For us in particular, we continue to have some problems with infrastructure just like the Fort Valley State University. There is no 1862 infrastructure included in the program any more, and with state reductions on that side, we are very much at a crossroads in our ability to maintain our world-class infrastructure going into the future.

Mr. SCOTT. Thank you very much.

Mr. BISHOP. Would the gentleman yield?

Mr. SCOTT. I would be pleased to yield to my colleague from south Georgia.

Mr. BISHOP. I would just like to ask Dr. Latimore and Dr. Angle if it would be helpful if we were able, in the farm bill, to develop more opportunities for the 1890s and the 1862s to work together cooperatively on research. Would that facilitate better than having what has traditionally been two systems, if we are able to make them work more closely together with the 1890s and 1862s, so that they can collaborate with the research opportunities and therefore share those resources? Do you think that that would be helpful?

Dr. LATIMORE. Yes, that would be helpful. But keep in mind also that not at the level that we are addressing now. We have scientists in 1890s and 1862s that are presently collaborating on projects and basically it's a relationship there. These are scientists that have gone to school, or have interacted over the past, and an opportunity presented itself so we have some of those opportunities. But it needs to be done at a higher level, it needs to be done more than where we are now such that like in Georgia, both Fort Valley State University as well as the University of Georgia, could share in a lot of opportunities.

Also keep in mind that we have to submit an annual plan and that annual plan includes both Fort Valley State as well as the University of Georgia. So through that and through the opportunities to enhance the collaboration, we see an opportunity there where we really can enhance the contact with the clients which we need to be serving.

But to answer your question, yes.

Mr. BISHOP. Thank you.

The CHAIRMAN. Dr. Angle.

Dr. ANGLE. Dr. Latimore and I have known each other for a long time, we actually shared a lab together many years ago. So we have been having these conversations repeatedly over the last couple of years. We do have joint planning and joint reporting, as I say, which makes sure that no one is—no one or no program is falling between the cracks and that has been relatively successful. Yet there are various things—more integration is possible and certainly needed. And not just limited to research, I would include teaching and particularly extension in that area where there are some great opportunities for us to better integrate our program within the State of Georgia, as well as many other states around the country.

Mr. BISHOP. Thank you.

Mr. SCOTT. I thank the Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Virginia, Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman.

Dr. Angle, I noted with interest your discussion of one of the popular topics in Washington these days, earmarks, which have been fraught with, shall we say, adverse publicity, given the scandals that have tainted a number of Members of Congress, including former Members of Congress who are in prison as a result of misuse of earmarks.

We are in the process, on our side of the aisle anyway, to try to reform this process. We have proposed a 1 year moratorium, we are engaged in trying to encourage the Majority to join us in this kind of reform. I know that you talked about peer reviewing the requests and so on. Hopefully we will find a way to continue to have Congressional Constitutional responsibility for appropriations reflected, including individual member input into that.

But the bigger problem we have is the other problem that you cited in your comments, and that is that you are being squeezed on both the state and the Federal level in terms of the funding that is available to you. The state funding will probably ebb and flow based on the state challenges in balancing their budget each year. The Federal Government does not have that challenge, so we face an even greater challenge, and that is that there is going to be a dramatic decline in the amount of money that is available at the Federal level for almost anything that you can think of, not just in the agriculture sector.

I am wondering what you can tell me is being done at your institution to—and I will ask Dr. Latimore this as well—to achieve greater efficiencies, greater outcomes and alternative sources of funding for the kind of important research that you do.

Dr. ANGLE. At the state level, in our case at the University of Georgia, we have had a 22 percent reduction in state level funding, which began as $100 million just 2 years ago. So it has been a loss of state support since that time. We have had to make some very hard decisions, we have lost about 18 percent of our total employment of both faculty and staff. We will shortly be making some very hard decisions about closing, permanently closing extension offices. Right now we may have one of the top extension and 4–H programs in the country. We will have to close—and we have an office in all 159—we have offices in 158 counties of 159 in the State of Georgia. Some of them will be permanently closed, several of our research farms will be permanently closed as well.

Trying to deal with this, we are working with the local governments much more carefully and closely than we have in the past. In fact, for our local extension offices, we now require that they come up with and provide ⅓ of the funding for that office. And I think that is fairly unprecedented around the United States.

We are working closely with private donors to fill in the gaps, so they can do that. In fact, we just had a large gift last year of $1.4 million from an individual to create the first privately funding 4–H—an endowment for the first privately funded 4–H agent in the country. So we are moving very aggressively into that side of the funding equation. But there is no doubt there are some difficult times ahead and very difficult choices. We understand both the Federal and state governments have funding problems, and as part of state government and Federal Government, we have to do our part to downsize and what we are calling right size, to make sure that we can provide the most important services to the citizens of Georgia. But unfortunately, some of those services that may not rank near the top, but in my opinion are still important, may not be offered in the future.

Mr. GOODLATTE. Thank you. Dr. Latimore.

Dr. LATIMORE. When you look at our funding, our funding is primarily Federal. We are at the stage where we, as far as the state is concerned, this is for research and extension, we have a state match, maybe close to one-to-one match and it has been a challenge for us. In order to grow our state contribution, then we definitely need to grow the Federal contribution.

In addition, the dollars that we receive from the Federal Government for research and extension, as I say, is primarily targeted to our teaching component, we engage our scientists in proposal writing. We have been very successful over the years in getting grants funded through our station, actually through research, teaching and extension. Through the teaching area, we receive anywhere from $3 to $4 million for scholarships and research intern opportunities for students from the National Science Foundation. We have just been accepted and receiving funds and collaborating with the Department of Education in the State of Georgia by utilizing our technology unit, as I mentioned earlier, to provide training throughout the state, training to migrant workers, training related to Medicare, in addition to training targeted at youth.

So we are collaborating with agencies as well as industry. We have industry partners where we are looking at small projects, and they are opportunities for us to grow into even larger projects. So we have those opportunities available for us and we still have challenges with state budget cuts, and we are still trying to make those adjustments.

Mr. GOODLATTE. Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. I thank the gentleman.

Dr. Angle, you had mentioned the formula funds. They are based on rural population and farm numbers, right?

Dr. ANGLE. Yes, sir, primarily farm numbers.

The CHAIRMAN. Now as I understand it, is this the definition that is currently being used in most of USDA, which is that if you could sell $1,000 of farm products, you are considered a farmer. You do not have to sell it, you just have the ability to sell. So if you have a horse and you could have sold the horse, you are going to be a farmer. So is that the definition that is being used for those formula funds?

Dr. ANGLE. That certainly is an area of debate and that is—you are correct in my understanding of it.

The CHAIRMAN. You know, I have been harping on this, but I just think this is crazy, this definition that we are using. And I do not know what the resistance to changing this is. Maybe it is the universities, you know.

But the other day we had USDA talking about that the farmers get 89 percent of their income from off the farm, you know. But they are using these statistics of the 2.2 million farmers, 1.9 million of them are probably not really farmers. They are lifestyle farmers, they are retired, whatever. You know, we have about 350,000, what I would consider, commercial full time farmers.

Does it make sense to base these formulas on that type of a system? Would we not get a really skewed result in terms of—you know we have to ramp up this production. I agree with you, we have to do better on research because we are going to have a lot of people to feed. But if we are using skewed statistics, we are not going to get there, I do not think. Is this a discussion within the university community at all?

Dr. ANGLE. Well, it certainly is and it is primarily a discussion, not based upon politics, but rather between the East and the West and the North and South part of the country where farm sizes tend to be different and quite diverse. It is true in Georgia at least we have a number of medium size farms. We do not have a lot of small farms and we do not have a lot of large farms. So we are probably more what most people think of as the typical agricultural state. But there are plenty of other states where I think what you were describing was exactly true.

I should say in Georgia, the fastest growing segment of our farm population are those mid-size farms. The people who do make a living off of their farm, generally the husband or wife works full time on the farm and the other spouse works off the farm. We are not seeing a lot of large growth in either the very, very large farms or the very, what you were referring to as hobby farms.

The CHAIRMAN. Well, I mean I proposed using a $20,000 number. Clearly those middle size farms would exceed that.

Dr. ANGLE. Yes, sir.

The CHAIRMAN. You know. It just seems to me if you have less than $20,000 in sales, it is not much—you know, it is not supporting the family. So I just think we have to look at this definition because it is skewing things in a lot of different areas. I do not know how much resistance I am going to get from the land-grant colleges if I try to do that.

Dr. Latimore, do you use these farm statistics too in terms of your funding? Do they use—is that part of the formula?

Dr. LATIMORE. Yes, especially when we are submitting grants that is targeting the small farmer. As a matter of fact, that definition has been a definition that has been debated really ever since I have been——

The CHAIRMAN. Do you think it makes sense if you could sell $1,000, you are considered a farmer, in this day and age? Maybe 50 years ago, but, I do not mean to put you on the spot.

[Laughter.]

The CHAIRMAN. Well, you get my point.

Mr. Farris, this BCAP situation. I was probably the main person in getting that thing put together, and I did not envision it being used in the way it is being used at all. My vision was that this was going to help us develop new crops that we currently are not growing that might have a potential. And at the end of the day, we had to accept this *biomass* definition which I thought potentially had problems, and then the USDA went ahead and authorized this without a rulemaking.

In my part of the world, we had a whole bunch of money go out to what I would consider not what this was intended to support. I guess my question is, in Georgia here, have you had that same kind of situation where you had a lot of money going to a farm where this is already going on, which is what happened in Minnesota and a lot of other places.

Mr. FARRIS. I believe we kind of got off in the ditch right out of the gate with the program trying to roll it out rapidly.

The CHAIRMAN. Yes. So you agree that we went off in the wrong direction?

Mr. FARRIS. Yes, sir, I think we got off in the ditch quick. And we need to get it out of the ditch. We do believe there are great opportunities to promote——

The CHAIRMAN. Yes, I support it, but this is about developing a long-term sustainable renewable energy resource. It is not about subsidizing something that is currently happening.

Mr. FARRIS. Yes, sir.

The CHAIRMAN. That is the problem I had with it.

Mr. FARRIS. Yes, sir.

The CHAIRMAN. And I think there were some lobbyists that worded this in such a way and so forth. As I understand it, the new rule is getting this under control.

Mr. FARRIS. Yes, sir, the state forestry agencies have submitted numerous comments on the new rule.

The CHAIRMAN. Okay. But there were some problems here in Georgia with this as well, like we had in Minnesota?

Mr. FARRIS. Yes, sir. And I would like to thank the Chairman strongly for the position on the broad *renewable biomass* definition. That is tremendous related to forestry here in Georgia. Under the renewable fuel standards definition, only 7 million acres of Georgia forestland qualifies or is classified as renewable biomass. With the *renewable biomass* definition that you promoted, 23 million acres of our 24 are classified as renewable biomass.

The CHAIRMAN. I appreciate that, but I do not deserve the full credit. These three gentlemen and others from this part of the world deserve some of the credit too because they worked hard on it.

Mr. FARRIS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you all very much.

The gentleman from Alabama, Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

First of all, Dr. Angle, I wholeheartedly agree with your comments about earmarks. I have two land-grant institutions in my district, Tuskegee and Auburn, who do very important food safety research and but for earmarking, it would be difficult to get a lot of those monies there. So I appreciate you drawing attention to that in your opening remarks.

You did say something that puzzled me in your opening remarks when you talked about changes in temperature and sunlight in the Northeast was going to cause decrease in their food production. What time line are you looking at? That is the first I have heard of that.

Dr. ANGLE. No, I am sorry, perhaps I did not explain that properly. Sunlight and temperature are limited as you go further north in the country and so light and temperature become limiting in the ability to grow more food. I was not suggesting changes, climate changes.

Mr. ROGERS. Okay, thanks.

Dr. ANGLE. That is already maxed out in many areas of the country.

Mr. ROGERS. Great.

Mr. Farris, I want to talk to you about conservation programs right now. Are they sufficient, given current timber prices to be able to allow the small landowners to have proper timber management on their land?

Mr. FARRIS. No, sir, they are not with current stumpage prices. Forestry is a long term investment, typically running 30+ years on planting and establishing. And one of the real concerns we have looking down the road is we have a wall of wood working its way through the system right now with some tremendous growth, exceeding harvest. But what we are not seeing is reforestation. Reforestation rates have been dropping drastically throughout the South.

Mr. ROGERS. To what do you attribute that?

Mr. FARRIS. It's directly related to market prices. So one of the things that we feel is critical to do is to develop strong markets, retaining our traditional market, as well as taking advantage and promoting emerging opportunities such as the bioenergy markets.

Mr. ROGERS. And that is where I was leading. One of the things that caught my attention was Dr. Angle's remark, talking about the increased demand on the Southeast for not only food but fiber. And, we do hear a lot about the potential for cellulosic technology for ethanol. And I get a lot of cross current critiques about where that is going and the pressures it could put on other customers who usually are depending on that basket right now.

How would you like to see that develop, the policy that this Committee would implement, as far as promoting cellulosic technology, and what it might mean for the current consumers of your products?

Mr. FARRIS. I think it is very important to maintain a level playing field so that we do support traditional markets as newer markets are emerging. And that is a lot easier said than done.

Mr. ROGERS. That is why I was hoping you would tell me how to do it.

Mr. FARRIS. That is one of the real challenges, but the fact is in Georgia and across the South, we have the woody biomass, the feedstock to develop these markets and expand traditional markets.

Mr. ROGERS. Do you think it could be done without hindering current consumers of that product, natural resource?

Mr. FARRIS. Yes, sir. Certainly here in Georgia, we have growth exceeding harvest to the level that we could outfit or supply feedstock for close to 20 new businesses, large industries taking half a million tons.

Mr. ROGERS. That is the concern. I get a lot of feedback from paper companies. Obviously they are concerned about promotion of cellulosic technology putting some real pressures, price pressures, on them. So I would be interested if anybody else had any thought on what they would like to see happen with that.

Dr. ANGLE. I follow this technology pretty closely and there remains some very significant technology hurdles before cellulosic ethanol production will become widespread. There are some breakthroughs that are needed. We do not know what those breakthroughs are yet. We do not know what we do not know at this point.

So while we think that this has tremendous opportunity, Georgia likes to call itself the Saudi Arabia of bioenergy, there is that needed breakthrough that is not on the immediate horizon at least.

Mr. ROGERS. Okay. And let me ask, while I have you, Dr. Angle, what do you want this Committee to do to continue to improve and grow agricultural research already happening in the U.S.? You talked a little bit about funding sources. What would be the one thing that you would want us to take away from this hearing that we could do to improve that research funding?

Dr. ANGLE. We would like to see agricultural research treated in the same way that we think every other important area of research in the country is, whether it is human health, environmental research. Agricultural research, in our opinion, ranks right up there with those two and many others. In some ways, it lacks the respect of many other research communities, and I think by allowing USDA AFRI to grow, we feel like we are moving in the right direction.

Mr. ROGERS. Thank you very much. I yield back.

Mr. SCOTT [presiding.] The gentleman from Georgia Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman. Thank you all for being here and my questioning is along the same lines as Mr. Rogers.

We did go back and forth on the definition of *renewable woody biomass* and part of the concern was that if you define it one way, it is going to have X effect on the face of Georgia, if you define it another way, it is going to have X effect on the face of Georgia because the the economic forces that are out there are so large. And what we came up with seems to me to be fairly reasonable and then we can expand it from there. But instead of seeing too little, just opening the state up totally seemed too much. That caused a judgment by us that I feel like we are not really capable to doing in a very competent way.

You mentioned that forestry, Mr. Farris, is a 30 year investment, and you suggested that what we need to do in the upcoming farm bill is figure out different ways that we can expand forestry in Georgia. I have a good friend right now who probably along with a whole bunch of other folks, but my good friend, with Federal help, is clearing 600 acres of land for pasture for beef. He is going to expand his beef cattle operation, not growing trees. But Federal help was involved in that instance in actually diminishing the amount of acres devoted to trees.

Dean Angle in his opening remarks talked about food challenges that the world is likely to see as a result of a number of different phenomena, and suggested that the Southeast can sort of come to the rescue and provide a lot of food that the world needs. And I found this kind of interesting that Dean Angle, on the one hand, seems to be suggesting that what we ought to be doing in the next farm bill is focusing on protecting and expanding our ability to grow food here in the Southeast anticipating that that is where the market is going to be. And then at the other end, Mr. Farris is suggesting we need more trees, less acreage devoted to food.

And so I am wondering, do y'all talk to one another?

[Laughter.]

Mr. MARSHALL. Is there anybody out there who is coming up with some sort of plan, here is the acreage available in Georgia that could be producing energy, producing wood, producing food? Given what is likely to happen over the next few decades, the Federal program should be prompting balance among those three things. Dean Angle.

Dr. ANGLE. One thing I would say is that the balance happens at the farm level for the most part. Most farmers in this room today probably think about the balance between forests *versus* ag land on almost a daily basis and they make economic judgments. I see farms going in both directions right now for a variety of different reasons.

I should say I think within the next couple of months, we will have more definitive information. Our Center for AgriBusiness at the University of Georgia is working on this very type of question now and trying to look at the balance, and trying to help you and some of our state leaders with better information on making these decisions.

Mr. MARSHALL. Mr. Farris.

Mr. FARRIS. If I can add as well, we are working on a statewide forest assessments strategy under your guidance and we will be presenting that to the Secretary this summer.

But there are a couple of things. The greatest challenge to our forests in Georgia is not—there has always been a swap, a shift between forestry and agricultural practices, as Dean Angle mentioned, driven by markets. Our greatest threat to forests in Georgia and across the South is growth and urban sprawl, unbridled development and all the associated elements that come along with that. Here in Georgia, we lose 106 acres a day to impervious surfaces, rooftops and pavement.

So one of our real challenges is not really whether it is in ag crops or forestry, but how do we enhance productivity on both of those.

Mr. MARSHALL. I am delighted to hear, Dean Angle, that you have somebody working on a bigger vision here, it is not just food, it is not just roads and houses, it is not just energy and it is not just wood, but somebody trying to figure out, given what is likely to happen over the next few decades, how we ought to—well, what sort of programs we ought to be putting together that is going to foster the best mix of those four things.

Dr. ANGLE. Right. And our study was prompted by an expected increase in both the forestry, as well as agricultural sectors contributing additional acreage to bioenergy. That was the driver that started all of this.

Mr. MARSHALL. Thank you, Mr. Chairman.

Mr. SCOTT. The gentleman from Nebraska, Mr. Smith.

Mr. SMITH. Thank you.

Mr. Farris, I know in your remarks, you talked about, I think you called it recent Congressional proposals to change the Clean Water Act. If you might elaborate on what you were talking about. Perhaps might it be the effort to extend Federal control to almost all bodies of water or all amounts of water wherever they might be?

Mr. FARRIS. Yes, sir, actually as far as the definition going from *navigable waters* to *waters of the U.S.* and what does that mean. Does it mean the mud puddle in the road or in the ag field out there? And our real concern is silvicultural exemptions that currently exist regarding 404 permitting.

Mr. SMITH. I am sorry, would you say that again?

Mr. FARRIS. Our real concern is maintaining existing silvicultural exemptions related to Clean Water Act, 404 permitting, requirements to go through the process to get a permit before you can do a forestry operation.

Mr. SMITH. Would anyone else wish to comment on that?

[No response.]

Mr. SMITH. Obviously, my constituents in Nebraska are very concerned about the reach of the Federal Government as well into mud puddles, if you will.

Thank you. I yield back.

Mr. SCOTT. Mr. Bishop.

Mr. BISHOP. Yes, I will forego my questions of this panel. I think I talk with them pretty frequently, I am looking forward to the next panel.

Mr. SCOTT. All right. The gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Thank you.

First of all, thanks to each of you gentlemen for your expertise and your leadership in your respective areas.

Mr. McMurray, I have a question. In hearing your testimony and reading it, in terms of outcomes with investments, I was very pleased to hear about in the past 15 years, you have had ten licensed technologies or systems. I think that is wonderful. I am a supporter of those types of investments. I think when we invest in those, it is important to make sure that we are expecting outcomes back and commercialization is just a great outcome when you are not just developing the technology, so that we are not just perpetuating the same research study year after year after year, but we have a final outcome.

I just question to what do you attribute your success, having at least ten of those technologies and systems commercialized in that period of time?

Mr. MCMURRAY. Well, first of all, thank you for recognizing the contribution. We feel that has been a very important contribution that we have made, and we are very proud of that. I think a lot of this comes from the collaboration between the University along with industry.

One of the programs that we have that was funded through the state allowed us to put together a team of academic researchers along with industry which would be the end-user along with also the commercial company who is going to commercialize the technology for licensing. So you put the three of those into a single team working together, it significantly increases the odds that you are going to have a successful outcome for a commercial product. And that is one of the key ways we do this.

But also, back up even further, back when we do the research, we are very focused on developing business plans with all of our research. We all understand that as academic researchers, we can sit around and write research proposals and dream up wonderful great problems to solve. Finding and identifying the ones which have economic benefit to the community—if we can start off by identifying that, then we are off to a good start from the very beginning. We have teams of people that we are able to bring together, the various hardware and software people along with business people, from a very early point in the development, to be able to guarantee that we have something that is going to be of value at the end.

Mr. THOMPSON. Great. That sounds like a great model.

Dr. Angle, in your testimony, you talked about the importance of increased production efficiency with the shrinking numbers—the loss of farms, of agricultural land all across this country and yet the continued growth of populations. The Secretary of Agriculture in Pennsylvania described it pretty cleverly I thought in a hearing recently. He talked about having 303 million stomachs in this country and seven to ten billion stomachs across the world, so the need for increased agricultural production efficiency.

Are there specific programs and initiatives that you would recommend or would like to see either new or continued support in the expansion of agriculture efficiency of production?

Dr. ANGLE. Well, that has been one of our concerns with the USDA funding over the last year, they have started some very specific issues primarily related to human health. While we are all very supportive of that, as you said, we recognize that we have to double food production on a worldwide basis and probably more than that within this country, and that is only going to happen through enhanced science and technology.

We want to make sure that the USDA, through their approaches, are allowing our farmers to increase production on a per-acre basis, because you are correct, we are not making any more acres of land in this country. And so we are a little concerned as a system about some of the directions that they have taken. We support and applaud all the directions they have taken, though we do not want to forget that we need to enhance production on a per-acre basis.

Again that does two things. That allows us to produce more food for humanitarian needs and for those issues, but it also allows farmers to increase their profit per farm to help keep them in business. Primary for a farmer not to sell their farm for urban development is to allow them to make a reasonable living for their family.

Mr. THOMPSON. Thank you. Please.

Dr. LATIMORE. In addition to that, when we think in terms of locally grown, locally produced, the approach was sustainable organics. The move that that has taken in this country is another step toward solving this problem. Throughout the years—and I have had some time in industry prior to my academic involvement, we pushed to increase production. We tried to increase production because we know the world population is increasing, but our land base is not. So we have to look at both perspectives here, increasing production as well as enhancing it, and also influencing individuals at the local level, even like the small farm. But that is an opportunity, that is a market that will add food and fiber to this system.

Mr. THOMPSON. Great. I am out of time. Dr. Latimore, I would love to get more information, and maybe we could do that by correspondence, on a particular project you referenced in your testimony, the mobile technology laboratory, that specifically was looking at obesity. I think maybe it is a planned or a proposed project that was referenced in your testimony. But I look forward to talking more with you about that.

The CHAIRMAN. [presiding.] I thank the gentleman and I want to thank this panel for your testimony and being with us today and answering our questions, we appreciate it.

If the Members have additional questions, I think they can submit them to you and you would be willing to answer them in writing I assume.

Thank you all very much, you are excused and we will call the second panel.

Mr. Andy Bell, cotton, peanut, corn and cattle producer from Climax, Georgia; Vincent Duvall, cattle and poultry producer from Macon, Georgia; Mr. Ronnie Lee, cotton producer from Bronwood, Georgia; Mr. Richard Minor, fruit and vegetable producer from Andersonville, Georgia; Mr. Armond Morris, peanut producer from Ocilla, Georgia; Mr. Hilton Segler, pecan producer from Albany, Georgia; and Mr. Ricky Williams, dairy producer from Baxley, Georgia.

I guess we are going to have to squeeze you guys in there. It might be good to hold those microphones up close when you are testifying, that seems to work the best way. So we welcome all of you to the Committee, we appreciate your making your time available to the Committee today. As soon as you all get settled, Mr. Bell, welcome to the Committee. Is there a microphone there? I think if you just take that end there and hold it up close, it will work the best.

Your full testimony will be made part of the record, so feel free to summarize. I think it might work better is you hold it up, if that does not bother you too much. You have to hold it up close though.

STATEMENT OF WILLIAM A. "ANDY" BELL III, COTTON, PEANUT, CORN, AND CATTLE PRODUCER, CLIMAX, GA

Mr. BELL. Good afternoon, Chairman Peterson, Members of the Committee. I am pleased to be here today and I appreciate the invitation to attend and speak to you.

My name is Andy Bell, I am a fourth generation farmer from Decatur County, Georgia. I was raised on a family farm near Climax, Georgia. Today, I farm in partnership with my brother. We farm both irrigated and non-irrigated land on approximately 2,000 acres. We have a diversified farming operation that includes corn, cotton, peanuts, hay, winter forages, and a beef cattle operation. We own land and we also rent land from neighbors.

During my lifetime of farming, I have produced and sold many crops. I have sold corn for as high as $6.00 per bushel and as low as $1.70 per bushel. I have sold cotton for as high as $1.00 per pound and as low as 26¢ per pound. This type of price fluctuation can be seen in most all crops and livestock during the last 25 years.

Southern agriculture is unique in that our cost of production is higher on certain crops. For example, peanuts and cotton have their own set of tillage and harvest equipment. This specialized equipment is very expensive to own and maintain. A six row peanut picker costs approximately $100,000 and a six row cotton harvester over $300,000. These implements are crop specific and are only used for their designed purpose. Grain farmers are then required to have even another set of equipment. As you can see, our costs can quickly escalate as we produce these various crops.

I believe several key provisions of the current farm bill must remain in place in any new legislation. Farmers need downside price protection against extreme low prices. The marketing loan program is a must for all program crops. All crop production on a farm should remain eligible for the marketing loan.

In some years, a farmer may forward contract his expected production. Other times, farmers must place their crop in the marketing loan in hopes of waiting for a higher price.

The Direct and Counter-Cyclical Program, has worked well and should remain in the new farm bill. The target price system has worked and gives some protection against low prices. The DCP program helps deliver this assistance. Market gains and loan deficiency payments also provide some relief against low prices and should remain in the new farm bill.

Crop insurance is a must on many farms in the South. We can have extreme rainfall, drought, windstorms, hurricanes, or early or late freezes all in the same year. However, any crop insurance coverage above the 70 to 75 percent level is simply not affordable. Crop insurance needs to be improved and must remain affordable for it to be a useful tool in today's agriculture.

Finally, some type of workable permanent disaster program is needed. The Supplemental Revenue Assistance Program, SURE, as it is known, does not work well for southern agriculture. Growing multiple crops and diversification on many farms makes it almost impossible to qualify for benefits.

In conclusion, the current farm bill has worked reasonably well for southern agriculture. Any changes in the current farm bill should create new opportunities as well as preserving the proven target price system. Agriculture is the leading industry in Georgia and most of the South. We need sound agricultural policy to continue producing the best food and fiber in the world.

Mr. Chairman, thank you for holding this hearing in Georgia, and thank you for allowing me to be a part of this discussion.

[The prepared statement of Mr. Bell follows:]

PREPARED STATEMENT OF WILLIAM A. "ANDY" BELL III, COTTON, PEANUT, CORN, AND CATTLE PRODUCER, CLIMAX, GA

Good afternoon, Chairman Peterson, Ranking Member Lucas, and Members of the Committee. I am pleased to be here today, and I appreciate the invitation to attend and speak to you.

My name is Andy Bell, and I am a fourth generation farmer from Decatur County, Georgia. I was raised on a family farm near Climax. Georgia. Today I farm in partnership with my brother. We farm both irrigated and non-irrigated land on approximately 2,000 acres. We have a diversified farming operation that includes corn, cotton, peanuts, hay, winter forages, and a beef cattle operation. We own land and we also rent land from neighbors.

During my lifetime of farming, I have produced and sold many crops. I have sold corn for as high as $6.00/bushel and as low as $1.70/bushel; cotton as high as $1.00/pound and as low as $0.26/pound. This type of price fluctuation can be seen in most all crops and livestock during the last 25 years.

Southem agriculture is unique in that our cost of production is higher on certain crops. For example, peanuts and cotton have their own set of tillage and harvest equipment. This specialized equipment is very expensive to own and maintain. A six row peanut picker costs approximately $100,000 and a six row cotton harvester over $300,000. These implements are crop specific and are only used for there designed purpose. Grain farmers are then required to have even another set of equipment. As you can see, our costs can quickly escalate as we produce these various crops.

I believe several key provisions of the current farm bill must remain in place in any new legislation. Farmers need downside price protection against extreme low prices. The marketing loan program is a must for all program crops. All crop production on a farm should remain eligible for the marketing loan.

In some years, a farmer may forward contract his expected production. Other times, farmers may place their crop in the marketing loan program in hopes of waiting for a higher price.

The direct and countercyclical program (DCP) has worked well and should remain in the new farm bill. The target price system has worked and gives some protection against low prices. The DCP program helps deliver this assistance. Market gains and loan deficiency payments also provide some relief against low prices and should remain in the new farm bill.

Crop insurance is a must on many farms in the South. We can have extreme rainfall, drought, wind storms, hurricanes, or early or late freezes, all at in the same year! However, any crop insurance coverage above the 70–75 percent level is simply not affordable. Crop revenue coverage helps, but it is not available for all crops. Crop insurance needs to be improved and must remain affordable for it to be a useful tool in today's agriculture.

Finally, some type of workable permanent disaster program is needed. The Supplemental Revenue Assistance Program (SURE) does not work for southern agriculture. Growing multiple crops and diversification on many farms makes it almost impossible to qualify for benefits.

In conclusion, the current farm bill has worked reasonably well for southern agriculture. Any changes to the current farm bill should create new opportunities as well as preserving the proven target price system. Agriculture is the leading industry in Georgia and in most of the South. We need sound agricultural policy to continue producing the best food and fiber in the world.

Mr. Chairman, thank you for holding this hearing in Georgia and for allowing me to be a part of the discussion.

Sincerely,

WILLIAM A. BELL, III (ANDY).

The CHAIRMAN. Well, thank you very much, Mr. Bell. You get extra points for beating the time limit.

[Laughter.]

The CHAIRMAN. We are doing good here.

Mr. Duvall, welcome to the Committee.

STATEMENT OF VINCENT "ZIPPY" DUVALL, CATTLE AND POULTRY PRODUCER, MACON, GA

Mr. DUVALL. I think in the South with our drawl, we ought to have a longer time.

[Laughter.]

Mr. DUVALL. Thank you, Mr. Chairman, for coming to our beautiful state here in Georgia. And every time I see you, you are working. I hope that you can enjoy your time here. And thank you to the rest of the Committee, especially Congressmen Jim Marshall and David Scott and also Congressman Bishop for representing us so well.

I would like to introduce myself. I was listed as Vincent Duvall and that was what I was named, but everyone knows me as Zippy. I spent 30 years dairying on my family farm before I became Farm Bureau President. So I live in Greensboro, Georgia and I work in Macon as Farm Bureau President. I have been Farm Bureau President for 8 years.

We sold our 300 cow dairy herd in 2005, they went to west Texas and I replaced them with 200 beef cows. And I have four broiler houses that we grow for an integrator here in the State of Georgia. We are very proud to still be in agriculture, and I think it is important for the Farm Bureau President to be still actively farming so I can go home and face the paycheck and the labor problems that we have there.

I would tell you that Georgia Farm Bureau is the largest general farm organization in the state, and we strive to represent all Georgia farmers in whatever they produce. We have 20 major commodity groups with farmers from all over the state represented, giving us advice on policy and how to implement them. In Georgia, agriculture creates one out of every seven jobs, agriculture and agribusiness. We have 159 counties in our state and $\frac{2}{3}$ of those counties still depend on agriculture as their economic engine.

Agriculture is very diverse. We are number one in the nation in poultry production. We are the four big P's—poultry, peanuts, pine trees and pecans, *pe-kahns,* whatever you want to call them. We call them pecans at home. We are the number two state in cotton, with about a million acres in cotton, very proud of that. And many, many other crops that are important to the economic engine of this state.

U.S. farm policy is important, and it should be market oriented for most production of quality products to meet the market demand, to ensure availability of U.S. produced farm products at competitive prices, and to provide a safety net for farmers with market and weather caused problems.

The 2008 Farm Bill has worked very well in our state. Direct and countercyclical programs work well. Our farmers and lending institutions are very familiar with them and feel comfortable working within those programs.

The Supplemental Revenue Assistance Program, SURE, presents some challenges here in our state. It is hard for our farmers here to qualify because we are very diverse. And you heard Mr. Bell over here, who has participated, explain that to you.

The ACRE program, according to our FSA officials in Georgia, no one has entered into the ACRE program or signed up in the State of Georgia. There are many questions around it, we cannot find anybody that understands it, and it requires a commitment for the full term of the farm bill, which concerns a lot of us. Farmers in our state tend to stick with what they trust, understand and are used to.

But on the other hand, conservation programs are very popular here. Conservation Reserve Program, CRP, is important to our family farms here in the State of Georgia. As our country moves toward a renewable energy, CRP will fit well with our farm families. The EQIP program, Environmental Quality Incentives Program, there are more people requesting those funds than there are funds. And it is very well thought of in our state and will be used.

The drought is still on our mind even though we have had a wet last 10 months in Georgia. Water is plentiful in our state, but only if we manage it. We would like to see more cost-sharing on farm ponds and reservoirs, so that we can continue to utilize and manage our water to water our crops and our livestock.

Concentration, consolidation and anti-competitiveness is an issue with our inputs on our farms and also with what we sell. USDA should have more authority to investigate ag concentration regarding companies that buy farmers' products and companies that sell inputs to farms. USDA should work more closely with the Department of Justice. We do not oppose agricultural contracts, but farmers should have more power in negotiating with these companies.

Biomass Crop Assistance Program, BCAP, very little BCAP money has been going to our landowners. I heard you explain, Mr. Chairman, what your intention was. I will tell you the growers and farmers in the State of Georgia, if you presented them a program that they can plant and make money on, they will commit themselves to it. But we have to make sure that the people will stand behind that commitment, because it is going to take a huge investment for them to move in that direction. We would agree that the BCAP program has not gone in the direction it should have. We filed for a Freedom of Information Act request of what people have received that money in the last 3 months, and I was surprised. I could not find a farmer on there, a tree farmer, unless of course he had his own logging crew. So we share the same concerns that you do. I think it was developed for farmers to take advantage of.

Technology upgrades have been a challenge in our FSA offices for a long time. FSA office is a provider of a service, and our employees in our FSA offices have had their hands tied behind their backs because of the lack of technology. The money that is appropriated—

no one wants to talk about spending money on computers and I understand that. However, technology upgrades are badly needed. We need to improve the efficiency and the help programs so FSA can be more timely and effective for our family farms and for our rural communities.

In conclusion, I would like to congratulate you, Mr. Chairman, on the 2008 Farm Bill. It has worked well in our state. I think there is one thing we need to make sure that we do. We can take care of farmers daily, but if we do not do something to encourage young people that are graduating from our ag schools to go back and actually apply themselves on the land with livestock or with crops, then we will lose agriculture in the future. We have to get our young people to return to the land.

I will tell you and I will sum it up by saying this, you are in the Bible Belt and there are a lot of people down here praying that God will give you all the wisdom to lead us in the right direction. God bless you and God bless agriculture in this state and across this country, and God bless America.

[The prepared statement of Mr. Duvall follows:]

PREPARED STATEMENT OF VINCENT "ZIPPY" DUVAL, CATTLE AND POULTRY PRODUCER, MACON, GA

Good afternoon, Chairman Peterson, Ranking Member Lucas, and Members of the Committee. Thank you for calling this meeting and providing Georgia Farm Bureau the opportunity to speak.

My name is Zippy Duvall, and I am President of the Georgia Farm Bureau. I am a lifelong farmer from the Greshamville Community in Greene County, Georgia. I was a dairyman for more than 30 years. In 1986, our farm diversified into poultry, and in 2005, we stopped milk production to produce beef cattle and hay. Today, we have a 150 cow commercial beef herd and four poultry houses through which we produce about a half million chickens annually.

I want to thank the Georgia Congressmen who serve on this important Committee: Congressman Jim Marshall, who lives in Macon, the headquarters of Georgia Farm Bureau; and Congressman David Scott, a true friend to Farm Bureau, agriculture, and within whose district this meeting is being held. We are happy to be in the 13th Congressional District, and Congressman Scott, we appreciate your hospitality and the work done by your staff to coordinate this hearing.

Georgia Farm Bureau is a general farm organization, and Georgia has a very diverse agriculture. Our state ranks first in peanuts, poultry, and forest products, second in cotton, and we produce a wide variety of other products in economically significant amounts. As a testament of this diversity, Georgia Farm Bureau appoints twenty different standing commodity advisory committees to make recommendations on Georgia's different farm enterprises.

Sound farm policy is essential for an economically viable agriculture. We believe effective farm policy should be market oriented, with a goal of promoting quality products that meet market demand. The policy should ensure the availability of competitively priced U.S. produced farm products. Because of the vagaries of the weather and markets, farm policy should provide for an effective financial safety net for farmers without regard to farm size or structure.

We believe the 2008 Farm Bill meets most of these principles and has worked well for Georgia farmers. We are grateful to the Agriculture Committee for the work done on this legislation.

Georgia's cotton and peanut farmers fundamentally support the current program of direct and countercyclical payments (DCP) provided by the 2008 Farm Bill. This program makes sense and it is well understood by farmers and rural lenders alike. There is also broad support for the marketing loan program for these crops.

The "Supplemental Revenue Assistance Program" (SURE) is being adopted slowly by Georgia farmers. Many Georgia counties experienced declared disasters in 2008 and 2009, so the yields are at low levels. Crop insurance is offered at low rates of reimbursement and many crops are only available through the "Noninsured Assistance Program" (NAP). Finally, payments under the SURE program are not available until a full year after the end of the crop year in which the disaster occurred. This assistance is not timely enough for a farmer in severe financial distress.

Not a single Georgia farm has signed up for the ACRE program, largely because it is not beneficial to cotton and peanut farmers. Many crops grown in Georgia had relatively low prices in 2007 and 2008, the base price years for calculating ACRE revenue guarantees. Also, once in ACRE, farmers are in the program for the duration of the farm bill. Given a choice between DCP or ACRE, most farmers will go for the program with which they are most familiar and satisfied.

Adjustments to dairy policy are needed to allow dairymen in the Southeast to remain in production to supply the market with locally produced fresh milk. We recommend a feasible operation plan be created that allows regional differences while encouraging production in deficient areas so that southeastern dairy farmers may reduce drastic swings in milk prices.

Good farm policy does not accomplish much if commercial farming operations are ineligible for benefits. As an organization, we oppose payment limits and means testing to determine farm program eligibility. However, we understand the necessity of these reforms in 2008 Farm Bill.

Two conservation programs are particularly successful in Georgia. The "Conservation Reserve Program" (CRP) is popular with landowners. The "Environmental Quality Incentives Program" (EQIP) is also a popular program, but more funds are needed so that more farmers can participate.

Because of recent droughts, Georgians are particularly concerned with water issues. We support Federal funding of producer incentives for water conservation, including construction, repair, and maintenance of impoundments and farm ponds for livestock and irrigation.

Consolidation and concentration within U.S. agriculture is having adverse economic impacts on farmers. Congress should review existing statues, develop legislation where necessary, and strengthen enforcement activities to ensure proposed agribusiness mergers and vertical integration arrangements do not hamper farmers' access to inputs and markets.

We believe USDA should be empowered to investigate mergers, consolidation of farm input suppliers, processors, and retailers for anti-competitive activities. USDA should be given authority to review and provide recommendations to the Department of Justice on agribusiness mergers and acquisitions. Producers impacted by unfair marketing practices should be compensated when harmed by monopolistic practices.

We are not opposed to the continued use of production contracts so long as producers have meaningful input in the process of negotiating contracts. Also, it is important that companies owning critical genetics do not obtain too much market power. Either of these scenarios creates situations where farmers have few viable options and can be subject to economic abuse.

The 2008 Farm Bill authorized a "Biomass Crop Assistance Program" (BCAP) to assist agricultural and forest landowners in the utilization of unused biomass byproducts. Our state has received substantial payments regarding this program, but most farmers and forest landowners are unaware of it. We are concerned the program is not working as Congress intended.

Additionally, the BCAP is supposed to promote utilization of products without a current use. Bark and other wood residues have value and are important inputs in the horticulture industry as potting soil. Diversion of these products for energy production should not take place under BCAP.

Computer technology offers the promise of government programs being delivered in a more efficient and timely manner. However, many FSA staff work with slow, obsolete machines. During the busiest times at FSA offices, the office computers are unable to input data due to heavy use. We support upgrading computer technology and appropriate software to allow FSA to achieve savings by improving administrative efficiency at the Federal, state, and local level.

In summary, Georgia Farm Bureau believes the 2008 Farm Bill is working well. We suggest the basic funding structure of the 2008 Farm Bill should not be altered significantly. Our organization stands ready to work with the Agriculture Committee and Congress to help clarify issues as the 2012 Farm Bill debate begins.

Thank you for the opportunity to offer these comments.

Sincerely,

Zippy Duvall

ZIPPY DUVALL, *President.*

The CHAIRMAN. Thank you very much, Mr. Duvall.

Mr. Lee, welcome to the Committee.

STATEMENT OF RONNIE LEE, COTTON PRODUCER, BRONWOOD, GA

Mr. LEE. Good afternoon, Chairman Peterson, Georgia Members of Congress and other guests. I am Ronnie Lee, I am from Bronwood, Georgia, cotton, peanuts, grain, cattle farmer. I also own a cotton gin, serve on the Board of Directors of Southern Cotton Growers and that is who I represent. This organization represents every cotton producer in six southeastern states—Alabama, Florida, Georgia, North Carolina, South Carolina, and Virginia.

I want to thank you for hosting this hearing and giving us an opportunity to testify.

Cotton is a cornerstone of the rural economy of our region and the Cotton Belt. Its scope and economic impact extends well beyond the approximately 19,000 farmers that plant between 9 and 12 million acres of cotton each year in the 17 cotton-producing states. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year.

Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home-furnishings are located in virtually every state, with much of this infrastructure located right here in Georgia. Beyond the farm gate, distribution and processing of cotton includes cotton gins, independent merchants and cooperative merchandisers, warehouses, cottonseed distributors, textile mills and so forth.

Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200,000 workers and produce direct business revenue of more than $27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420,000 workers with economic activity well in excess of $100 billion.

In our six-state region—Alabama, Florida, Georgia, North Carolina, South Carolina, and Virginia—the cotton industry's ripple effect is responsible for over 173,000 jobs and generates economic activity surpassing $47 billion annually.

Southern Cotton Growers maintains that sound farm policy is essential for the viability of the cotton industry in this region and the United States.

Effective farm policy should adhere to several principles: it should be market-oriented with a goal of promoting quality, efficiency and domestic competition; it should allow for full production to meet market demand; it should provide for an effective financial safety net; it should ensure the availability of competitively-priced U.S. cotton to domestic and international textile mills; and it should encourage maximum participation without regard to farm size or structure.

We believe the 2008 Farm Bill meets most of these principles and has worked well for the cotton industry. We commend this Committee for its diligent work on this legislation.

The centerpiece of the upland cotton program and traditional commodity programs has been, without question, an effective marketing loan program. It provides a safety net for producers, but does not harm the competitiveness of U.S. commodities, not just cotton. It is a program component that makes sense, that works, and serves many critical purposes. Because it is well-understood and a fundamental part of commodity policy, the marketing loan gives rural banks the confidence they need to make critical operating loans available. I will say in my own operation, I do not think I could get financed without this type safety net.

We believe that USDA overstepped the intent of Congress in key payment eligibility provisions and issued regulations that were overly complicated and restrictive. Sound policy provisions are of little value if commercial-size farming operations are ineligible for benefits. The vast majority of these are true family farm operations that have expanded in size in an attempt to lower per unit cost of production or gain economies of scale. While we oppose any artificial payment limitations, we advocate administering the current provisions within the intent of Congress, and strongly oppose any further restrictions.

In summary, our industry believes the cotton provisions of the 2008 Farm Bill are working well. If policy changes are inevitable as part of the 2012 Farm Bill, the cotton industry remains ready to work with the Agriculture Committee to explore alternative programs that can provide the needed safety net for our industry in a manner that is consistent with our international trade obligations, and within budget constraints.

Thank you for giving us the opportunity to be here today, and I look forward to answering questions.

[The prepared statement of Mr. Lee follows:]

PREPARED STATEMENT OF RONNIE LEE, COTTON PRODUCER, BRONWOOD, GA

Chairman Peterson, Ranking Member Lucas, Georgia Members of Congress and other guests, my name is Ronnie Lee. I am cotton, peanut and grain producer from Bronwood, Georgia where I also own and operate a gin. I also serve on the Board of Directors of Southern Cotton Growers. This organization represents every cotton producer in the six states that comprise the Southeast Region (AL, FL, GA, NC, SC & VA). Thank you for hosting this hearing and for the opportunity to testify before you regarding farm policy issues.

Cotton is a cornerstone of the rural economy of our region and the Cotton Belt. Its scope and economic impact extends well beyond the approximately 19,000 farmers that plant between 9 and 12 million acres of cotton each year in the 17 cotton-producing states. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year.

Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home-furnishings are located in virtually every state with much of this infrastructure located right here in Georgia. Beyond the farm-gate, the distribution and processing of cotton includes cotton gins, independent merchants and cooperative merchandisers, warehouses, cottonseed distributors and processors, and textile mills.

Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200 thousand workers and produce direct business revenue of more than $27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420 thousand workers with economic activity well in excess of $100 billion.[1]

In the six-state region of Alabama, Florida, Georgia, North Carolina, South Carolina and Virginia, the cotton industry's ripple effect is responsible for over 173 thousand jobs and generates economic activity surpassing $47 billion annually.

[1] Direct employment and revenue based on 2007 Census of Agriculture and 2002 Economic Census. Indirect employment and economic activity derived from input-output multipliers reported by University of Tennessee's Agri-Industry Modeling and Analysis Group.

Cotton's Economic Impact

	Cotton Sector		Broader Economy	
	Jobs	Direct Revenue (Million $)	Jobs	Economic Activity (Million $)
Southeast (AL, FL, GA, NC, SC, VA)	77,733	$10,647	173,454	$47,502
Mid-South (AR, LA, MO, MS, TN)	31,434	$6,090	70,143	$27,172
Southwest (KS, OK, TX)	41,569	$5,715	92,758	$25,497
West (AZ, CA, NM)	24,028	$2,318	53,616	$10,343
United States	**191,405**	**$27,622**	**427,102**	**$123,241**

Southern Cotton Growers maintains that sound farm policy is essential for the viability of the cotton industry in this region and the United States. Effective farm policy should adhere to several principals:

(1) It should be market-oriented with a goal of promoting quality, efficiency and domestic competition;

(2) It should allow for full production to meet market demand;

(3) It should provide for an effective financial safety net;

(4) It should ensure the availability of competitively-priced U.S. cotton to domestic and international textile mills; and

(5) It should encourage maximum participation without regard to farm size or structure.

We believe the 2008 Farm Bill meets most of these principles and has worked well for the cotton industry. We commend this Committee for its diligent work on this legislation.

The centerpiece of the upland cotton program and traditional commodity programs has been without question, an effective marketing loan program. It provides a safety net for producers but does not harm the competitiveness of U.S. commodities. It is a program component that makes sense, that works, and that serves many critical purposes. Because it is well-understood and a fundamental part of commodity policy, the marketing loan gives rural banks the confidence they need to make critical operating loans available. This foundational program has also been the lever to move other important reforms, such as standardized bales and bale packaging for cotton, electronic warehouse receipts, and heightened standards for storage and elevator facilities for cotton and for other commodities.

With respect to cotton, while the 2008 Farm Bill maintained the marketing loan and several other program components from prior law, the bill also made many reforms, such as a revision in the calculation of cotton premiums and discounts, placing a ceiling on the payment of storage credits for cotton under loan, and an economic adjustment program for the U.S. textile industry.

Fundamentally, we continue to support the 2008 Farm Bill's approach to the cotton program and all of its components, from the marketing loan to direct and countercyclical payments. Each component serves a distinct purpose that is beneficial to U.S. farmers.

The 2012 Farm Bill debate, however, will take place with several new and increased points of pressure. Record budget deficits will put intense pressure on funding. The WTO Brazil Case puts cotton's marketing loan and countercyclical programs under special scrutiny even though the cotton program, as revised by the 2008 bill, has never been evaluated by a WTO Panel. Ongoing negotiations in the Doha Round of trade negotiations could result in a dramatically altered landscape for domestic commodity support. If circumstances arise that make it impossible to maintain a reasonable safety net using existing delivery mechanisms, the cotton industry will look at alternatives.

As evidenced by recent sign-ups, the ACRE program has not been a very attractive alternative for cotton farmers in our region or across the Cotton Belt. The support mechanisms within ACRE do not provide an adequate safety net for cotton farmers when compared to the traditional DCP program. If a revenue-based approach is to find support among cotton producers, a more reasonable revenue target would have to be established. Mr. Chairman, we are working as an industry to evaluate fully our industry's concerns with ACRE in order to develop recommendations for effective modifications.

Even as our industry commits to an in-depth review of the structure of the cotton program, I must emphasize our commitment to the principles I outlined earlier in my statement. One of those principles is that effective farm policy must maximize participation without regard to farm size or income. The 2008 Farm Bill contained significant changes with respect to payment limitations and payment eligibility. In general, the limitations were made more restrictive, and the adjusted gross income test was substantially tightened.

In addition to the legislative changes, we believe that USDA over-stepped the intent of Congress in key payment eligibility provisions and issued regulations that are overly complicated and restrictive. Sound farm policy provisions are of little value if commercial-size farming operations are ineligible for benefits. The vast majority of these are true family farm operations that have expanded in size in an attempt to lower per unit cost of production (economy of scale). While we oppose any artificial payment limitations, we advocate administering the current provisions within the intent of Congress and strongly oppose any further restrictions.

Conservation programs were strengthened in the 2008 Farm Bill. The Conservation Stewardship Program and similar conservation programs can lead to improved environmental and conservation practices but should not serve as the primary delivery mechanism for farm program support. The Conservation Stewardship Program has also been hampered by overly restrictive payment limitations contrived by USDA regulators—restrictions that we do not believe are supported by the statute. USDA's unilateral decision to exclude commercial-size farming operations dramatically limits the environmental and conservation benefits that are possible with this program. In an effort to improve the effectiveness of these programs, we recommend that all conservation payments and other administrative such responsibilities be turned over to the Farm Service Agency. In other words, let FSA do the paper work which in turn will enable the Natural Resources Conservation Service to devote all their efforts towards providing technical assistance. Furthermore, lack of consistency between county offices is often an issue. For example, a producer who farms in more than one county may or may not qualify for a like conservation program or practice and often times at varying levels of support.

We support a permanent natural disaster program as part of the farm bill, but our experience so far with the SURE program indicates it cannot provide an effective level of natural disaster assistance. We recognize the challenge facing Congress to make improvements in this program. Without increased baseline spending authority, there will be no funds to even continue the program in the next farm bill much less make the necessary improvements for it to be an effective disaster relief mechanism. However, we do not support reallocating existing spending authority from current farm programs to apply to SURE.

Crop insurance is an essential risk management tool for cotton producers in our region. As a matter of fact, over 87% of all cotton acres in the Southeast purchase buy-up coverage. Our industry continues to examine concepts that improve the various cotton crop insurance products. Revenue coverage, enterprise policy rates and group risk products are examples of improved products that can provide a menu of risk options for growers. One change we do support would be to allow separate enterprise units for irrigated and non-irrigated practices in the same county. Some growers do not opt for the enterprise unit deal (with the additional subsidy) because it throws their irrigated and non-irrigated units together. However, we continue to view the current insurance products as complements to traditional commodity programs but do not consider those programs as a replacement system for delivering farm program support.

While the cotton industry supports a viable biofuels industry, it must be recognized that benefits are not equally shared by all commodity producers. Renewable fuels mandates and other policies regarding biofuels have changed the competitive balance between commodities, placing severe pressure on cotton infrastructure in certain parts of the Cotton Belt. Mandated demand can result in excessive and harmful market distortions. The support given to biofuel crops must be taken into consideration when comparing relative levels of support across commodities, when evaluating payment limitations and before trying to mandate a one-size-fits-all farm program for biofuel and non-biofuel commodities.

In summary, our industry believes the cotton provisions of the 2008 Farm Bill are working well. If policy changes are inevitable as part of the 2012 Farm Bill, the cotton industry remains ready to work with the Agriculture Committees to explore alternative programs that can provide the needed safety net to our industry in a manner that is consistent with our international trade obligations and within budget constraints.

Thank you for the opportunity to present these comments on behalf of Southern Cotton Growers. I will be happy to try and answer any questions you might have.

The CHAIRMAN. Very good. Thank you very much, Mr. Lee.

Mr. Minor, welcome to the Committee.

STATEMENT OF RICHARD "DICK" MINOR, FRUIT AND VEGETABLE PRODUCER, ANDERSONVILLE, GA

Mr. MINOR. Good afternoon, Chairman Peterson and Members of the Committee. We welcome you to Georgia.

My name is Richard Minor. With my brothers, we own and operate a diversified farming operation in southwest Georgia. Last year, we grew over 1,700 acres of vegetable crops. In addition, we grow cotton, peanuts, field corn, wheat, soybeans and turf grass.

Today, I speak on behalf of the Georgia Fruit and Vegetable Growers Association. I want to thank you for this opportunity to present this testimony.

In 2008, this Committee recognized the importance of fruit, vegetable and other specialty crop production in the United States and dedicated approximately $3 billion in funding for the specialty crops pest, disease, nutrition, research and conservation priorities. We are most appreciative, and deeply grateful, for the leadership that this Committee demonstrated in the 2008 Farm Bill.

I have provided the Committee with detailed written testimony, but in my comments today, I wanted to touch briefly on a few of the most critical issues.

First, we strongly support continuation of the specialty crop state block grants. The 2008 Farm Bill provided $466 million in state block grants. We believe state block grants provide the centerpiece of the fruit and vegetable component in the farm bill. It is at the state level that growers, shippers and packers, working together with industry and government, have the expertise to identify programs that can help enhance the competitiveness of specialty crop producers.

Block grants have been tremendously beneficial to Georgia's specialty crops. With funds from previous block grants, our association was able to establish a food safety initiative that has grown to train over 350 growers, and certified more than 70 farm operations.

The 2008 block grants have provided money for a number of innovative programs by our fruit and vegetable organizations. These grants have helped expand locally grown marketing programs, funded commodity promotional activities for watermelon, peach, pecan and others, made available cutting edge grower educational programs, and supported multi-discipline specialty crop field research. Working through our state departments of agriculture puts the funds at a grassroots level where they can be the most effective.

Second, we believe there should be increased funding for specialty crop research. Georgia fruit and vegetable growers are receiving basically the same price for their crops as they received in the mid-1990s, while input costs have increased 100 to 350 percent. The only reason fruit and vegetable growers are surviving is due to the increased yield levels and production efficiencies, and improved pest management systems developed from agricultural research projects.

The 2008 Farm Bill established Specialty Crop Research Initiatives with funding at $230 million, which we very much appreciate.

However, we must continue to expand and increase the funding levels for this type of research.

Third, nutritional aspects. The 2012 Farm Bill must continue and expand the progress initiated in the 2008 Fresh Fruit and Vegetable Snack Program, which develops life-long healthy eating habits for our children. The Georgia Fruit and Vegetable Growers Association supports the National Salad Bar Policy recommended by USDA as a strategy to increase children's consumption of fruits and vegetables.

Finally, we believe that a total restructuring of USDA's disaster assistance program is needed. To date, there is still much confusion at the Farm Service Agency county office level about the implementation of the Supplemental Revenue Assistance Program. For example, USDA headquarters has not made clear to the county offices how to handle several issues related to the processing of claims under SURE. Another major concern with the SURE program is that benefits will not be available to the producer for 12 to 18 months after the crop loss. With the significantly large input costs of specialty crop producers, this delay may be too late to help a producer struggling to stay in business.

In addition, the MAP program is of little benefit and needs to be reformed. Producers are willing to pay for insurance products that truly protect income. Today, those products are not available for specialty crop producers.

Finally, we question whether a permanent disaster program can react to specific emergencies, as well as disaster legislation structured in real time for specific disasters.

In closing, let me mention that the future of specialty crop production in the Southeast is largely dependent on three regulatory and workforce issues over which this Committee has limited jurisdiction. The EPA—at no time in my memory has EPA issued as many guidelines, regulations or policies as they have in the last 24 or 36 months.

Climate change legislation—as Congress considers energy independence and climate change, the specialty crop industry is very concerned as to the impact this final legislation will have on specialty crops.

Immigration reform—the need for a predictable and legal workforce in agriculture remains a critical concern for all fruit and vegetable producers.

Mr. Chairman, thank you for the opportunity to present our thoughts and views, and we look forward to working with you to craft the 2012 Farm Bill.

[The prepared statement of Mr. Minor follows:]

PREPARED STATEMENT OF RICHARD "DICK" MINOR, FRUIT AND VEGETABLE PRODUCER, ANDERSONVILLE, GA

Good morning, Chairman Peterson and Members of the Committee. My name is Dick Minor. I am President of Minor Produce. With my two brothers we own and operate a diversified farming operation in Sumter County, Georgia. In 2009, we grew over 1,700 acres of vegetables, including cucumbers, snap beans, watermelon, pepper and squash. In addition we grow cotton, peanuts, field corn, wheat, soybeans and turf grass. We also operate or have ownership in a trucking company, cotton gin and warehouse and a custom aerial crop care service. I am here today representing over 250 producer members of the Georgia Fruit and Vegetable Growers Association.

The fruit and vegetable industry is a major economic generator for the State of Georgia. We are adding jobs and dollars to rural economies throughout the state. In Georgia, the 2008 farm gate value of vegetables alone was almost $850 million. Combined with Georgia's fruit crops, including peaches, blueberries, blackberries and strawberries, the farm gate value of fruit and vegetable production in Georgia is over $1 billion. But this large product value is not limited just to our state. Specialty crop growers produce approximately 50% of the farm gate value of total plant agricultural production in the United States.

As a part of developing the 2008 Farm Bill, this Committee recognized the importance of fruit, vegetable and other specialty crop production in the United States, providing significant support to our sector of the agricultural industry. The 2008 Farm Bill dedicated approximately $3 billion in funding for specialty crops, pest and disease, nutrition, research and conservation priorities. Of particular note is that none of this funding goes to direct payments or subsidies from the Federal Government but rather it strongly supported infrastructure investments and market expansion opportunities to build a stronger specialty crop industry. We are most appreciative and deeply grateful to the leadership this Committee demonstrated to insure specialty crop programming in the 2008 Farm Bill.

My comments today are directed at several areas of the 2008 Farm Bill from which specialty crop growers in Georgia have received benefits which offered those growers competitive advances in their production and marketing operations. I will also outline several areas which we believe should be addressed in the 2012 Farm Bill.

Specialty Crop State Block Grants

In 2001, Congress provided approximately $159.4 million in mandatory funding for Specialty Crop block grants as part of the Agricultural Economic Assistance Act of 2001. The funding was distributed by the state departments of agriculture in 2002.

The Specialty Crop Competitiveness Act of 2004 was aimed at building on the success of the 2001 block grants by reauthorizing the block grants. Congress provided $7 million in appropriations for the specialty crop block grants in FY 2006. The FY07 appropriations bills also contained specialty crop block grant funding.

The 2008 Farm Bill provided $466 million in state block grants to enhance producers' ability to compete in the marketplace and provide consumers with safe, abundant food. We believe state block grants provide the centerpiece of the fruit and vegetable component in the farm bill. Each specialty crop and each geographic area have unique challenges and attributes which must be addressed individually, the block grants are critical in helping to improve the competitiveness of our specialty crop producers. It is at the state level that growers, shippers and packers working together with industry and government, have the expertise to identify programs that can enhance the competitiveness of specialty crop producers. Innovative programs developed at the state level have included production related research, nutritional focus on youth, commodity promotion, food safety and inspections, and other items.

Block grants have been tremendously beneficial to Georgia's specialty crops. With funds from the 2001 block grant our association was able to establish a food safety initiative that has grown to train over 350 growers and certified more than 70 farm operations. As a cooperative program between the Georgia Department of Agriculture, University of Georgia, the Georgia Crop Improvement Association and our association, Georgia GAP provides on farm training, consultation and third party audit to our growers.

Our industry is in a crisis at the moment as it relates to food safety concerns. Block grant funds would help states develop more aggressive food safety educational programs as we have done in Georgia. The produce industry must move forward to establish the proper protocol to restore this nation's consumer confidence in fresh produce. Research is needed to develop economical traceability solutions, reduce field contamination and improve post harvest handling. Block grants can address this on the state level where it is desperately needed.

In addition block grant funding has provided assistance to expand the 'Georgia Grown' marketing program, locally grown promotions, specific commodity (watermelon, peach, pecan, *etc.*) promotional funds, provide grower educational programs and fund intra-structure for a multi-discipline specialty crop field research lab.

We recommend the state block grant program continue and funding be expanded in the 2012 Farm Bill.

Increasing Specialty Crop Research

Researcb provides a foundation for the growth of any industry and acts as catalyst for change. Federal investment in specialty crop research to assure the economic vitality and long-term viability of the specialty crop industry has been limited, despite the fact that specialty crops and their research needs are unique and important. These crops are typically characterized by high production input costs, unique market challenges and the fact that there are a plethora of specialty corps produced in numerous growing regions throughout the country, each with specific challenges. The USDA/DHHS *Dietary Guidelines* recommends the daily dietary intake of Americans be at least 52% fruits, vegetables and foods derived from specialty crops. Federal investments in agriculture should be allocated to reflect the national importance of these products to the American diet.

The 2008 Farm Bill established the Specialty Crop Research Initiative (SCRI) with funding at $230 million. Due to the timing of the legislative approval of the farm bill and the SCRI program announcement, we compliment the hard work at USDA to ensure 2009 SCRI project proposals were accepted, evaluated and awarded. Without this extra effort, specialty crop research would have been delayed twelve months.

Specialty crop growers are receiving basically the same price for their crop(s) as they received in the mid-1990s, while input costs have increased 100% to 350%. The only reason fruit and vegetable growers are surviving is increased yield levels, production efficiencies and improved pest management systems due to research. Applied research is critical to the survival of southeastern fruit and vegetable growers. As a member of the Georgia Agricultural Commodity Commission for Vegetables, we have committed 75% of our crop assessments will be used for research. Georgia growers recognize the value of applied research that addresses current production pest management, regulatory, food safety and product quality problems.

GFVGA supports expansion of the SCRI and increased funding.

Food Safety

As noted earlier in this testimony, since 2001 the Georgia Fruit and Vegetable Growers Association has been a leader in providing education and consultation to southeastern growers concerning food safety. While food safety is the regulatory responsibility of the Food and Drug Administration, we encourage USDA to continue its role to provide guidance and support to growers in the area of food safety which effects product quality and market interruptions.

Congress and FDA are moving forward with food safety legislation and regulations. Most likely before the end of 2010, growers will be mandated to conform with certain FDA guidelines in the growing, packing and handling of fresh produce. GFVGA has supported this governmental oversight for science founded, risk based, commodity specific guidelines. The depth of experience and body of knowledge at USDA should be utilized and called upon as these guidelines are developed, and when product recall investigations occur. FDA and CDC lack of experience and knowledge of fresh produce production and supply chain led to the tomato/pepper fiasco in 2008.

Based on our commitment to food safety and regaining consumer confidence, GFVGA took a leadership role as a member of the proponent group calling for a National Leafy Greens Marketing Agreement. We urge USDA to conclude its work on the NLGMA so industry can develop a Federal marketing program that establishes national measures to address leafy green food safety through the Federal Government oversight.

Nutrition

The 2008 Farm Bill expanded the Fresh Fruit & Vegetable Snack Program to all 50 states. The goal of this nationwide expansion of the Snack Program is to develop life-long healthy eating habits for millions of children by providing fresh fruits and vegetables in our nation's schools. Data, and practical experience in the schools, has shown if the fresh products are available, most students will select tasty (and healthy) fruits or vegetables over candy or chips.

Increasing the amount and variety of fruits and vegetables served in the School Lunch and Breakfast Programs will improve children's health and are critical investments in prevention and health care reform. The Institute of Medicine's (IOM) Report *School Meals: Building Blocks for Healthy Children* recommends doubling the amount of fruits and vegetables served in school meals and recognizes that serving more fruits, vegetables and whole grains will require a higher Federal reimbursement rate. As Congress deliberates on the Child Nutrition Reauthorization Act, school meal standards must be aligned with the 2005 *Dietary Guidelines;* the

IOM's Report provides specific recommendations to improve the healthfulness of school meals.

GFVGA supports the following:

1. A National Salad Bar Policy recommended by USDA to schools as an effective intervention strategy to increase children's fruit and vegetable consumption.
2. Increased reimbursement rates for school meals, with those increases tied specifically to increased servings of fruits, vegetables and whole grains in order to meet the Dietary Guidelines and IOM recommendation for school meals.
3. Increased funding for salad bars and cafeteria equipment.
4. Expansion of USDA commodity purchasing of fresh and fresh-cut fruits and vegetables that children want to eat. Today, less than 3% of USDA fruit and vegetable purchases are for fresh produce, unfortunately perpetuating the practice of schools serving children from a 10 pound can rather than offering fresh foods.
5. Updated nutrition standards for school meals consistent with the *Dietary Guidelines.*
6. Updated nutrition standards for foods and beverages sold outside of school meals.

Restructuring Disaster Assistance and Crop Insurance

Georgia growers have a concern with the Supplemental Revenue Assistance Payments Program (SURE). The establishment of this program, as intended, makes *ad hoc* disaster programs more difficult Unfortunately, the SURE program has yet to live up to grower expectations. Despite USDA announcing this program opportunity early on the website, to date there is still much confusion at the Farm Service Agency county office level about implementation of the program. Specifically, USDA headquarters has not made clear to the county offices how to handle producers farming in multiple counties. In the Southeast, our growers may farm in several different counties.

Another major concern with the SURE program is that benefits will not be available to the producer for 12 to 18 months after the crop loss. With the significantly large input costs of specialty crop producers this delay may be too late to help a producer struggling to stay in business. Finally, we question whether a permanent disaster program can react to specific emergencies as well as disaster legislation structured in real time for a specific disaster.

Unlike my situation, most fruit and vegetable growers do not produce program commodities so the farm structure as established at the FSA offices is not such that growers can benefit from some USDA programs as traditional program commodities benefit. The current payment limit structure punishes specialty crops for the few programs they can participate in at USDA. Southeast produce farms have to be large to make a profit. Labor, input costs, prices for products, *etc.,* are such that small producers have little chance to be full-time farmers. In establishing payment limitations for all producers, consideration should be given that fruit and vegetable growers do not have USDA program history and farm structure established at FSA as do many producers that have a long history of participating in farm programs.

With regard to crop insurance, over the years RMA has attempted to re-formulate a traditional crop insurance program to be a 'one size fits all' and force specialty crop coverage into a row crop model. However, this does not work due to the high cost of inputs per acre for our specialty crop growers. Currently there are very few vegetable growers that utilize crop insurance due to the extremely high premium costs. There are a few specialty crop insurance programs that appear to have satisfactory participation and coverage including pecans, peaches and blueberries.

As banks tighten the credit and the loan requirements become more stringent, we believe many growers would consider AGR as a crop insurance alternative with proper education about the program. An AGR policy offers growers total farm income protection rather than specific crop revenue coverage. However, the full AGR program has not been offered in Georgia. AGR-Lite was offered during the 2009 crop year and received limited sign up due to the revenue limitation on the policy. For AGR-Lite the maximum farm income protection is $1 million making the 'lite' program of little benefit to many Georgia producers. For the full AGR program the maximum income protection is $6.5 million.

Farm Policy Challenges for Specialty Crops

The future of specialty crop production in the Southeast is largely dependent on regulatory and workforce related issues. As more and more regulations, restrictions and agency generated guidelines are developed, the United States consumer will see more and more of its fresh produce imported. The international trade agreements, designed to open foreign markets to U.S. growers, has also shown imported products can easily be transported into our domestic food supply chain. Many U.S. growers are looking to non-domestic farm operations as an alternative if/when Federal regulations become too onerous to comply.

Outlined below are regulatory issues which threaten the national security of the United States. The late U.S. Senator Paul Coverdell from Georgia, was a strong proponent that the strength of American agriculture was a national security issue. If the U.S. cannot produce enough food to feed our people and our troops, we will not be a nation capable of defending itself any longer. American agriculture is not to that position yet, but we are losing farms everyday due to these challenges.

1. Environmental Regulations

At no time in my memory has EPA issued as many guidelines, regulations or policies that have the potential to threaten our livelihood and shutdown our operations. That statement makes it sound like we are operating an 'unsafe' farm; which might be harmful to our families and workers. I can assure you we are not—I will not expose my family or my workers to anything that I do not consider safe.

An example of EPA regulations that are issued but not based on sound science was the Soil Fumigant Regulations. In late 2008, EPA issued new regulations concerning application and usage of soil fumigants. The required buffer zones under these regulations were based on vaporization and drift studies conducted in the 1990's. In fact these primary studies did not include any measurement of soil temperature or moisture content, two key elements in vaporization and drift, caused the regulations to be flawed.

If these regulations had been implemented, one of Georgia's key vegetable production counties would have lost over 96% of its vegetable crop land. Another key county would have lost 89% of its available land due to the buffer zone requirements.

GFVGA working with the University of Georgia, was able to conduct emergency research studies to update the 1990 data and show with proper soil moisture and temperature, the required buffer zones could almost be eliminated. Once the research was conducted, EPA accepted the new results after a careful study of the data.

Recently EPA is proposing a new registrant labeling policy for key chemicals. They are moving from a FIFRA-based standard of "no unreasonable side effects" to a new policy of "do not apply this product in a manner that results in spray (or dust) drift that could cause an adverse effect to people." So, what is an adverse effect a nose irritation?? How does a grower make that determination as to what is an adverse effect. This is essentially a move from a standard based on scientific risk assessment to an untenable zero-risk standard. EPA is moving from regulations that are based on risk and can work in practice, to an environmental regulation that is easily enforced—'prohibition on use—do not use!'.

We encourage this Committee and USDA to advocate for production agriculture in this regard to ensure EPA issued regulations are based on—risk and current science. In addition production agriculture should be represented early in the regulatory development process to ensure the regulations can actually be implemented. If a proposed regulation such as the buffer zones mentioned earlier were implemented, it would have eliminated vegetable production in Georgia and many other states.

2. Climate Change Legislation

As Congress considers energy independence and climate change the specialty crop industry is very concerned as to the final legislation. Fruit and vegetable growers are heavily dependent on production inputs to be affordably priced in order to remain competitive domestically and in the global economy.

As Congress debated legislation earlier this year, the specialty crop producers may not be able to receive any of the credits or participate in the offset programs. Specialty crops represent 44 percent of U.S. agriculture's farm gate value but only 3.2% of the agricultural farmland. In additional growers have taken steps for decades to increase production efficiencies, minimize energy consumption and conserve natural resources, all resulting in decreased greenhouse gas emissions. Therefore the specialty crop industry's ability to compete for 'credits' based on new carbon sequestration efforts (or GHG-reducing technology) will be difficult.

We urge this Committee to study and understand the impact of the costs associated with any climate change legislation before it is signed into law, and have in place strategies to address these costs as they will have a significant impact on specialty crop livelihoods.

3. Immigration

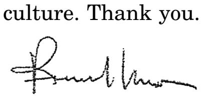
We realize immigration reform is not under the authority of this Committee; however, when discussing specialty crops and farm policy' the need for a predictable and legal workforce in agriculture remains a critical concern for all producers.

Many of our producers in Georgia are using the H–2A program in which they can legally bring in guest workers on a temporary work visa issued by the Department of Labor. As a part of this program the grower pays for the worker's transportation to and from their home country, covers their housing while in the states and provides a guaranteed wage rate. The paperwork for the program is very onerous and time consuming.

Revisions were made to the program in late 2008 which made it much easier to accommodate to the point we had an increasing number of growers enrolling in the program. Unfortunately in February 2010, the current Administration revised the guidelines again and reverted to the old regulations, some even as far back as the mid 1990's. The revised changes are adding even more time and cost to the program. One grower shared with me recently the new regulations will cost him over $1.5 million

In addition to the high cost and excessive regulations our H–2A employers in Georgia and other southeastern locations have experienced a very high incidence of frivolous claims by Legal Services. Many times a legal services agency representative will file a 'trumped up' charge against an H–2A employer and it costs the grower less to pay a fine than to defend the charge. This excessive cost to the grower is due to the legal services agency continuing to file appeals if the case is found in the grower's favor, and the grower having to continue pay legal fees or his defense.

Mr. Chairman, thank you for the opportunity to present our thoughts and views today. We look forward to working together to craft a farm bill over the next year that will establish a strong farm policy for specialty crop producers and all of agriculture. Thank you.



RICHARD 'DICK' MINOR,
President,
Minor Produce;

Vice President,
Georgia Fruit and Vegetable Growers Assn.

The CHAIRMAN. Thank you very much, Mr. Minor.

Mr. Morris, welcome to the Committee.

STATEMENT OF ARMOND MORRIS, PEANUT PRODUCER, OCILLA, GA

Mr. MORRIS. Thank you, Mr. Chairman. And I would like to say thank you to the rest of the Committee for being here in Georgia, and we welcome you and invite you to come back again. Not only that, but it is great to be here in Representative Scott's district. We have a lot of consumers that eat peanut butter here. So again, thank you for inviting us to your district, Mr. Scott.

I am Armond Morris, a peanut producer from Irwin County, Georgia. I am Chairman of the Georgia Peanut Commission and am here today representing the Southern Peanut Farmers Federation. The Federation is comprised of Alabama Peanut Producers, the Georgia Peanut Commission, the Florida Peanut Producers Association, and the Mississippi Peanut Growers Association. The Southern Peanut Farmers Federation represents about ¾ of the peanuts grown in the United States.

Mr. Chairman and Members of the Committee, our message today is that: peanut producers support the marketing loan program; and the current program prices are set too low to be a true safety net for producers.

As you are aware, peanut program prices were reduced in the 2002 Farm Bill when it changed from a supply-management program to a marketing loan peanut program. The 2008 Farm Bill maintained the same prices as the 2002 Farm Bill.

Since the 2002 Farm Bill, peanut variable costs for National Center for Peanut Competitiveness representative farms have increased 52 percent per acre. Yields will need to be over 400 pounds above the state average this year to break even at the current price of peanuts.

I have attached a copy of a recent review by the National Center for Peanut Competitiveness. As you can see, peanut growers are not making a profit even with our current prices.

The number one goal for our producer organization is to obtain a legitimate safety net for our growers. The current $355 per ton marketing loan is not sufficient.

The peanut loan repayment rate guidelines were established in the 2002 Farm Bill. The loan repayment rate has not functioned appropriately.

It is this last variable the Committee included in the 2008 Farm Bill and similar language in the 2002 Farm Bill that has not been adhered to. In setting the loan repayment rate, USDA has not taken into account world market prices.

We recognize the fiscal and political limitations in drafting a successful farm bill. Peanut producers want to stress to the Committee that we will work with you to develop the best possible program, but the pricing structure in the 2008 Farm Bill is not sufficient and certainly will not work for peanut producers if these same prices hold through the life of the 2012 Farm Bill.

There are additional considerations for any program changes in the next farm bill. If a new program is structured to limit farm size beyond the payment limit structure imposed by the 2008 Farm Bill, peanut producers will face more serious limitations for profit than we do under the current program which lowers prices. We must maintain our separate limit for peanuts. The current program will not work without the separate payment limit.

If we depend on farmers' markets, hobby farmers and the smallest peanut farms for peanut production, there would not be a sufficient supply of peanut butter on the shelves of America's grocery stores or in our school lunch program.

The Conservation Stewardship Program included provisions for a crop rotation program. We believe this program will enhance the environment and improve crop yields.

The feeding programs at the USDA are very important to our producers. Peanut butter is a long-time participant in the school lunch program. Peanut butter also qualifies for the breakfast program and after school snack program. Our Congressional delegations and industry leaders struggled to get the attention of those preparing food assistance for Haiti relief. Although our industry provided three million servings of peanut butter to the relief effort, we were not successful in reaching the decision-makers involved in establishing food assistance lists for U.S. and international aid.

Peanut butter does not qualify for the Fresh Fruit and Vegetable Snack Program. We believe all school feeding programs should allow for the purchase of peanut butter.

In closing, production agriculture is part of our national security. The Secretary has spoken a great deal about rural development, but production agriculture, at the heart of which is Federal farm programs, should be at the top of the list of roles for USDA. Please help the Department remember the importance of production agriculture.

Thank you for allowing me to address the Committee today and the Federation looks forward to working with you.

[The prepared statement of Mr. Morris follows:]

PREPARED STATEMENT OF ARMOND MORRIS, PEANUT PRODUCER, OCILLA, GA

Good afternoon, Chairman Peterson, Members of the Committee, my name is Armond Morris. I am a peanut producer from Irwin County, Georgia. I am Chairman of the Georgia Peanut Commission and am here today representing the Southern Peanut Farmers Federation. The Federation is comprised of the Alabama Peanut Producers Association, the Georgia Peanut Commission, the Florida Peanut Producers Association and the Mississippi Peanut Growers Association. The Southern Peanut Farmers Federation represents about ¾ of the peanuts grown in the United States. Peanuts have an economic impact of hundreds of millions of dollars in our states and tens of thousands of jobs.

I have been a peanut producer for over 40 years. I farm approximately 2,000 acres of peanuts, cotton, wheat, rye and watermelons. I have been active in local, state and national agricultural organizations and am a graduate of the Abraham Baldwin Agricultural College.

- Peanut producers support the marketing loan program.
- The current program prices are set too low to be a true safety net for producers.
- Farm programs should be developed for farmers—not for absentee baseholders.

As you are aware, peanut program prices were reduced in the 2002 Farm Bill when we changed from a supply-management program to a marketing loan peanut program. The 2008 Farm Bill maintained the same prices as the 2002 Farm Bill. The market prices for this year should hold above the marketing loan price but this is no guarantee and certainly not a guarantee for the future.

Since the 2002 Farm Bill, peanut variable costs, for National Center for Peanut Competitiveness representative farms, have increased 52% per acre. In addition to the increased costs associated with producing a crop of peanuts, we are competing with other countries like Argentina, China and India where the environmental costs, other regulations and labor rates are much less than U.S. input costs.

I have attached a copy of a recent review, by the National Center for Peanut Competitiveness, of sample peanut farms across the country based on the January 2010 baseline. As you can see, peanut growers are not making a profit even with our current prices.

The number one goal for our producer organization is to obtain a legitimate safety net for our growers. We do not believe the current $355 per ton marketing loan is sufficient to be a real safety net for producers.

The peanut loan repayment rate guidelines were established in the 2002 Farm Bill. The loan repayment rate has not functioned appropriately since the 2002 Bill. Congress directed the U.S. Department of Agriculture to consider the following when determining loan repayment rates:

- 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; and
- Allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally.

It is this last variable the Committee included in the 2008 Farm Bill and similar language in the 2002 Farm Bill that has not been adhered to. In setting the loan repayment rate, USDA has not taken into account world market prices. Thus, the USDA posted price set every Tuesday afternoon, is too high. We ask the Committee to include language in the next farm bill that will assure that the prices our competitors in the world marketplace are selling peanuts will be considered in establishing the posted price. We have trade agreements that were negotiated using the U.S. International Trade Commission formula converting shelled peanuts back to farmers' stock. This ITC formula should be considered in determining the posted price. USDA uses a different formula for the posted price. We can provide the Committee more information on this issue. In addition to low prices, this has been a serious problem since we left the supply-management program in 2002.

We recognize the fiscal and political limitations in drafting a successful farm bill. Peanut producers want to stress to the Committee that we will work with you to develop the best possible program but the pricing structure in the 2008 Farm Bill is not sufficient and certainly won't work for peanut producers if these same prices hold through the life of the 2012 Farm Bill. If budget variables require the Committee to look at alternatives to our current marketing loan program structure, the Federation will work with you to develop the best safety net possible for our producers. I do want to point out that the ACRE program, as included in the 2008 Farm Bill, is not a viable option for peanut producers.

There are additional considerations for any program changes in the next farm bill. If a new program is structured to limit farm size beyond the payment limit structure imposed by the 2008 Farm Bill, peanut producers will face more serious limitations for profit than we do under the current program with low prices. Specifically, there are only a few buyers for peanuts. These processors are large international businesses. There is no way a small farmer can survive with the limited safety net, necessary economies of scale in the production of peanuts and with our current marketplace. Small businesses typically sell directly to consumers but we are at the mercy of others, not directly selling to the consumer. We must maintain our separate payment limit for peanuts. This was agreed to when producers worked with the House and Senate Agriculture Committees in the 2002 Farm Bill establishing a marketing loan program for peanuts. The current program will not work without the separate payment limit.

The Federation had grower meetings throughout our four states explaining the payment limit reforms in the 2008 Farm Bill. Although some might consider me a large farmer, my farm is not owned by a multinational corporation. I am not a wealthy man yet many reformers would argue that my farm should be outside the bounds of Federal payment limitations. This is not a rational argument. If we depended on farmers markets, hobby farmers and the smallest peanut farms for peanut production, there would not be a sufficient supply of peanut butter on the shelves of America's grocery stores or in our school lunch program.

The Conservation Stewardship Program included provisions for a crop rotation program. We believe this program will enhance the environment and improve crop yields. The Department was slow to initiate regulations but the peanut industry is working with the Natural Resources Conservation Service to increase grower signups. We hope the Committee will continue the program in the 2012 Farm Bill.

The feeding programs at the USDA are very important to our producers. Peanut butter is a long-time participant in the school lunch program. Peanut butter also qualifies for the breakfast program and afterschool snack program. There are school systems all across this country participating in these Federal feeding programs. The peanut industry does not have the resources to reach even a small percentage of these nutrition programs illustrating the nutritional value, low cost and long shelf life of peanut butter. We need the USDA to partner with our industry in outreach programs to school nutritionists. We are on the USDA lists but many times this falls short of explaining new products for kids, the facts, not rumors regarding peanut allergies and other important peanut butter related variables. This also includes our need for assistance in working with international relief agencies. Our Congressional delegations and industry leaders struggled to get the attention of those preparing food assistance for Haiti relief. Although our industry provided three million servings of peanut butter to the relief effort, we were not successful in reaching decision-makers involved in establishing food assistance lists for U.S. and international aid. USDA has the experience and resources to help facilitate communications between the peanut industry and major relief organizations. The peanut butter products available for Ready-to-Use Therapeutic Food (RUTF) alone are a sufficient example of how helpful our products can be in impoverished parts of the world or countries in crisis.

Peanut butter does not qualify for the Fresh Fruit and Vegetable Snack program. We believe that all school feeding programs should allow for the purchase of peanut butter. USDA, land-grant universities, the Department of Defense and other institutions have long recognized the importance of peanut butter as a nutritional resource.

Finally, the recent legislative activity related to the reauthorization of child nutrition programs highlights the need for nutrition legislation to be the sole jurisdiction of the Agriculture Committee. We appreciate that Members of the House seek appointment to your Committee because of their interest in production agriculture, conservation and nutrition. We would hope that in the future House leaders would consider the House Agriculture Committee as the home for all nutrition legislation much like the Senate.

We are hopeful the Congress will pass the agricultural disaster relief legislation similar to the bill approved in the Senate. The current SURE program has not been effective for peanut producers. Despite the USDA website seeking participation in the SURE program earlier in the year, the program was far from ready to go forward. In fact, peanut producers were turned away until recently because local offices had not been given sufficient instructions to receive applications for peanut losses. Even today, local offices are not consistent as to how they will handle producers from multiple counties. Peanut producing states typically have a large number of counties. It is not unusual for peanut producers to farm across a number of county lines.

Peanut producers received no public support or financial assistance from the Department during the PCA *Salmonella* crisis caused by one peanut manufacturer, not by peanut producers. Peanut state members asked the Secretary to increase peanut butter purchases during the crisis to at least the purchase levels we saw in the mid 1990's to no avail. Other commodities have received financial assistance and support from USDA when prices have dropped or when their commodity has been in crisis, dairy and pork being just two examples, not peanuts. We believe any relief for the peanut industry will come from Congress whether this is with regard to the function of our program or the use of our product in government domestic and international feeding programs.

In closing, production agriculture is part of our national security. The Secretary has spoken a great deal about rural development but production agriculture, at the heart of which is Federal farm programs, should be at the top of the list of roles for USDA. Please help the Department remember the importance of production agriculture.

Thank you for allowing me to address the Committee today and the Federation looks forward to working with you.

ATTACHMENT

Economic Viability of US Representative Peanut Farms over the Period 2010-2015 based on JANUARY 2010 Baseline

Overall Economic Viability[1]	P(Negative Ending Cash)[2]	P(Real Net Worth Decline)[3]
Farm A	3-47	8-36
Farm B	79-99	80-99
Farm C	99-99	99-99
Farm D	1-1	5-1
Farm E	4-16	14-20
Farm F	80-99	81-99
Farm G	7-99	99-99
Farm H	98-99	99-99
Farm I	1-49	39-38
Farm J	75-99	77-99
Farm K	99-99	98-99
Farm L	1-3	67-37
Farm M	1-4	24-44
Farm N	42-28	64-11
Farm O	4-54	71-65
Farm P	99-99	99-99
Farm Q	1-1	1-1
Farm R	99-99	99-99
Farm S	99-99	98-99
Farm T	69-96	87-99
Farm U	33-72	69-63
Farm V	1-1	2-3

<25   26-50   >50

1) Viability is classified as good (green), moderate (yellow), and poor (red) based on the probabilities of having negative ending cash reserves and losing real net worth.
2) P(Negative Ending Cash) is the probability that the farm will have a negative ending cash reserve. Reported values represent the probabilities for 2010 and 2015.
3) P(Real Net Worth Decline) is the probability that the farm will have a loss in real net worth relative to the beginning net worth. Reported values represent the probabilities for losing real net worth from 2008 to 2010 and 2008 to 2015.

The CHAIRMAN. Thank you very much, Mr. Morris, we appreciate it.

Mr. Segler, welcome to the Committee.

STATEMENT OF HILTON R. SEGLER, PECAN PRODUCER, ALBANY, GA

Mr. SEGLER. Mr. Chairman, and Members of the Committee, thank you for the opportunity to come and testify today. My name is Hilton Segler. I retired after 40 years of growing pecans, Mr. Chairman, not *pe-kahns,* pecans. For the last 4 years, I have been President of the Georgia Pecan Growers Association. I am here today representing all of our pecan growers, not only in Georgia but the entire nation.

Most edible tree nuts are essentially a one state crop with almonds and pistachios and walnuts produced in California; filberts in Oregon and macadamia nuts in Hawaii. The pecan, on the other hand, is a multiple state crop, stretching across this country from the Southeast to the Southwest throughout some 15 states.

Pecans are a very healthy nut, containing over 19 vitamins and minerals and high in fiber. Pecans are also ranked number one in total antioxidant capacity. Antioxidants serve as armor for our bodies and pecans are loaded with them.

My written testimony will cover comments on several subjects—the Federal crop insurance, specialty crop block grant, Market Access Program, Conservation Stewardship Program and the School Lunch and After School Snack Program as well as the Breakfast Program.

I briefly want to touch on two subjects today, the U.S. Department of Agriculture's domestic feeding programs and the Market Access Program.

Pecans are a very old commodity in this country, but only recently has the industry seen just a glimpse of our future both domestically and in the world marketplace. Pecans are accepted in our school lunch, our after school snack and the breakfast programs. By the USDA's own analysis we are high in antioxidants.

Our industry does not have the organizational infrastructure as many of our agricultural friends here today. We have one full time staff person in the State of Georgia. No other state, to my knowledge, has a full time staff. In our meetings since the 2008 Farm Bill with Capitol Hill and the USDA, it was evident that decisions about what USDA commodities to be purchased by the schools were made at the state and the local levels. Despite the fact that pecans rank as a healthy food product, as an industry, we do not have the resources to educate our school nutrition officials about our product at the level necessary to participate in most of the school systems.

A great service that USDA could perform would be to work with the commodities to help educate the school officials about new research on healthy, nutritious products for these feeding programs, the availability of the product, the storage life and other important variables used by school nutrition programs to determine the food products that they purchase.

I do not see this as an expensive new Federal program. You have access to land-grant university extension services across this country. I ask that you consider as a part of your nutrition initiatives in the next farm bill, that you include funds for commodity groups to work with land-grants and other personnel to educate school nutrition officials about our products. This will assure that our kids receive the most nutritious products in the marketplace, and commodities that do not have the infrastructure to market their products to these institutions have the opportunity to do so. In November of 2009, our Pecan Growers Association did a school snack project in three Tift County elementary schools. Each school had 500 to 550 children. The project was funded by our growers. I have enclosed a DVD for your Committee and I encourage you to look at it at some time. It is only about 3 minutes long.

In the 2008 Farm Bill, the Congress included report language that excluded tree nuts from the Fresh Fruit and Vegetable Snack Program. We are a specialty crop. We do not have a farm program. We produce a healthy, nutritious nut. There is no reason we should not be included in this program. It is my understanding that trail mix was excluded because in the ingredients it had dried fruits and tree nuts. Please reconsider this policy as you draft the next farm bill and include pecans in the School Snack Program.

Members of the Committee, one of the major reasons the pecan market has been so strong in recent years is our export market. We have seen tremendous growth in China, over 300 percent increase and a lot of interest from other countries. As mentioned earlier, we do not have the money, nor the staff, to open offices or send sales teams to many of these places. This year is the first year that we are participating in the Market Access Program. It is not a large grant, but it is a start and we are very excited about it and the possibilities that it brings.

I cannot tell you how important this is for our industry. It is also important for our economy. As our producers grow more pecans, we hire more employees for our industry. Our growers shop locally. They buy equipment, agricultural products, they bank and do other business transactions, all locally. Our pecans are shipped out of our port here in Savannah. The MAP program is a big part of our future and we need you to protect and to grow it.

Thank you very much for allowing me to speak. And one other personal thing that I forgot to put in and I do want to say it. This Committee and the Senate Committee, as it refers to the 2008 Farm Bill, you gentlemen did a lot of good things. You do not need to take away from it. There are certain areas you need to tweak, but it is a good bill for our growers and we thank you a lot.

[The prepared statement of Mr. Segler follows:]

PREPARED STATEMENT OF HILTON R. SEGLER, PECAN PRODUCER, ALBANY, GA

Mr. Chairman and Members of the Committee: Thank you for the opportunity to testify today. My name is Hilton Segler. I retired after 40 years of growing pecans. For the last 4 years I have been President of the Georgia Pecan Growers Association. I am here today representing all of our pecan growers not only in Georgia but the entire nation.

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Pecans are a very healthy nut, containing over 19 vitamins and minerals and high in fiber. Pecans are also ranked #1 in total Antioxidant capacity. Antioxidants serve as armor for our bodies and pecans are loaded with them.

My written testimony will cover comments on several subjects;

1. Federal Crop Insurance.
2. Specialty Crop Block Grants.
3. Market Access Program (MAP).
4. Conservation Stewardship Program.
5. School Lunch/Afterschool Snack Program & Breakfast Program.

I briefly want to touch on two subjects today, the U.S. Department of Agriculture's domestic feeding programs and the Market Access Program.

Pecans are a very old commodity in this country but only recently has the industry seen just a glimpse of our future both domestically and in the world marketplace. Pecans are accepted in the school lunch, afterschool snack and breakfast programs. By USDA's own analysis we are high in antioxidants.

Our industry does not have the organizational infrastructure as many of our agricultural friends here today. We have one full-time staff person in the State of Georgia. No other states, to my knowledge, have a full-time staff. In our meetings since the 2008 Farm Bill with Capitol Hill and USDA, it was evident that decisions about what USDA commodities to be purchased were made at the state and local levels. Despite pecans rank as a healthy food product, as an industry, we do not have the resources to educate our school nutrition officials about our product at the level necessary to participate in most of the school systems.

A great service USDA could perform would be to work with commodities to help educate school officials about new research on healthy, nutritious products for these feeding programs, availability of the product, storage life and other important variables used by school nutrition programs to determine what food products they purchase.

I don't see this as an expensive, new Federal program. You have access to land-grant university extension services across the country. I ask that you consider as part of your nutrition initiatives in the next farm bill, which is the largest component of what you do, that you include funds for commodity groups to work with land-grants or other personnel to educate school nutrition officials about our products. This will assure our kids receive the most nutritious products in the marketplace and commodities that don't have the infrastructure to market their products to these institutions and opportunity to do so. In November of 2009 our Pecan Grower Association did a school snack project in all three Tift County Elementary Schools. Each school had 500–550 children. This project was funded with grower money. I have attached a DVD of the project for your Committee.

In the 2008 Farm Bill, the Congress included report language that excluded tree nuts from the Fresh Fruit and Vegetable Snack Program. We are a specialty crop. We don't have a farm program. We produce a healthy, nutritious nut. There is no reason we should not be included in this program. It is my understanding that trail mix would be excluded because it has dried fruit and tree nuts. Please reconsider this policy as you draft the next farm bill and include pecans in the School Snack Program.

One of the major reasons the pecan market has been so strong in recent years is exports. We have seen tremendous growth in China, over 300% increase and much interest from other countries. As mentioned earlier, we don't have money or staff to open offices or send sales teams to many of these places. This year is the first year we are participating in the Market Access Program (MAP). It is not a large grant but it's a start. We are very excited.

I can't tell you how important this is for our industry. It is also important for the economy. As our producers grow more pecans, we hire more employees for the industry. Our growers shop locally. They buy equipment, agricultural products, bank and other business transactions, all locally. Our pecans are shipped out of the port in Savannah, Georgia. The MAP program is a big part of our future and we need you to protect and help it grow.

Federal Crop Insurance

I chaired the committee that began in 1980, to get Congress to pass a bill that would enable the RMA to provide Federal crop insurance to our pecan growers. Not until 1998 did RMA allow us to have three pilot counties (Dougherty, Lee and Mitchell) in Georgia. In 2003, we were able to add seventy-nine additional counties in Georgia and in 2004 added two additional counties in Alabama (Baldwin & Mobile). Only in 2005 was a national program approved, twenty-five years after we started.

We must protect this product. The proposed cuts in the delivery reimbursement, by the Secretary are excessive and unrealistic. The success of the crop insurance program is many years of work and investment by both the public and private sectors. What was once a small regional program to insure a few crops against weather risks has grown into an insurance system that allows farmers to manage both weather and price risks. We must maintain a delivery reimbursement that creates new products to give farmers flexibility in addressing their risk management's needs.

Specialty Crop Block Grants

It is our hope that the Congress will continue to support the State Block Grants that were expanded in the 2008 Farm Bill. Georgia pecan producers believe this is one of the most important components to be considered in the 2012 Farm Bill. Our producers have operated successfully without farm programs, but marketing and agriculture research are critical to our success. Declining industry dollars due to labor and energy cost and other issues inhibit meeting our research and marketing needs for the future. State Block Grants provide additional resource opportunities to compete in the domestic and world marketplace.

Market Access Program (MAP)

As you know this program was created in the 1985 Farm Bill. The level of funding in the 2008 Farm Bill is $200 million annually and I want to encourage the Congress to maintain the funding at that level. The Market Access Program (MAP) is designed to create, maintain and expand existing markets to generate the greatest benefits for all producers.

Exports are projected to be $100 billion in TY10, up $2 billion from last year. Agriculture's trade surplus was $23 billion in FY09 and is projected to be about $23 billion in FY10 (Source: USDA). Agriculture is one of the few sectors of the American economy to enjoy a trade surplus, and without it the overall U.S. trade deficit would be even worse.

Every billion dollars of U.S. Agricultural exports supports 8,000 American jobs (Source: USDA) without the incentive of the MAP funding through this important cost-share program, it is highly unlikely that private funds could support the Agriculture export promotion effort.

Conservation Stewardship Program

The planting of clover and other cool season legumes in our pecan groves is a tremendous energy saving. The CSP program that was written into the 2008 Farm Bill gives the growers that opportunity. It increases the farmer's level of conservation practices, while maintaining existing conservation activities. It has come to my attention that in the past CSP efforts, landowners would sign-up on multiple farms under different FSA designations (*i.e.,* operators, owners, producer, *etc.*).

To address this matter, the new program indicated that only the "operator" can be the applicant. This is a new rule that applies only to the CSP program and does not apply to the EQIP, or other conservation program. If we can't work through this eligibility question it will affect over half of our farmers.

Look at the energy saving. We have about 150,000 acres of pecans in Georgia and about 125,000 acres are on a good management program. The clover would save the pecan grower about 100 pounds of "N" nitrogen each year. Ammonia Nitrate 33.5% has 670 pounds of "N" per ton. Each ton will treat 6.7 acres of pecans. On 125,000 acres of pecans that is 18,656 tons of Ammonia Nitrate or 37,312,000 million pounds of Nitrogen that is not dump on the ground. Think of the "Gas & Oil" it takes to make 37 million pounds of Ammonia Nitrate and this is just in Georgia. What a great energy saving to our nation with just a rule change.

School Lunch/Afterschool Snack Program & Breakfast Program

Our nation has come a long way since 1946 Richard Russell School Lunch Program was enacted by Congress. The success of the school program persuaded Congress to improve children's diets by adopting The Fresh Fruit & Vegetable Program.

We urge the Congress to include our Pecans, tree nuts, trail mix, dried fruits in the school lunch program. In the Dietary Guidelines for Americans, we are made aware that "nuts" are included.

Key Recommendations for Specific Population Groups:

Children and Adolescents: Keep total fat intake between 30 to 35 percent of calories for children 2 to 3 years of age and between 24 to 35 percent of calories for children and adolescents 4 to 18 years of age, with most fat coming from sources of polyunsaturated and monounsaturated fatty acids, such as fish, nuts and vegetable oils.

This *Dietary Guidelines for Americans* is not a mandatory program for our schools, but they are guidelines to help the schools understand what is best for children.

The CHAIRMAN. Thank you very much. Pecans, we have them. I am going to have one heck of a time getting the rest of the people in Minnesota to say pecans.

[Laughter.]

The CHAIRMAN. That will take a lot of work.

Mr. Williams, welcome to the Committee.

STATEMENT OF JAMES "RICKY" WILLIAMS, DAIRY PRODUCER, BAXLEY, GA; ACCOMPANIED BY SAM STONE

Mr. WILLIAMS. Mr. Chairman, honorable Members of the Committee, and Mr. Bishop, it is really good to be here where everybody can understand this proper English. It does not happen often for me.

[Laughter.]

Mr. WILLIAMS. First off, I would like to say that I am involved in dairy, milking of cows. I also have a milk hauling operation where we transport a lot of milk out of Georgia into Florida. But I farm too, and I listened here, I grow peanuts and I have cotton, I grow corn. A lot of times we fight amongst ourselves. You know, I was sitting here listening and thinking, and I can remember it seems like whoever does the best job of lobbying is who comes out the best in the farm bill. Well, maybe we will learn one day not to fight against ourselves.

A lot of us commended the 2008 Farm Bill. MILC is good, you know, it helped farmers. All of you know that and voted and approved $350 million last year to aid the dairy industry. When everything was said and done, we actually got 32¢ on production for a few months. Well, in south Georgia probably our price of milk then was around $18.00, $17.00–$18.00 a hundredweight. So 32¢ was minute, it was very little. But a starving man would give 50¢ for a pack of crackers and you are going to take it, it is good.

Well, I guess I am going to have to quit there.

[Due to Mr. Williams' illness, he required assistance.]

[The prepared statement of Mr. Williams follows:]

PREPARED STATEMENT OF JAMES "RICKY" WILLIAMS, DAIRY PRODUCER, BAXLEY, GA

Mr. Chairman, distinguished Members of the Committee, I appreciate the opportunity to testify before you today on the future of dairy policy. My name is Ricky Williams and I am a sixth-generation farmer, currently growing peanuts and corn on 900 cultivated acres. In 1993, my father and I began Williams Dairy where we currently milk 600 cows. Also, in 2005, I began hauling milk in the Southeast through Williams Dairy Trucking, which operates 40 trucks and 50 tankers. Besides my duties on the farm, the dairy, and in the trucking company, I also serve on the Southeast Area Council of Dairy Farmers of America, Inc. (DFA), as a delegate to the American Dairy Association of Georgia, and as a board member of the Southeast Dairy Cooperative Association. Additionally, I have recently been appointed to the U.S. Department of Agriculture's (USDA) Dairy Industry Advisory Committee (DIAC).

As this is the Committee's eighth farm bill hearing, you have no doubt heard from other dairy producers on the state of the dairy economy. You are well aware that the past 18 months have been very difficult for dairy producers across the nation. The depressed milk prices, brought on by a supply/demand imbalance, coupled with high input costs, a collapse of our financial structure and an international recession has led to an economic situation not witnessed for generations within the dairy industry. I know of no one in the dairy industry—not even the most efficient and best producers—who has not been dramatically impacted. In my role as a milk hauler, I know that for many producers in my region of the country, the economic strain has been too much to bear and they have left the business. Remember that for those of us in rural America, the "business" allows us the chance to raise our children and watch our grandchildren grow in small towns with big skies all across the nation. These children are who this nation will rely on to produce food in the future. As USDA Secretary Tom Vilsack testified to before this Committee on April 21 "rural America truly serves our [this nation's] backbone." He went on to say that the welfare of rural America . . . "is of vital importance to the success and well-being of all Americans." I could not agree more.

I want to thank Members of the Committee for acknowledging the severe distress dairy producers have been weathering and express appreciation for all your support over the last year. As always in dairy policy, it takes all of us working together to make a difference and make changes. With your help and insistence, the USDA used many tools available to them to bring some relief to dairy producers. USDA temporarily increased the support price through the Dairy Product Price Support Program (DPPSP) which resulted in increased purchase prices for cheese and nonfat dry milk (NFDM), while boosting farm-level income for dairy farmers. They reactivated the Dairy Export Incentive Program (DEIP) for the 2009–2010 year which resulted in the transfer of significant volumes of NFDM, butter and cheese to international customers. Additionally, USDA acknowledged the needs of those struggling to afford nutritious food for their families and transferred 200 million pounds of NFDM to Food and Nutrition Services for use in domestic feeding programs. Last, Congress passed an appropriations measure which contained $350 million in direct support to the dairy industry. On behalf of the 17,000 member-owners of DFA, I thank you.

Mr. Chairman, as you know, extreme volatility in the industry during the past 18 months has resulted in drastic swings in the price dairy farmers are paid for their milk and their costs of production. Recovery has come much slower than expected, and producers are low on equity and heavy with debt. Many of us in the producer community are facing increasing pressure from our lenders, who have, until now, been patient in waiting for the upswing in prices. They too have balance sheets to be concerned with, and their interest in continued lending to many in the dairy sector is starting to wane. Because of these factors, the situation for many dairy producers will surely get worse before it gets better.

In my opinion, going forward, it is important that the Committee identifies and develops policy that addresses the real concern of this nation's dairymen and women—extreme volatility. In the last decade, we have seen dramatic volatility in dairy prices and in our costs to produce milk. The upward spikes have been higher, the depressed prices have been lower, and the time in between has been shortened with little allowance for recovery. Current Federal dairy policy fails to provide an adequate safety net, is inflexible and provides few tools for producers to access in times of low prices or extreme volatility. We must identify the tools necessary to decrease and mitigate such extreme swings if we are to sustain a vibrant domestic dairy industry.

I have watched, with great interest, the policy development work within my own cooperative. As I mentioned earlier, I am member-owner of Dairy Farmers of America. In May of 2009, DFA began evaluating current dairy policy and considering future options. The following principles were used when developing DFA's policy concept and for the evaluation of proposals developed by others. New Federal dairy policy should:

- Be market oriented to allow for growth both domestically and globally.
- Be responsive to quickly changing market conditions.
- Have 100 percent financial participation by producers.
- Be global in nature to consider the impact of imports and exports.
- Be national in scope with the ability to implement regionally.

Following much consideration and with these principles in mind, DFA's Board of Directors adopted a growth management concept called the Dairy Growth Management Initiative (DGMI). DFA's primary goal with DGMI has been to identify policy that would reduce price volatility and provide additional tools to assist producers in times of low prices, including the ability to spur demand and enhance exports. As DGMI was shared with others to consider, it was used as an invitation for discussion in an effort to build consensus in the industry.

DFA, other dairy cooperatives and industry organizations like NMPF then began working together towards consensus for future national dairy policy that allows for growth in the industry while addressing price volatility. These efforts at collaboration are proving successful, and I am pleased to see that several of the DGMI concepts for addressing volatility are now being integrated in the proposal NMPF is developing.

At the inaugural DIAC meeting held April 13–15 in Washington, D.C., several organizations presented their ideas for future dairy policy to the Committee. NMPF, the International Dairy Foods Association, the National Farmers Union and the Milk Producers Council all spoke on policy proposals their organizations were developing. All the proposals had some merit and several addressed my main concern—the issue of extreme volatility.

The NMPF proposal was of particular interest as they are recommending several changes to national dairy policy, including:

- Revamping the DPPSP and Milk Income Loss Contract programs.
- Creating a program that sends a direct economic signal to each individual producer to manage production in a manner that allows the producer to remain in business while addressing supply/demand imbalances.
- Creating a new dairy producer gross margin insurance program that responds to milk price and feed cost.
- Reforming Federal Milk Marketing Orders.

Producers need several tools in order to meet their needs in an ever-changing marketplace. NMPF touched on several of those tools. I appreciated their presentation and will be very interested in learning more details as it is further developed, as will others on the DIAC.

I will note that DFA is supportive of NMPF's policy direction and they believe that the NMPF process will yield a unified proposal within the industry. Only through a unified industry proposal can we secure the necessary policy changes that will aid in the success and longevity of the U.S. dairy sector for years to come.

While the focus of this hearing is the development of the next farm bill, many of you are undoubtedly wondering about immediate steps that could be taken to assist dairy producers. I have personally contacted Secretary Vilsack about these actions, which I feel should be considered today to not only assist the dairy economy's recovery but also address the needs of the increasing numbers of those needing food assistance.

According to many economists, the fundamental reason that dairy prices have not recovered more quickly is our burdensome inventory of American-style cheese. While Congress authorized and USDA committed $60 million for cheese purchases last year, it simply was not enough. USDA has the tools available to them to move an additional 75 million pounds of American-style cheese for feeding and nutrition purposes. Moving these inventories would reduce excess supply and provide nutritious foods to those who are unable to afford them, a population that has been growing under the nation's financial crisis. By taking this action, USDA could provide dairy products for both domestic and international hunger relief efforts currently underway. This would directly benefit hungry families who continue to struggle with malnourishment and will provide additional support to America's dairy producers.

I believe USDA should focus on the increased need facing our nation's food banks. Mr. Dwain Forester, a DFA member and dairy producer from the State of Washington, has developed a milk voucher proposal that would provide milk and dairy products for those accessing local food banks around the country. Under Mr. Forester's plan, USDA would issue vouchers similar to those used in the Women, Infants and Children (WIC) program to be distributed through local food banks. The use of milk vouchers would enhance the food banks' ability to offer additional food and nutrition to their participants without requiring any new capital expenditures for refrigeration units or extra personnel to handle cases of milk. I believe that a milk voucher program has the direct ability to provide needy families with nutritious dairy products.

Additionally, USDA, under current authorities, can provide dairy products to those in need. USDA can purchase cheddar cheese and donate the cheese to food banks, food pantries and emergency feeding organizations across the nation that can accommodate the donation. These purchases can be made by:

- Utilizing Section 32 funds to purchase cheese and provide this cheese to the Emergency Food Assistance Program which can then donate to food banks and other eligible entities; and
- Utilizing authorities under Section 5 of the Commodity Credit Corporation Charter Act to support commodity prices and remove and dispose of surpluses by donating cheese to food banks and other eligible entities.

According to a 2008 report by USDA entitled "Household Food Security in the United States" my home State of Georgia has a 14.2 percent household food insecurity rate, ranking fourth worst in the country and above the national average of 12.2 percent. With the state of the economy, we know more and more families are finding it difficult to provide proper nutrition at the dinner table and are accessing food banks and similar entities for supplemental nutrition.

USDA programs such as the McGovern-Dole International Food and Child Nutrition Program has successfully channeled dairy products globally to those in need. In addition, measures such as the WIC, the Temporary Assistance for Needy Families, the American Recovery and Reinvestment Act, and the Summer Food Service Program have provided nutritious dairy products which can address hunger. Because of the success these programs have had in addressing hunger, I have urged USDA to expand their use to provide dairy products for humanitarian efforts both domestically and internationally. Addressing hunger and issues of malnutrition has lasting impacts, especially abroad. I urge the Committee to contact USDA regarding these proposed actions as well. As before, working together, we can secure positive action from the Administration.

On another issue of note, I employ nearly 15 employees on my farm and dairy, besides my family who are involved. Increasingly it is becoming more and more difficult for dairy producers to fulfill their labor needs. Currently, there exists no good visa program for the dairy sector to secure a legal and stable workforce. Several pieces of legislation currently pending before Congress address this gap in the system. I would ask Committee Members to lend their support to H.R. 2414, the Agricultural Job Opportunities, Benefits, and Security Act (AgJOBS), and H.R. 3744, the Dairy and Sheep H–2A Visa Enhancement Act of 2009, introduced by Representatives Howard Berman (CA) and Michael Arcuri (NY) respectively. Both bills allow the dairy industry to participate in the H–2A program which is currently used for seasonal agricultural needs. As you are well aware, the dairy industry "harvests" several times a day. We need quality employees to ensure that we can continue to do what we do best—produce quality milk to meet consumer demand.

Another issue that impacts my operation is truck weights on Federal highways. The current weight limit for trucks on the Federal highway system is 80,000 pounds. Increasing the size and weight limits of trucks will make the industry more efficient in its use of energy. As a hauler and dairy producer, this efficiency will go a long way to improving profitability and sustainability. Please support H.R. 1799, the Safe and Efficient Transportation Act of 2009, introduced by Representative Michael Michaud (ME). The bill would allow states to authorize an increase in their weight limits on interstate highways without sacrificing safety.

There are several other issues which Congress may choose to address which will impact the dairy sector—either positively or negatively. I appreciate the Committee's effort in ensuring the voice of agriculture is heard on climate change and other environmental legislation being developed. The dairy sector is currently struggling and the imposition of new regulatory requirements right now will surely push more out of the industry.

Thank you for allowing me to provide testimony before you today. I appreciate the Committee's work and timeline for farm bill policy development. I will note, however, that many dairy producers will not be able to hold on until the next farm bill, scheduled to be completed in 2012. If the dairy sector is able to achieve consensus sooner, I would urge the Committee to consider action.

Mr. Chairman, I appreciate all the Committee's efforts and look forward to working with you in the months to come.

The CHAIRMAN. You are fine. Ricky has been in the hospital, he is being a real trooper to even be here, his doctor did not want him to be up here. So Ricky, why don't you take a break in the back there.

Ricky is on the Secretary's Dairy Commission that had their first meeting a couple of weeks ago. The dairy industry has been through a real bad time to say the least. They are working hard to try and come up with a new policy that will work for the future, and try to get some of these ups and downs out of the system. I think you guys all suffer from that, it is maybe not quite as bad as the dairy industry.

I am going to recognize Mr. Bishop. He has some other commitments and we again very much appreciate him being with us today, joining us. We rely on him. In the farm bill, we have a lot of mandatory spending that we control, but a lot of it is authorized, and we rely on guys like Mr. Bishop to get the money to make those things happen in the end. So we put a lot of weight on you, Sanford.

You are recognized and we appreciate you being here.

Mr. BISHOP. Thank you very much, Mr. Chairman, and I appreciate you accommodating me.

A couple of things I would like to say. I listened to the testimony and I want to thank the panelists very much. You came from a district close by and we collaborate frequently, and I want to thank you for your testimony.

I want to take this opportunity to thank our Chairman, Chairman Peterson, for the yeoman's work that he did in protecting agriculture in the climate bill as it passed through the House. I heard mention of the EPA and how climate change legislation could impact specialty crops. And I want you to know that Chairman Peterson fought really long and hard to make sure that the version that came out of the House would keep EPA off the farm and how that could be controlled by USDA. And I think he deserves a great round of applause for that.

I want to also commend the peanut industry for its help in stepping forward with the Haiti relief. That is extremely important and it I think deserves a salutation and I certainly want to shout out that for you.

There are two things that I want to really ask this panel to talk about that I think are particularly important to southeastern agriculture, Georgia agriculture especially. And that has to do with the issue of payment limitations. Payment limitations, budget crunches, and what we are faced with fiscally, has become a real difficult political issue for us, particularly those of us who are not from the Southeast and who represent agriculture.

So could you share with the Committee and for the record why the southeastern agriculture is so uniquely concerned about the additional squeeze that payment limitations are putting, or could possibly put, on your ability to produce the agricultural products that you produce.

And the other thing that has to do with specifically peanuts, and that is peanut storage and handling. I would like for you to comment on that. I think several of you are involved in multiple crops. So if you would just comment on that, I think it might be helpful for the Committee.

Mr. MORRIS. Do you want to start with me?

The storage and handling is very important for the peanut farmer. Of course we appreciate in the 2002 Farm Bill that you worked through in minimizing cost to the government, and it is important that we have that to where we make peanuts available, for not only that, but to continue to have it at a price that works for our consumer in the storage and handling.

So we would like to say thank you for that. And not only that, it gives marketing opportunities for the farmer in the peanut industry.

And another thing is separate payment limitations, without that, with peanuts and cotton being the crops such as they are, it would be very unhandy for the southeastern farmer to be able to be under the limitations and particularly the restrictions that we are under today, and the reductions that has come about. We have been able to work with it this far, and it has worked very well in most cases for us as peanut and cotton producers in the state. So we kind of fall under, I reckon you would say, a little bit different circumstances than most other producers throughout the United States in peanuts and cotton in southeastern agriculture.

Mr. BELL. I would like to comment on that also. I am a peanut and cotton farmer mainly in Decatur County, which is probably, if not the number one ag county in the state, it is probably the number two. We are right above the Florida line, and we are mostly irrigated crop acres.

I think the payment limit situation is about right for us. I do not think it needs to be any tighter. Like on our farm, we grow corn, cotton and peanuts as our three main crops. We have a separate planter basically for each crop. Mostly corn is grown in 30 inch rows, cotton is grown in 36 inch rows and peanuts are grown in twin rows. You have to have a separate harvester for each one of these crops. You have to have a corn harvester for your corn, you have to have a cotton harvester for your cotton, you have to have a peanut harvester for your peanuts. And we need the payment limitation, we have to have multiple implements to operate our operations. And I do not think we need any change in the payment limitations.

And on the storage and handling situation, I feel that was a great asset for us as peanut farmers. I know it would be tough to put back in, but I am a peanut producer, like I said, in Decatur County and the 2002 Farm Bill made a lot of changes. It put peanuts under a marketing loan which enabled me and about 50 other growers to go into the peanut shelling business. We now operate a peanut sheller in Donalsonville, Georgia. We are the largest employer in Seminole County and the largest taxpayer in Seminole County. Without those changes to the market loan and the storage and handling, that business would not be in business today. It has further integrated a lot of producers, and there is also now another facility in Tifton that shells peanuts. So we are expanding and I think storage and handling is good, and I think the payment limits should remain as they are.

Mr. LEE. I operate a farming operation with my three sons, they are very much involved every day. Thank the Lord I had three sons because if I did not, I would have to come under payment limitations. I personally think this is very unfair to the row crops and southern agriculture. I mean as far as payments limitations that we struggle with. I also have a cotton gin. When you start looking at any given year of AGI and how convoluted it is, we as growers wind up paying CPAs and lawyers and everything to try to figure out how we can farm.

Today we have to be commercial size to afford equipment. Mr. Bell said a cotton picker costs over $300,000. A new cotton picker that we are going to have to run are over $500,000. I think the current program has to be corrected.

About 800–850 acres of cotton is about all we can grow and get payments and if you do not get the subsidies, we are in the red on every acre. It takes about 2,500 acres to justify one of those pickers. That is just an analogy that I wanted to throw out. And then you take away the separate limitation on peanuts that we talked about, we are pretty much dead in the water. It is a big issue. Thank you.

Mr. BISHOP. I have one other question and I just want you to think about it and help the Committee as we try to look forward towards the next farm bill. Tell us how we can deal with issues raised by the Brazilian-U.S. cotton dispute as we go into this new farm bill.

Mr. LEE. Well, I realize this is a big issue because it is far-reaching.

First of all, I do not think we know what they want as far as correcting the problem, number one. I am glad we did what we did to sort of put a temporary mandate on the problem. You know, I think we preserved about a billion dollars of U.S. exports, but the money that we are giving them cannot repay the farmers in the red.

I do not know if I am answering your question, but I want to start with that.

Mr. BISHOP. If you want to take some time and submit something for the record, that would be good, but I wanted to put the question out there because that is going to be an issue that will have to be dealt with as we go into that farm bill. And I know it is very, very vitally important to the American cotton industry, and we would like to have your input as we try to grapple with that.

The CHAIRMAN. Will the gentleman yield?

Mr. BISHOP. Yes, I will.

The CHAIRMAN. I had a meeting with the industry here about 2 weeks ago, the top folks in the cotton industry, and we discussed this. You know, the $147 million deal just kind of bought some time. We are in a 60 day window now where there is discussion going on with Brazil because we really do not know what they want. And maybe at the end of that 60 days, we might know. What I have been told, once we get a handle on this and we figure out what we have to do, where we have to head, then the industry is going to get together. They are going to have to try to figure out how we respond to it, and how we come up with a program that works for cotton. And hopefully we can get all that done in time for the next farm bill.

So that is kind of the plan that is on the table. But I think right now it is kind of premature until we get this next round of negotiations done. Am I right about that?

Mr. LEE. That is correct. And you know, one part of this affects all other commodities too.

The CHAIRMAN. Right. That was one of the reasons, Sanford, that I started having these hearings early, to start people thinking, about, obviously, with the dairy industry, what they have been through. They have come to the conclusion they have to make some changes in order to try to get something that is going to work for them. Cotton is probably going to be forced into it whether they like it or not. And it could affect the other programs.

So I have asked all the commodity groups to take a look at what we are doing. The bottom line—you know, this came up here today about the SURE Program is not working here. You know, we have the revenue program, some places it works, some places it did not. But we keep adding things on top of what we are doing, and I just think we are making this way too complicated. My goal is to try to simplify these programs, coordinate them so they work together better. You know, I would love to get to the day where we would not have to have an *ad hoc* disaster, where we have some kind of a way to make this thing fit together so that we have a program that addresses it. Maybe that is pie in the sky because every disaster is different.

But you know, that is where we are trying to get. And we want to work with you guys to make sure that we have a program that works and we maintain the industry.

By the way, these cotton pickers are made in my district in Vincent, Minnesota. I drove one that sold for over $500,000. It was quite a machine, but I do not envy anyone that has to buy one.

Mr. BISHOP. I thank you, Mr. Chairman, for allowing me the opportunity to share this hearing. I thank you for inviting key ag policymakers and people who actually work day to day in agriculture from our area and our state. I am sure that this information is very valuable and we just appreciate the opportunity.

The CHAIRMAN. Thank you, Mr. Bishop.

The gentleman from Virginia, Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman, and welcome to all of our producers on this panel.

I would like to switch the subject and ask if you would each comment to me about whether or not you looked at the impact that climate change legislation, or EPA regulation, might have on your operation and cost of production. And then as a second question, whether there are other EPA regulations or government regulations that are questionable, in your mind, as to the merit that they hold relative to the cost and ability of producers in your sector to be able to continue to produce good agricultural products competitively.

We will start with you, Mr. Segler, since I am pleased to be in Georgia where a pecan is a pecan.

Mr. SEGLER. We are pleased to have you, sir.

One of the problems that we, as growers, and we in the private sector have, when Congress passes a law and it moves from the intent of Congress to the Department to exercise it, it looks like it come from another country. The intent is just mixed up.

EPA is something that is hard to handle. We certainly, growing pecans, we have problems with them as well. We are a little bit different than some of the other specialty crops, vegetable crops with some of the regulations, but it is a problem and there are a lot of people that think the EPA should just be abolished.

[Laughter.]

Mr. GOODLATTE. And how about the climate change legislation? Are you for that?

Mr. SEGLER. You know, I have seen several versions of that, from one extreme to the other. Because of the impact that is going to come out, as far as the growers are concerned, I think it is going to have to be looked at pretty well. We, as far as our industry is concerned, we take a lot of carbon dioxide out of the atmosphere, our groves do. The winter clovers that we plant, the recycling of everything in the trees into the ground, we do a lot of soil building with organic matter. It is going to be agriculture that is going to take the carbon dioxide out of the atmosphere.

Now if some program can be initiated so that the good is not taken away from what the growers are contributing to, to the climate change, then I would certainly look at it from a favorable standpoint. But the increased cost—no, sir.

Mr. GOODLATTE. Well, the increased costs come about—the basic concept of the cap-and-trade legislation is that we are going to increase the cost of traditional sources of energy to make new sources of energy more competitive in the marketplace. And if you were operating in a vacuum, that might be a great thing to do, but the fact of the matter is due to competition all over the world, they are not going to do that, and they are going to not only grow your lunch, they are going to eat it too if you let them do that by raising the cost of oil and natural gas and electricity generated by coal. Even nuclear power, which is CO_2 gas emission free, is not favored in the legislation that passed the House of Representatives.

Mr. SEGLER. Let me share something with you, you can read it in my testimony, pertaining to the Conservation Stewardship Program. My understanding—and we worked extremely hard as Mr. Marshall and Mr. Scott knows, in trying to get pecans cleared to plant a legume, a winter legume, because of the terrific cost savings it would have, not only for our growers, but in energy itself. When you plant clovers in your pecan grove, it will generate about 100 pounds of N per acre. If you look at the cost savings there as far as the grower is concerned, it is going to contribute to probably about $100 an acre cost saving in the amount of nitrogen he has to plant. Now we have 150,000 acres of pecans in the State of Georgia.

Mr. GOODLATTE. What percentage of them are planting clover now?

Mr. SEGLER. Probably about ten percent.

Mr. GOODLATTE. Do you think that is growing?

Mr. SEGLER. It could grow but about 125,000 acres of it is under a good management program. We worked extremely hard to get clover planted in the CSP program. One of the provisions they have in there when it got to the USDA is that you have to be an operator in order to qualify. Well, we have a lot of pecan growers that are not classified as an operator at the FSA office. They may be a producer, they may be an owner, but because of an earlier program, they put some restrictions in there because of maybe some abuse, and so it is only classified as an operator.

Mr. GOODLATTE. Mr. Segler, I am going to have to cut you off because I have used my whole 5 minutes on you and I have five other people I would like to hear from on my one question.

Mr. SEGLER. Please read my comments.

Mr. GOODLATTE. Will do. Pass that to Mr. Morris.

Mr. MORRIS. Yes, sir. Anyway, EPA, EPD, we sometimes look at them as maybe being an adversity instead of an advantage to us, but they are great because there are conservation practices and things that we can implement on our farms to better our communities. And not only that, but to better the land for the future too.

Of course, I use conservation tillage, been using it since 1996. It is very important to me not to have erosion, with soil going down in the streams and polluting our natural resources. These type things are very important to me as we look at future generations and ways that we can improve the quality of life for all Americans.

You know, when we look at carbon credits, we look at renewable energy, and in one case we are trying to put the carbon credits back on the land and in the other case, we are gleaning from it to have renewable energy too. So you know, we might have a conflict in how we are trying to accomplish something, as far as renewable energy and the way that we are accomplishing it.

But all these things are important. I think as we look into the future there are a lot of things that we are going to have to develop.

Another thing that we use on our farm is we use water conservation, we use the energy in being able to convert diesel fuel to electric, so there are some other things that we in agriculture can do. So we have a lot of things to accomplish, and I would like to say— I would like to commend y'all in your efforts in conservation and also in the energy packages and things that has happened. So we very much appreciate that.

I am sorry to take so much time, but thank you.

Mr. GOODLATTE. Go ahead, Mr. Minor.

Mr. MINOR. Just a couple of quick comments on EPA issues. Buffer zones are going to be a big issue. We, in Georgia, just fought the buffer zones on fumigants. Now we are going to fight the buffer zones on herbicides. It is going to be every chemical they register. That takes money, it takes research, it takes extension and it is taking away from projects we ought to be working on, as opposed to defending ourselves against the EPA.

Mr. GOODLATTE. On that point, have you seen any indication that there is sound science behind the determinations that they are making with regard to what the buffer zone should be?

Mr. MINOR. No, we have not. In fact, we just got a notice that in Sumter County, Georgia where I reside, where I grow cotton, they have come in and said we cannot use an important herbicide to control resistant pigweed because of 10 year old water data where they found some contamination of water. So it is not even current data that they are using to make these determinations.

The other thing is the lack of any new products coming on. You know, EPA has made it so burdensome on the chemical companies getting stuff registered, they are not registering as many products for specialty crop producers, and that is costing us money.

Mr. GOODLATTE. Thank you. Mr. Lee.

Mr. LEE. I guess I would sum that up by saying I think I am a conservationist from the get-go. We are all farmers and we just are. I do not think we need EPA to be more restrictive. I echo what they are saying.

Mr. Chairman, I heard some California testimony where they are getting paid to upgrade equipment because of emissions.

The CHAIRMAN. Well, we did put something in the farm bill to help them with one of those things.

[Laughter.]

Mr. LEE. Along those lines, where did the old equipment go? Is the old equipment still running somewhere?

[Laughter.]

The CHAIRMAN. I do not know. I did not get into the details. It was one of those things we had to do to get the bill passed.

Mr. GOODLATTE. That is an excellent question from the panel, Mr. Lee.

[Laughter.]

Mr. LEE. As far as the other issue, from what little we know now, I am not in favor.

Mr. GOODLATTE. Very good. Mr. Duvall.

Mr. DUVALL. Climate change is a very serious issue all around the world, but for us saying we are going to solve all the world's problems, it is difficult to think that we can do that. We know we need to play our part. But the effects of input costs to our farms will be devastating. I grow chickens, you make LP gas price go up and it is very expensive when you try to keep chickens at 90° when it is 32° outside and the wind blowing and it is cold. We just cannot afford the cost increase in input costs. And from fuel for dryers that these guys have to use to heat chickens and whatever we are doing with fuel will be devastating.

The economists I have heard on American Farm Bureau level talked about how the climate change bill would shrink food agriculture. And I heard Congressman Marshall's question awhile ago are we talking between the tree growers and the food producers as to what we ought to be doing to make sure that we produce enough food for our people, because we heard the Dean talk about the demand for food in the future. Well, if it shrinks food agriculture by planting trees and grasses or whatever else you would encourage us to do, how are we going to feed the world? How would we even feed our own people? And that is a national security issue. So we are very much against the climate change, plus if there is a carbon trading system set up, and the one there is not very successful right now, but if it is set up and put into motion, what is going to keep it from derailing just like BCAP did? Will farmers end up with that money, or will it get on the world market and other countries or big companies dominate it?

So there are huge issues, we have huge concerns, we are not in favor of it.

Mr. GOODLATTE. Mr. Bell.

Mr. BELL. On the environmental issues, I think the farmers are the first environmentalists. I mean we drink bottled water, but we drink well water mostly. We go out and turn the irrigation system on, we drink the water out of that well just about every time we turn one on. We are using good practices now, and I do not think we need any more regulation.

On the climate change, I used to be in the hog business until the price of hogs forced me out of the hog business. The cap-and-trade from what I have seen on that would devastate the livestock producer, the hog producer and the cattle producer also on limiting how many cattle you could have on acres, the emissions and whatnot. And I use a lot of propane gas drying peanuts and have dried corn with propane, and there is a lot of propane used in south Georgia and we do not need to further increase any of our cost of our inputs. So I would think most farmers in our area are against the climate change.

Mr. GOODLATTE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Chairman, I wanted to ask, this has been such a good panel, if Mr. Stone maybe could come forward.

The CHAIRMAN. Yes. Ricky was—we should not have even had him come here. He had two spinal taps yesterday to try to figure out what was going on. We are going to have Sam Stone, who we all know very well because Mr. Scott had some questions about dairy. So welcome to the Committee, Sam.

Mr. SCOTT. And certainly, Sam, we want you to pass our regards on to Mr. Williams. We are very appreciative that he came, given his condition and the fact that he did come, we all wish him the very best.

Chairman Peterson asked my Subcommittee to really look into dairy and we did that, we had six hearings in Washington and we have gone around the country, we were up in Pennsylvania. So we know the very serious problems that the dairy industry is facing. So we certainly wanted to get some input on the record here.

I wanted to ask you if you would care to comment on just how you feel we are doing, in terms of the Federal Government, in responding to the very pressing concerns facing the dairy industry. What are we doing right, what tools do we need to continue and as we look forward to this farm bill, how can we use the farm bill to really, really give the dairy farmers some big help.

Mr. STONE. Well, thank you, Mr. Chairman.

Producers, as you know, suffered greatly in 2009 and went through record low prices. I would say it has been probably 40 years since we had that kind of difference between the milk price and the input costs. The Department has done some things for us. At that time, earlier this year, there was 200 million pounds of powder in CCC storage and that was donated to nutrition programs, and some of it was donated to McGovern-Dole to ship to needy folks overseas. The Congress also approved—in my years around, this was pretty unprecedented—$350 million for dairy farmers, $60 million of that went to cheese purchases and the other $290 million went to direct payments to farmers. In looking back, probably more of that should have went to cheese purchases. Milk price is based off of the cheese price, so that would have been very helpful.

There is discussion within the industry among quite a number of dairy groups including our trade association, National Milk Producers Federation, and Dairy Farmers of America and several other co-ops and dairy herd associations. The gist of that effort is—we have met many times and we continue to meet. Our effort is to come to a unified position. We realize and we have experienced this in the past, that if we all come with differing ideas, nothing happens. So we will continue to work on that.

As far as immediate help, it would be helpful if some more cheese purchases were made. Currently the government owns no cheese. And the reason for that is price support is very low, it equates to \$9.90 a hundredweight. That is far below the production cost of milk. So cheese purchases would help.

There has also been discussions with the appropriators about the possibility of—we are getting indications from food banks that they would be interested in a milk voucher program which the WIC program currently has. They are saying they have a good demand for that, particularly we are hearing that from food banks, the Feeding America folks on the West Coast. They could use additional cheese also.

Mr. SCOTT. There seems to have been, from our hearings, we picked up that there seems to be a need for some sort of supply management mechanism in the United States to balance supply and demand. Would you care to comment on that and tell us how that would look in your mind?

Mr. STONE. Yes. There are several proposals out there, and basically it is an effort to equate the supply with demand. What happened recently, we had a great price in 2007 brought about by droughts in New Zealand and Australia, and also the low value of the dollar. So exports really escalated. The price went up correspondingly and U.S. production went up. Then with the financial global crisis, the price tumbled rather rapidly and so we had an over-supply. So we need a mechanism where we can get the volatility out of the dairy price works. Supply management would do that. You probably would have to do it on maybe a regional basis, rather than nationwide, in that some regions are deficit. For example, in the Southeast not enough milk is produced in this area to provide milk for all the consumers.

Mr. SCOTT. Okay, thank you. Real quick, my time has run out, but I wanted to really get the dairy point. Thank you, Sam, for that.

There is nothing I like better than a peanut butter and jelly sandwich followed by a nice cool glass of milk. That is just great. We want to keep both of those things flowing.

I want to ask you, you made a statement, Mr. Morris, in your testimony. You indicated that the peanut variable costs have risen 52 percent since 2002. How does that compare with other crops that you grow? Just give us some comparison of how impactful that is in the peanut industry.

Mr. MORRIS. Very much so in the other crops also. The reason being is when you look at the 2002 Farm Bill, we were buying fuel for less than 75¢ a gallon. Today we are somewhere between—around \$2.75, from \$2.60 to \$2.75 per gallon. And that is off-road fuel. On-road fuel is around \$3.00 or a little over \$3.00 a gallon now. Fertilizer prices were like \$175.00 per ton, nitrogen was somewhere in the range of \$160.00 to \$175.00. So you can see, today, nitrogen is toward \$250.00–\$300.00 per ton, 32 percent nitrogen that we put on corn and cotton. Just yesterday, wholesale, nothing but raw material, potash, was \$435.00 per ton. And when the fertilizer place blends fertilizer, adds a little bit of nitrogen and phosphorous to it, then the fertilizer ranges—10–20–30% for instance is running about \$465.00 to \$485.00 per ton. So you can see that it is a 100 percent increase in fertilizer cost basically.

Cottonseed, for instance, to give you an example of that, back in 2002, we had probably a \$200.00 bag of cottonseed. Today, BP&L

is charging, with the tech fees, $562.00 per bag. Peanut seed was 46¢ to 48¢ per pound. Today, it is from 75¢ to 82¢ or 83¢ per pound. So that gives you examples of what kind of fuel changes and what has happened here. And of course the other taxes that we have to pay on employees has risen also.

So that gives you an example of why we are talking about 52 percent.

Mr. SCOTT. All right, thank you.

Mr. MORRIS. Like loan prices on peanuts, for instance, are too low and cotton prices, corn, all of it is too low. And gentlemen, somehow we will not be able to survive. It is not that we are looking for profits, we just want to catch up.

Mr. SCOTT. Okay, thank you.

And finally, Mr. Duvall, you really struck a chord with me because I agree with you 100 percent. We have a real national security problem in the fact of our inability or failure—could be failure—to get more of our young people to go into farming. And I wanted to just ask, as we approach this farm bill, how would you recommend, what are some steps you think we could do with the farm bill coming up to help in that area? Specifically, I have a bill that we put in, we had a shortage of legal people going into public defending work, into that side of it, and so we put a bill in that we would write off their student loans. Would such a thing as that be enticing, not just scholarships but maybe writing off student loans, developing internships—you all know your business far better than we do or certainly me. What would you suggest we could do with this upcoming farm bill to put a greater spotlight on the need to get our young people to go into farming?

Mr. DUVALL. Well, when you take the young person, I have four children. I happen to have two in Washington. If you see another kid that looks kind of like a Duvall, he is probably mine. You know, young people look for something that they can do for a career, and how stable is it going to be. And for a young person to go out there and buy that $500,000 cotton picker, buy the $3,000–$4,000 acre land, get into the crop insurance program and have to start with—and you explained it much better, Mr. Bell, than I did, t-yield instead of the yields that we had years to develop. It puts them at a huge disadvantage. But the farm bill could very well—if we find the right way, we could make it a stable way for young people to be able to go back and see that for 10 years I know I am going to be able to do this and make a living or try to make a living and cover my costs.

The American people reap the benefits of the farm bill because it keeps our food cheap. And that is just a fact. But we are almost at a crisis of getting young people to go back to the farm. Now the Dean tells me that there are more agricultural jobs available than we have students coming out of ag school—I think I said that right. But a lot of them are not on the dirt, or behind the cows, or in the chicken houses. We have to make it more stable for them. We have to make it an industry that the American people look up to again, and we have to make them understand that it is a national security issue.

I know Congressman Marshall has heard me be passionate about agriculture, but if we just think oil brought us to our knees, what would we do if we had to depend on other countries to feed us? The work that you do on this Committee is probably the most important work that is going to be done in Washington. We are talking about feeding our people, our children, our army. And without it, we are not a country, we will be dependent on somebody else in this world, and we cannot afford for that to happen.

So we are at a crisis, we will be glad to look at some areas and try to make some recommendations, but we do have to find a way to get these young people back out on the farm.

Mr. SCOTT. Thank you, sir. Well stated.

Mr. BELL. Mr. Scott, can I just respond on that, please?

What Mr. Duvall was talking about on the crop insurance issue, a lot of the younger people going into farming may work at the farm supply place and have 30 or 50 or 100 acres he rents. So when he goes to get crop insurance on those crops, he is severely penalized because he does not have any production history. The transitional yields like in our county, irrigated corn is like 120 bushels. Well, that is pretty low and the banks more than likely are not going to loan him any money on that low of a yield. And on cotton, I think it is as low as 600 pounds. Well, if you take 600 pounds and take 70 percent coverage, that is 420 pounds. He is severely handicapped. The producer that has been in business that can prove a yield over a period of time, his insurance coverage is okay. A young farmer, starting out, he is severely handicapped because of the yield he is given because he does not have any production history to back that up.

Mr. DUVALL. Can I follow up? I talked a little bit about concentration and consolidation of companies. You look at that cottonseed he just talked about. The cottonseed probably cost $130.00, the rest of it is tech fees. We pay twice as much for that tech fee in Georgia as they do in Texas. And we have questioned the companies about it. It is their pricing scheme, but we do not agree with it.

There are other issues——

Mr. SCOTT. Did you say tech fees?

Mr. DUVALL. Technology fees. So you are paying $650.00 for a bag of cottonseed and you are paying $500.00 of it for technology fees. And we are paying more for it in the State of Georgia than anywhere else in the country.

I have two employees that work for Farm Bureau that are here today. One of them is very proud that his son graduated from medical school, going to be a doctor. The other one is just as proud because his son is fixing to plant his first crop. I mean both of those are exciting things, and we need to have a farm policy that has that kid wanting to plant that first crop. This way he has a chance to make a living in this country, and supply food for our people for an extended period of time. Because if he makes those initial investments, we have to stand behind him.

The CHAIRMAN. Do you mind if I weigh in?

Mr. ROGERS. No, go ahead.

The CHAIRMAN. You know, what you just said is exactly one of my main motivations in trying to get people to look at this situation.

We are not going to have any more money for this farm bill. We are going to have less money probably. And you are right, we have to fix this system, crop insurance so that these young people have enough money behind them to go to the bank and get this loan. That is the biggest problem there is. And we do not have that system.

So, okay, how are we going to get that? Well, probably the only way we are going to get it is if the rest of us give up something so these people can have the assistance so they can get in. We are going to have to change some of this stuff to do this. And it is not going to be easy and people are not going to want to do this. But that is one of the reasons I am starting early because we need to talk about this. In Minnesota the average age is 58, probably that same age here in Georgia. So these are things we have to look at because I have all kinds of young guys that want to farm. But, if they do not have the crop insurance, and enough assistance so that they can collateralize that loan, they cannot do it.

Mr. DUVALL. The challenge is that the country is so regionalized and a program that is going to work here will not work in your part of the country.

The CHAIRMAN. As I said yesterday in a hearing in Washington, maybe it is time that we are going to have different programs for different areas or different crops. You know, we have to think out of the box here. But the bottom line is we have to make this work. That is what it boils down to, and that is why I am challenging people over the next year, to think outside the box and look at the money we are spending. Are we spending that the best way, the most efficient way, or can we get a better result doing things a little bit different and making things more coordinated, more simple? That is where I am coming from. I think we all agree on what we are trying to accomplish, we just have to figure out how to do it.

Mr. DUVALL. Those government regulations that have to do with——

The CHAIRMAN. If we were in charge of EPA, you would not have a problem, I guarantee you.

[Laughter.]

Mr. DUVALL. This business about dairy cows just drives me crazy.

The CHAIRMAN. Drives a lot of us crazy too.

The gentleman from Alabama, Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

I want to go right back to what we were just talking about, this crop insurance. I am a recovering attorney, so I want you to make this simple for me.

[Laughter.]

Mr. ROGERS. What can we do to fix the crop insurance problem for you? Mr. Bell, Mr. Duvall, either one, in a nutshell.

Mr. BELL. On what crop insurance, the new farmer, beginning farmer?

Mr. ROGERS. The new farmer.

Mr. BELL. I do not know. How this came up with me, a young guy was working at a farm supply dealer there in town and his dad owned a little farm. He started farming it and we were talking one day about crop insurance yields. And I told him mine was 1,000 pounds or 900 and he said well I had to take 600 because I did not have any history, he had no history. But there has to be a way to get that new producer some history better than the t-yield that he is given by crop insurance for that county. Now I do not know how you do that, but you have to—whether he has to work for a farmer for a year and have some experience or what. He is penalized and he cannot get—I have history because I came in and I was farming, my dad was farming.

Mr. ROGERS. Let us get to you now, what needs to be done to make it more practical for you? Let us shift away from the new farmer and go to you.

Mr. BELL. Regular crop insurance? Well, what is happening with crop insurance, it is getting more costly every year. The cost is just going up and up.

Mr. ROGERS. It has to be modified to make it practical for you. What you are telling me is what I hear from my farmers.

Mr. BELL. Well, what is happening is we have X amount of dollars that we can really afford to pay for crop insurance, and if you buy revenue coverage, which is what I buy on corn and cotton, if the price of cotton is 70¢, well my premium is going to be a lot higher. It may have just gone up from $26.00 to $46.00 because you are guaranteed more revenue. Well, my premium, like I said, went up from $20,000+ to $40,000+. And you know, we cannot handle these big swings in the crop insurance cost every year. But I really do not know how to fix it, but the escalating cost just keeps going up, keeps going up every year. What is happening is we are taking less coverage. Say we may have bought 70 percent this year, next year we will buy 65 percent, which puts us at more risk really for storm or whatever. But it is a complex issue and I do not know how you fix it, but it is getting less desirable. But the revenue coverages are helping, but they are really expensive. If you go to 85 percent coverage, the cost could be as much as $65.00–$70.00 per acre on a crop that is going to bring back $450.00 or $500.00, it is just simply not——

Mr. ROGERS. You heard the Chairman say he was looking for some creative out-of-the-box solutions because he is right, when you were answering he stated this to me before he left, it is going to take money. As he already told you, we are going to have less money for this farm bill. So we really would like for y'all to kind of be thinking about some creative modifications that we can make that would make it more practical for you.

I want to shift now—tell me about how tighter credit standards are affecting you, if they are affecting you. Mr. Lee talked about equipment cost and Mr. Minor talked about input costs, as well as Mr. Morris. Have you seen tighter credit standards—I know they are affecting every small business person in my district; are they affecting y'all, and how?

Mr. LEE. Mainly how the banks are being scrutinized, I think is just the problems that have been caused by other industries.

Mr. ROGERS. Now are you dealing with regular commercial banks?

Mr. LEE. Yes.

Mr. ROGERS. Who do you deal with, commercial banks or farm credit?

Mr. LEE. Commercial bank.

Mr. ROGERS. Okay.

Mr. LEE. An Alabama bank.

Mr. ROGERS. There you go. I like you already.

[Laughter.]

Mr. LEE. I think they, in my situation, look at everything a lot harder.

Mr. ROGERS. So they have not changed very much the way they are profiling your loans?

Mr. LEE. Well, I guess I said they are, but I have not had the kind of problems that maybe some other industries have. And along those lines, let me say this is one time even though we have a hard time with cash flow and making ends meet and all that, but from that standpoint, I am glad I am in agriculture because I have a lot of friends in other businesses that were doing really, really well——

Mr. ROGERS. And they are hurting now.

Mr. LEE.—and some of them are gone.

Mr. ROGERS. Quick comment from anybody else about credit standards?

Mr. MINOR. I will just mention a couple of things. We work with a Minnesota bank and we are pretty large cotton and peanut growers too. The new word that has come up from them, and I have heard it from other people too, is working capital. They are looking for 15 to 20 percent working capital. And if you are a large operation, I mean most people will not have $1 million laying around. So that has become a big issue.

They have changed the way they look at these ag loans and I think 2010 was probably the toughest year we have ever seen as far as getting ag loans.

Mr. ROGERS. What would that percentage have been 5, 10 years ago?

Mr. MINOR. What percentage? I think it is a new category. I think it was there, but I do not think they have been looking at it like they are now. They have jumped on a bandwagon and it is like ag lenders have gotten spooked in the last year. We thought they were going to be spooked in 2009, they did not become spooked until 2010. I guess looking at what some of the other industries did, it scared them. But I do not know what 2011 is going to be like, I hope it will be better than 2010, but 2010 has been tough.

Mr. ROGERS. Thank you, Mr. Chairman.

Mr. LEE. Can I make another comment? I do not know about everybody, but I think generally a banker will loan, I will just say 60, 65 percent of what you think your growth revenue would be in a crop, that includes farm payment, going back to the farm loan, I mean the market loan. All those things are very, very important if you would just remember that, because for cotton, when cotton prices were below loan or at loan, my banker was still able to use, tell me, in your total cotton revenue, you need to use 59¢, 60¢. If it were not for the market loan and payment subsidies, we could not do it.

Mr. ROGERS. Thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from Georgia, Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman.

I want to thank all of you for coming. I mean this is for all of you a pretty busy season and you have come a long way. It was not because you were anxious to get to Atlanta for the night, and you are going to have a long way to go home.

And Zippy, I was happy to see you listed as coming from Macon now. You corrected that, but for a moment there I was hopeful.

Mr. DUVALL. I am part one place and part the other.

Mr. MARSHALL. Thank you all for coming as far as you have, we appreciate that.

Mr. Rogers mentioned credit and got a few responses from you and I would just say, Mike, you probably experienced the same thing. A lot of farmers will talk to me, small business folks too, they are all having problems accessing credit. Most of them do not have Minnesota banks they can go to, Mr. Minor, they are just not as big as you are. And there are an awful lot of Georgia banks that are struggling right now that these farmers have been depending upon. The regulators are saying do not take real estate as collateral, it scares us. So a lot of these banks are trying to dump their real estate collateral, and that is a pretty important piece of collateral for any small business, particularly for farmers. So it is pretty tough right now for an awful lot of smaller farmers.

You know, I was interested in the conversation about climate change. I have been reading a fair amount about this, but I do not claim any kind of expertise, most of us cannot possibly be experts in this area. But it just seems to me that more and more people are saying yes, it is occurring. And if you are traditionally conservative, as I am, you get to a point where I am not the expert here, I guess I am going to have to go with what these experts say, that it is occurring. Now the question is what should we do about it. You kind of lose your credibility to say it is not occurring, that we are against climate change. I mean, yes, I would like to return to Eden, too. The question is what should we do about it, and there are a whole range of proposals out there, some of which are a lot more expensive than others. And so I think we need to move to a point where we are looking at what is being proposed, what the likely risk is and do the dollars and cents make sense. That is where we ought to be focusing our argument and discussion right now.

Some of the proposals that are out there, for example, might be a $1,000 solution to a $10.00 problem. And that is what we need to be focused on, instead of just saying there isn't a problem, because it loses its credibility among conservatives to say there is just no problem.

So my question has to do with broadband. Do y'all use it, is it important? Think about it from the perspective of some of the smaller farmers and more rural communities and tell us what we ought to be doing where that is concerned. How do you use it in your operations, how do you think others use it and is it important to your labor, to the people who work for you, *et cetera*.

Mr. BELL. We still have dial-up where I am from, but we are getting broadband with some SPLOST money that our county has kicked in and we are getting it in the near future, but as of now it handicaps us without having it. But you know, you can get it through the cellphone companies or whatever, but just the average person that lives in the county, as I do, he is not able to get it right now in a lot of counties.

Mr. MARSHALL. How do you think it handicaps you?

Mr. BELL. Well, I mean it is just so slow. You know, you sit down on the computer and it takes you an hour to look up something or do something that, if you had high speed, you would have access. At this time, it is a time factor.

Mr. DUVALL. Congressman Marshall, we just talked about young people. My children sit in my living room with a cellphone, laptop, TV going and Facebooking at the same time. You ask a child coming out of college now to go back to an area of Georgia that does not have broadband, he will be severely handicapped. He will not be able to compete on the world market.

Mr. LEE. I am lucky where I am, I am in a very small community, but we have DSL and we are in good shape. I go 10 miles up the road, Mr. Marshall, toward Americus in our county, Sumter County, I do not have Internet.

Mr. MARSHALL. Are you saying Mr. Minor is in the dark ages? [Laughter.]

Mr. LEE. The point I am trying to make is just a few miles down the road, you do not have service and that is what you are saying with broadband. With a lot of technology controls and even security systems, I would like to put a security system on that farm when I do not have anybody there, to watch what is going on. I cannot do it.

Mr. MINOR. In Americus where I reside, we do have high speed, but out in the country you get in areas where you do not have it. And it is a vital part of our business, we are using it for e-mail, we are using it for communication, we are shipping payroll over it, we are getting information over it. You cannot prepare for this hearing without it. So yes, it is very important. And like Zippy said, young people are not going to live without it.

Mr. MORRIS. In our community, we do pretty well, but we have a lot of areas in south Georgia, rural south Georgia, and of course the smaller counties down there that we do not have it and it inconveniences the rest of us there. And not only that, in our part of the state down there, we have a lot of areas that we do not have good cellphone coverage either. So we are lacking in communications and I realize that is a challenge to get that completed, but we would appreciate any efforts that could be done in that area.

Mr. MARSHALL. I guess when we get to Hilton here, he is going to ask what broadband and cellphones are.

[Laughter.]

Mr. SEGLER. Mr. Marshall, I was going to ask who you could send to operate the darn thing. Wives and children do it. We have pecans grown commercially from Augusta to Macon to Columbus south all the way across to Montgomery and down. The larger cities have access, the rurals do not. We grow pecans everywhere they farm, so it would be a tremendous help I am sure.

Mr. MARSHALL. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Nebraska, Mr. Smith.

Mr. SMITH. Thank you all for being here.

On the cap-and-trade, climate change and various efforts underway, I heard a little bit earlier perhaps about the fact that agriculture does reduce carbon in the atmosphere. There really is not a reasonable provision in the cap-and-trade bill to reimburse for capturing that carbon. Is that the general consensus in the cap-and-trade bill to your knowledge? So if there were compensation in there so you could recoup the higher energy costs, higher input costs across the board that would effectively right any increase in food costs for consumers in addition to higher energy costs for consumers, is that an acceptable situation?

Mr. Lee.

Mr. LEE. That got complicated then. I do not think it would. I think the bottom line is everybody is going to pay the price, and we are going to be the first ones to pay the price I think.

Mr. SMITH. Do you feel the impact of climate change in your production?

Mr. LEE. At this time, I do not think I do.

Mr. SMITH. Anyone else?

[No response.]

Mr. SMITH. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Pennsylvania.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Segler, you talked about the MAP program, the Market Access Program, a little bit there, pointing out some really great outcomes in terms of both the increase in the amount of trade, and the trade surplus that agriculture has and we need to grow that.

There are three trade agreements lingering in Washington. One with Colombia, one with South Korea, and one with Panama. I just wanted to see would those help or hurt? Is this another opportunity to expand that trade surplus?

Mr. SEGLER. No question about it. That part of the Caribbean and South America, any time you get increases in trade closer to us, it opens a lot of doors. We have sent groups to Cuba for a number of years, I think that is an excellent opportunity for Georgia, and I think it is an excellent opportunity for the Southeast. It is also a safety net for the United States to have a different relationship there. So any time we can open up trade agreements, it certainly helps us.

Mr. THOMPSON. Great. Well, I certainly agree. That is something we can do immediately, and that helps us get access to more of those seven to ten billion stomachs out there.

Mr. Minor, you talked in your testimony about the EPA zero tolerance spray regulation. Is that realistic, that compliance? What is the impact, what do you see as the impact of that on your industry?

Mr. MINOR. I think what you are talking about is the EPA's buffer zone restrictions?

Mr. THOMPSON. The overspray.

Mr. MINOR. What I was talking about is where EPA has come in and said there has to be a certain amount of buffer zones between residential structures, between roads, between churches. As people have moved out to the country more and more, we have smaller and smaller fields with people living around. If we had looked at the impact it would have had on methyl bromine use, one of our largest vegetable counties would have had very little area that could have actually been planted. And as we now look at application of herbicides and pesticides where they are looking at new buffer restrictions, you are going to take a lot of farmland out around any house, any road, any public areas, like schools. It is going to make a major impact on where we can and cannot farm.

Mr. THOMPSON. Thank you.

Mr. Lee, in your testimony, you complained—you noted about USDA's unilateral decision to exclude commercial size farming operations, and I just wanted to see if you would elaborate a little bit on your concern about USDA's attack on production agriculture.

Mr. LEE. I guess what I was saying, I do not know exactly what I said, but commercial size—I think the farm bill should allow commercial size farming operations. If you tell me I cannot be a certain size, I cannot be large enough to afford the equipment and be viable, it does not work. I really think that is unfair as far as—you have to be in the economies of scale, or you cannot farm today. It is a problem with young farmers coming back to the farm. It is hard for them to come back and start off with 200 acres. First of all they cannot make a living. I would say today in our area, that most farms that are under 1,000 acres or under 500 or 600 acres, that number is probably low, they either inherited land or either their wife has a real good job or something. They are not living off of that farming operation. I think we have to realize that. And it goes back to what the Chairman said, what is a farm, what is the size of a farm. I think young fellows can understand that. I have a family farm, myself, three grown sons, a nephew. And it is a family farm, but if somebody looks at our acres and we are farming between 6,000 and 7,000 acres, if somebody wants to tell me that is too big, I do not know how to get smaller.

I do not know whether I answered your question, but that is the way I see it.

Mr. THOMPSON. I appreciate that.

Mr. Duvall, legislation has been proposed to ban or to limit antibiotics with production livestock, and I just wanted to get a real quick thought from you, what do you see the impact of that is in terms of meeting the food needs and also on profitability?

Mr. DUVALL. Sure. You know, the antibiotics we use today, I mean they are very important to our production. You do not want to treat an animal after they are sick. You want to be a little bit preventive. And then when they are sick, you want to have the antibiotics to be able to treat them with. The American people want us to be kind to our animals, but we cannot be kind to our animals if we do not have the tools to do it with. You know, the worse thing in the world is to have a sick animal and not be able to help it. I think it would be devastating to animal production all over this country, it would be devastating to integrators that have contracts with us to not be able to take care of their flocks or their herds of hogs. We need to relook at that and make sure that the tools are available to farmers and companies to be able to not only treat animals after they are sick, but to have preventive treatment.

There is no sound science to say that that is changing our immunities to antibiotics in humans. We cannot find the sound science.

Mr. THOMPSON. Thank you all.

Mr. Morris.

Mr. MORRIS. We have a study there in my testimony that would show the competitiveness, peanut competitiveness for peanuts and showing profitability of farmland. I think there are like 20 studies or thereabout that were done by Dr. Stanley Fletcher from the University of Georgia, and he can help to shed some light on what it would take to be profitable and whether there is profit. But most all those farms are in the red except one or two. I think maybe there is one that is in the green, and maybe the rest of them may be in the yellow, but that would help you to have an understanding of the studies that have been done. Those studies are from Texas all the way through Virginia on those different farms. So that would help to shed some light and help to have some information about profitability in farming.

Mr. THOMPSON. Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

You know, we have a lot of expertise on the Agriculture Committee, but I will guarantee you one thing, we have no idea what the right size farm is or how big it should be, we have no idea. And I am for any kind of farm that makes economic sense. If you can make it on 100 acres, God bless you. Whatever it takes to make it work, I am for it. And we should not be monkeying around trying to decide how big a farm should be, in my opinion.

One other thing: What I intend to do this year is to reauthorize the mandatory price reporting system. Mr. Morris, I was wondering if—you know, there has been interest in getting crop insurance for peanuts, but one of the things that is a challenge apparently is we need a better ability to get pricing information than we currently have. Is the peanut industry ready to be part of mandatory price reporting structure, so that we can get that information to help develop a crop insurance system? Do you know the answer to that?

Mr. MORRIS. No, sir, I do not really know the answer to that because a lot of the prices in the shelled goods——

The CHAIRMAN. Use a microphone.

Mr. MORRIS. So far as the shelled goods and the peanuts that are ready for the manufacturing or usage to get into the food chain, is controlled primarily by the shellers. But also we have talked to the shellers about it, and the shellers say we can give price updates each week on the market. Another thing too is we are not using the world market price at all on peanuts. So there are some ways that we think we can implement good information for the USDA.

The CHAIRMAN. Okay. I guess the question is are you willing to work with us this summer to see if there is a way to do this?

Mr. MORRIS. Very much so, very much so.

The CHAIRMAN. We would like to help you develop a workable crop insurance system.

Mr. MORRIS. Thank you. I think it is going to take the House or the Agriculture Committees of the House and Senate to implement some kind of program that would really work for the peanut farmer.

The CHAIRMAN. Right.

Mr. MORRIS. The way it has been, turning it over to USDA is just not working for us.

The CHAIRMAN. No, I understand. So we will be in contact and we will have to get to work on that.

At one time the industry was against doing this, 5 years ago, but apparently there has been a little bit of change.

Mr. MORRIS. There needs to be some kind of change, a mechanism that will work.

The CHAIRMAN. Okay. All right, thank you all very much. I want to thank the witnesses, you guys have done a great job with your testimony and answering questions.

We are going to have some time now. We will probably not start marking the bill up until this time next year, so we have a year to try to figure out some of this stuff. We look forward to working with you over that period of time. We have a good farm bill that we passed in 2008, but I think we can do better. And that is what we are trying to come up with.

Thank y'all very much.

Mr. Goodlatte, do you have a closing statement?

Mr. GOODLATTE. Mr. Chairman, thank you very much for bringing this Committee to Georgia, and I want to thank everyone here. Not just the panelists but everyone in the room, and again we encourage them to participate in the farm bill feedback program. I guess we have some cards to give people?

The CHAIRMAN. The cards are available over on the side over here and our website—you can read it to them.

Mr. GOODLATTE. *www.agriculture.house.gov.* And we welcome hearing from you on both sides of the aisle, and we will look forward to working together to write a new farm bill.

Thanks for coming today.

The CHAIRMAN. I thank the gentleman.

The farm bill will be bipartisan, we will guarantee that.

Mr. Scott, any final word?

Mr. SCOTT. Thank you, Mr. Chairman, and especially I want to certainly thank our Chairman, and thank all of the panelists for coming, I thank my colleagues for coming. It has been wonderful and God bless everybody.

The CHAIRMAN. I thank the gentleman. And I have to read these magic words.

Under the rules of the Committee, the record of today's hearing will remain open for 30 calendar days for receipt of additional material, supplementary written responses from the witnesses, and any questions posed by a Member.

This hearing of the Committee on Agriculture is adjourned.

[Whereupon, at 5:06 p.m. (EDT), the Committee was adjourned.]

HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

SATURDAY, MAY 15, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Troy, AL.

The Committee met, pursuant to call, at 1:20 p.m., in the Pike County Cattlemen's Association, Cattlemen's Park, U.S. Highway 231, Troy, Alabama; Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Bright, Goodlatte, Rogers, Smith, and Thompson.

Staff present: Aleta Botts, Dean Goeldner, John Konya, Clark Ogilvie, Anne Simmons, April Slayton, Kevin Kramp, Josh Mathis, and Jamie Mitchell.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

The CHAIRMAN. The Committee will come to order. This hearing of the Committee on Agriculture to review U.S. agriculture policy in advance of the 2012 Farm Bill will come to order.

I would first like to introduce the Members of the Committee. We have with us the former Chairman of the Committee serving as Ranking Member today, Mr. Bob Goodlatte, from Virginia. On my right, of course, he probably needs no introduction, your Congressman, one of my favorite new Congressmen that has come to Washington, Mr. Bobby Bright from this district in Alabama. Mr. Mike Rogers, who is also from Alabama a little bit north of here, has been on the Committee for a while. Mr. Adrian Smith from Nebraska, western Nebraska, he has a huge district out there, I think his district is probably bigger than the State of Alabama. And Mr. Glenn Thompson from Pennsylvania, he represents the northern part of Pennsylvania right south of New York.

We also have some USDA people that do a great job for us, with us today. The Arkansas FSA State Director Linda Newkirk, if you would stand up and be recognized. Is Linda here?

[No response.]

The CHAIRMAN. Maybe she is not here. Rural Development State Director Ronnie Davis and the NRCS State Conservationist Dr. William Puckett. Give them a big hand, they do a great job for us.

[Applause.]

The CHAIRMAN. We also have been web-casting these hearings, so people can watch them on the web, on our website. And for those that are not able to testify today, we will take your testimony over the Internet and these cards I believe are over here someplace, *www.agriculture.house.gov.* We encourage, even if you did not get a chance to testify, we encourage you to make your views known, or any ideas that you may have, to the Committee on that website and that will become part of the record. We find a lot of times we get some really great ideas from folks that maybe do not normally get a chance to testify. So we encourage you to do that.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good afternoon, and thank you for joining us for today's House Agriculture Committee hearing. We are glad to be here in Troy to hear from area farmers and ranchers about the issues facing agriculture and rural communities.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business. But we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture.

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of this busy time of year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. A bill this large and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process that is open, transparent, and bipartisan.

For all those joining us today in the audience, I hope that you will also participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on our Committee website, and we have cards available today with that web address so that everyone has a chance to tell the Committee about what is working and what new ideas we should consider for the next farm bill.

We have a lot of ground to cover, so let's get started.

The CHAIRMAN. With that, I am going to yield my time for opening statement to your Congressman, who as I said is one of my favorites. He is my kind of guy, he talks straight, he is a little better than I am. I also talk pretty straight, the only thing is I do not always keep my mouth shut when I should and he is better at that than I am. But I am pleased to recognize Bobby Bright for an opening statement and welcoming us to his district.

OPENING STATEMENT OF HON. BOBBY BRIGHT, A REPRESENTATIVE IN CONGRESS FROM ALABAMA

Mr. BRIGHT. Thank you, Mr. Chairman. I appreciate that very much.

Let me thank everybody for being here. This is wonderful. I do not know how much you know about these Congressional field hearings, but it is so important for you to realize that we have had now a series of meetings of these field hearings throughout the country. This is the second series, five of eight. So to be able to have the Chairman and the Ranking Member, Mr. Goodlatte, here today to hear you, to ask questions and to hear you answer those questions. Having them here to speak with you and spend some time with you is so key, and so important to what we are doing in the agriculture industry, in the fuel business and the forestry business and conservation area. So for us to have this here in the heart, here in Troy, of the District 2 is so key and so important.

And I want to thank our Chairman. You know, he can say that all day long about me being like him, because over the last 15–16 months that I have been in Congress I have watched this man, this Chairman, perform and handle issues pertaining to you as farmers and people interested in the agriculture industry. He has your interests at heart, as I do and as every Member who is on this panel here. So I am thanking him and the Ranking Member for allowing us to have this very important meeting here in District two, here in southeast Alabama, here in Troy.

I am confident that listening to the growers and producers in the South will help improve the next farm bill, in order to make it work even better for a larger cross section of this country.

It is no secret that the farm bill affects the various regions of our country in very different ways. For that reason, I believe it is vitally important that southern farmers have substantial input into the next farm bill. While certain programs may work well for farmers in the West or Midwest, those same programs may not be as effective in the South and *vice versa*.

I often hear complaints from farmers in my district on two very important issues. The first is the crop insurance. In the Southeast, anything beyond catastrophic crop insurance does not make economic sense for our farmers here locally. This is unacceptable in an area where extreme drought, heavy rains and flood, hurricanes and early freezes can all occur in the same year. We must find a way to make crop insurance work for all farmers, or at least make it responsive to the specific needs of the given region.

The other issue is peanut pricing. We need more transparency and more simplification, as far as that is concerned, for our peanut producers out there. The formula for the weekly peanut price calculation is complicated and often referred to as the black box, leaving guess work as the only method farmers can use to plan for the future. This formula must be simplified and the process made more transparent.

I hope to work with my colleagues who are sitting here with us today, and also the other Members of our Agriculture Committee, in finding a resolution to these two particular problems in the next farm bill.

As many of you know, there is more cotton, peanuts and poultry grown in Alabama's Second Congressional District than almost any other district in the country. It is crucial for improvements to be made where needed in the next farm bill, so that these growers can continue to operate.

With that in mind, I want to thank all of the witnesses for agreeing to come today and testify before the panel. And I want to encourage you to be open, honest and pretty decisive on what you think we need to hear, and how we can resolve some of the issues that you are being confronted with every day. So that is why it is so key for you to be here, and for us to hear your testimony.

I also at this point in time want to acknowledge someone that is really no stranger to us here in Alabama, and it is my colleague Mike Rogers, Congressman Mike Rogers. He is on the panel today, he was with us yesterday in Georgia, and will be traveling on with this panel to Lubbock, Texas tomorrow. But I will say this he, like me, is dedicated to the farming industry, to the farmers out there, and it has been a sheer pleasure and honor for me to serve with him as my colleague from Alabama on the Agriculture Committee. So Mike, thank you for being here today too, and I look forward to working with you in the future.

Mr. Chairman, I know we have a lot of material to cover today, but once again, I want to welcome you and welcome the Ranking Member and my colleagues here today. I want to thank you from the bottom of my heart for taking the southeastern district, District two of Alabama to heart in being here and showing my constituents that you care about them, and that you care about the agriculture issues that they are struggling with every day.

So with that, I will yield back to the Chairman for you to proceed with the hearing.

The CHAIRMAN. Thank you very much, Mr. Bright. We are very pleased to be here and look forward to the testimony.

I recognize the Ranking Member, Mr. Goodlatte, from Virginia.

OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM VIRGINIA

Mr. GOODLATTE. Well, thank you very much, Mr. Chairman. And I want to again thank you for calling this series of hearings, and being so proactive in preparation for the debate that we will have on the future of farm policy in the 2012 Farm Bill.

It is hard to believe that it has been 4 years since this Committee was in Auburn, Alabama when I was Chairman, holding a similar hearing, preparing for the 2008 Farm Bill. It is also hard to believe that we need to start this process over again already.

I am very pleased to be here with Congressman Mike Rogers. In fact the last time I was in Montgomery, Alabama was when Mike was running for Congress his first time. He has been a tremendous and valuable ally and a great spokesperson for Alabama agriculture, and has done great work for you on the Committee. And we are also pleased to be in Congressman Bobby Bright's district and pleased to have him on the Committee as well. Alabama has a long history of having a lot of good, distinguished Members from this state serving on the Committee, looking after the interests not only of Alabama farmers, but of the Americans who depend upon you for the safest, most affordable, most abundant food supply in the world.

And Mr. Chairman, we on this side of the aisle are just delighted to be here with four of us to two Democrats. This is a very bipartisan Committee in the Congress, I would say the most bipartisan. I enjoyed working very closely with the Chairman when we wrote the last farm bill, but I also must say that I like this ratio and we look forward to seeing more of that in years to come.

[Laughter.]

Mr. GOODLATTE. The one other thing I want to mention today is that unlike the last farm bill where we were able to secure money from some other—jurisdictions of other committees that helped us in writing that farm bill. We found in that process that not only did they come to the table with their money, but they also came to the table with their lists of how they wanted that money spent.

And in fact wanted to influence other aspects of agricultural policy. I know the Chairman has been very forthright in saying that he is not going to let that happen again. And I strongly support that.

The other element of this is that with an enormous national debt that we have, and deficits running at unprecedented levels—just to give you one idea, for next year, the President has submitted a budget to the Congress, that budget provides for spending \$3.8 trillion with just \$2.2 trillion in revenues, or a \$1.6 trillion deficit for just 1 year, spending about 70 percent more than we are actually going to take in in revenue. That is completely unsustainable and it is going to mean a lot of very tough decisions, a lot of belt tightening, and that is going to include the sector of our budget that relates to agricultural programs. So I will be interested in hearing from our witnesses today, not only on ways that they can make the farm bill—which I think many will tell you they like—but ways to make it operate more efficiently, ways to eliminate portions of it that they may not think are necessary. It is very, very important that we have that in mind as we move ahead here for this coming farm bill.

And it is also important that we recognize that more than 75 percent of the money that is in the farm bill does not go to help farmers or rural America. It goes to pay for nutrition programs, which are obviously important programs, but your ideas on how we can make those programs operate effectively and how we can eliminate the anomaly that we have in this country of spending far more than \$40 billion a year on various nutrition programs, and, yet, having a problem in this country with obesity, is also an issue that we are going to have to confront as Members of the Agriculture Committee, to again squeeze efficiencies out of the limited resources that we are going to have available.

So Mr. Chairman, thank you very much for conducting these hearings and I will yield back to you.

The CHAIRMAN. I thank the gentleman for his statement.

I also recognize, since we are in Alabama, Mr. Rogers, for a statement as well, in recognition of his great work that he does on the Committee and being in his state.

OPENING STATEMENT OF HON. MIKE ROGERS, A REPRESENTATIVE IN CONGRESS FROM ALABAMA

Mr. ROGERS. Thank you, Mr. Chairman. And we are going to have y'all saying y'all by the time you leave Alabama tomorrow. It is God's country and I am glad to be here in the Second District. I am very proud to work with Bobby, he does a good job for y'all, looks out for you. And I appreciate all the panelists taking the time to be here today. I know that it is a Saturday and you could be doing a lot of other things, but it really does help us do our job more effectively and hopefully productively to have your input. So thanks for being here.

And thanks, Mr. Chairman, for bringing the hearing.

The CHAIRMAN. I thank the gentleman and thank the panelists for being with us.

We have Mr. Andy Bell, cotton, corn, soybean, cattle, and hay producer from Tallahassee, Alabama.

Mr. BRIGHT. Tallassee.

The CHAIRMAN. Tallassee, I am sorry, I did not read that right. Bobby is going to keep me straight here. You probably cannot understand what I am saying with my accent.

Mr. Ed Esposito, specialty crop, corn and potato producer from Newville, Alabama. Mr. Joe Mencer, a rice, cotton, corn soybean and wheat producer from Lake Village, Arkansas. Mr. Carl Sanders, peanut, corn, cotton and cattle producer from Brundidge, Alabama. And Mr. David Waide, corn, soybean and rice producer from Jackson, Mississippi.

So, we welcome all of you to the panel, we appreciate you taking the time to be with us and Mr. Bell, you are recognized. Your statements will be made part of the record in their entirety and we encourage you to summarize. We have a 5 minute rule, try to stay within that within reason, but we will not be too tough on you if you go a little over. So welcome to the Committee, Mr. Bell.

STATEMENT OF ANDREW P. BELL, COTTON, CORN, SOYBEAN CATTLE, AND HAY PRODUCER, TALLASSEE, AL

Mr. BELL. Thank you, Mr. Chairman, Members of the Committee, on behalf of the rest——

The CHAIRMAN. I think you need to get the microphones pretty close because of the acoustics here. People will have an easier time understanding.

Mr. BELL. Mr. Chairman, Members of the Committee, on behalf of the rest of the agricultural producers here in central and southeast Alabama, we thank you for the opportunity to speak with you today regarding some future directions of farm policy. I would also like to acknowledge Congressman Bright, and the rest of his staff, for their attention and hard work for production agriculture.

I would like to begin by saying that those of us in production agriculture are very appreciative of the tools that you provided us with in the 2008 Farm Bill.

However, market conditions have changed since that bill was drafted, and I would like to share some of the difficulties that I, and many of my colleagues, have faced over the last several years. I am hopeful that those aspects could be addressed. Many of those we feel have become dated and would hope to be considered for revision in the next farm bill.

In my immediate area, four major crops that are grown are cotton, corn, soybeans and cattle. All four crops have the same problem, and it is finding a way to grow them at a profit. Cotton probably deserves the most consideration, it is best suited for the environment that we are producing in.

Since 2003, we have had a 72 percent net increase in the cost of production. Fuel is by far the leader at a 330 percent increase. To make matters even worse, from 2003 to the 2009 crop, the cotton crop sold for 13 percent less.

For the last 7 years, 5 of those years have been weather-related failures. And when I say failure, I mean a lack of profit. In 2003, we were devastated with a flood, 2006 through 2008 were drought years, 2009 our immediate area had 35 inches above normal rainfall. Typically on a longer span of history, about 20 percent of the time, we have a failure rate due to weather.

With such a drastic decrease in cotton prices coupled with the production costs that have skyrocketed, life has become a lot tougher for the cotton producer and also our levels of risk are at historic levels.

Target prices set the value of the commodity, and our current cost of production with cotton is about 87¢ a pound. The target value is around 71¢. Dealing with these weather-related failures, 80 percent of the time, we have to have a five percent profit over 4 years to deal with that 5th year that is destined for a weather failure. And that is with no inflation factored into that.

In 2009, we had a cotton crop that was 69 percent of a normal crop based on our historic production. At the completion of that year, we summarized the last 6 years. We have historically just had catastrophic insurance coverage—we summarized what it would have been with CRC coverage, crop revenue coverage, and over that span of time, we would have paid in $22,000 more in premiums than the claims for the insurance. So we felt like from an insurance standpoint we had no safety net. Dealing with these factors over the last 6 years, we have created several points of interest that need to be addressed.

The greatest need for today's farmer is to address the difference between cost of production and level of income. Dealing with a 72 percent increase in the production costs, cotton would need to be $1.22 a pound today to represent the same relationship that we were experiencing in 2003.

Second, production agriculture needs a workable safety net that can be implemented in a timely manner in dealing effectively with this weather variable. As I mentioned earlier, we have a weather failure about 20 percent of the time.

Third, government payments seem to have an adverse effect in many cases. The payments, a lot of times, do not ever make it to the production entity, or they in effect create higher input costs. So it is a very difficult situation to address.

Fourth, Alabama would also benefit if we could receive a larger portion of natural resource funding than it has historically received in the past. If this state was developed in relation to our neighboring states dealing with natural resources, that too could be viewed as a safety net for a farmer having the capacity to irrigate on a drought year and so forth.

Since 1976, agricultural trade has maintained a trade surplus 98 percent of the time and that pretty well speaks for itself. We feel like we are an industry that is needed.

I hope and pray that we are able to address these issues and save this part of our economy.

Thank you for your time today.

[The prepared statement of Mr. Bell follows:]

PREPARED STATEMENT OF ANDREW P. BELL, COTTON, CORN, SOYBEAN, CATTLE, AND HAY PRODUCER, TALLASSEE, AL

Mr. Chairman, and Members of the Committee, on behalf of the rest of agricultural producers in central and southeastern Alabama, thank you for this opportunity to speak with you briefly regarding the future direction of farm policy. I would also like to acknowledge and say thank you to Congressman Bright and his staff for their hard work and attention to production agriculture.

I would like to begin by saying that those of us in the production agriculture community are very appreciative of the tools that we were provided with in the 2008 Farm Bill.

However, market conditions have changed since this bill was drafted, and I would like to share some of the difficulties that I and many of my colleagues have been faced with over the last several years. I am hopeful that aspects that have become dated might be considered for revision in the next farm bill.

In my immediate production area the four major crops are cotton, corn, soybeans, and cattle. All four crops have a common problem: finding a way to grow them at a profit. Cotton probably deserves the most consideration because it is best suited for our environment and we consume approximately 19.8 million bales of finished goods in the U.S. However, we only consume 3.5 million bales with our domestic mills. This represents a great deal of value enhancement and jobs that have been taken from the U.S. market and distributed overseas.

Since 2003 we have had a 72% net increase in the cost of cotton production. Fuel is by far the leader with a 330% individual input cost increase. To make matters worse the 2009 cotton crop sold for 13% less than the 2003 crop.

For the last **seven** crop years (2003–2009) we have had **five** weather related crop failures. 2003—flood. 2006–2008 droughts, 2009—35″ above normal rainfall. Failure is defined by lack of profit.

Based on a longer span of history, we typically experience a 20% (1 out of 5 years) failure rate due to weather.

With such a drastic decrease in cotton prices coupled with skyrocketing production costs and unreliable weather conditions, life has become much harder for the average cotton producer. The risks facing production agriculture are at historic levels.

Target prices set the value of the commodity and with the current cost of production cotton costs 87¢/lb. at a target value of .7125¢/lb. at 83.3% of base acres. It will also require a yield at the upper end of our yield history to accomplish a profit. Furthermore it will take a 5% profit over 4 years just to overcome a 20% weather failure (common loss for 2009) in the fifth year of our historic weather cycle for this area. That is with no inflation.

In 2009 we harvested a cotton crop that was 69% of a normal crop based on our historic production. At this point we did an analysis of the last 6 years to determine whether we would have been better off purchasing CRC insurance coverage as opposed to catastrophic coverage. We then determined that at a 75% coverage level Enterprise units we would have paid $22,000 more in premiums per year than insurance would have paid in claims. Under the Optional units we would have paid $471,000 more in premiums per year than insurance would have paid in claims. So, from my vantage point there is no safety net with the CRC coverage. Also, the input suppliers want to be paid immediately rather than some future point in time as with other disaster assistance programs.

This environment creates several points of interest that need to be addressed.

The greatest need for today's farmer lies in addressing the relationship between cost and income. The input suppliers seem to have no restraints in setting the value of their product. The value of the commodities are established by the target price which had no inflation factor tied to the value creating an environment where there is no reasonable way to produce a yield large enough to compensate for a 72% increase in production cost. Cotton would need to be $1.22/lb to maintain the same expense/income relationship from 2003. We ask that you please consider this when you establish the target prices and also consider some tool to keep the value in step with inflation. With no expectation for profit, the industry will certainly disappear.

Second, production agriculture needs a workable safety net that can be implemented in a timely manner and be effective in dealing with the weather variable. As I mentioned earlier we have weather failures approximately 20% of the time. The financial risk is so great that one bad year can effectively collapse the business. Farming is a continual process in that we are working on the current crop as well as future crops at the same time. This environment creates a Day by Day Scenario which does not work in farming because it requires a great deal of forward planning and the timing of operations is critical when dealing with the weather.

Third, government payments seem to have an adverse effect in some cases. The payments either do not make it to the actual entity that is incurring the risk to produce the crop, or they cause more expense (higher land rents, higher input costs, *etc.*). If production agriculture was offered realistic target values tied to inflation and produced a certain percentage of their historic base depending on what the USDA deemed to be strategically important for this country, then the portion that is not needed could be eliminated. If the population is to double by 2050 then this will be needed. But in general production agriculture can not continue to survive in this environment. The electrical and water utilities are not expected to provide their products under these types of circumstances and a safe and abundant food and fiber supply is as important to survival as is electricity.

Fourth, if Alabama received a larger proportion of natural resources funding than it has historically then it too could develop its natural resources to the level of its neighboring states. It would also provide a tremendous risk management tool (irrigation hedging a drought, *etc.*). I should also mention that Alabama has yet to recognize an opportunity in the production of alternative energy sources as well. With fuel costs increasing 330% over the last 6 years Alabama farmers would benefit greatly from this.

Since January 1976 agricultural trade has maintained a trade surplus 98% of the time.

That speaks for itself.

I hope and pray that we are able to save this vital sector in our economy because production agriculture cannot survive under the current circumstances.

Thank you for your time today.

ATTACHMENT 1

Cotton
Budget 2010

	Yield	Price	Total
Revenues:			
Lint Sales 1050	943,950	0.75	70,7962.5
LDP	0	0	0
Direct, Counter Cyc.	864,750	0.0675	58,370.625
Total			76,6333.13
Expenses:	$/acre	Acre	Total
Lime	12.5	899	11,237.5
Fertilizer	78	899	70,122
Nitrogen	31	899	27,869
Seed	20	899	17,980
Technology Fee	65	899	58,435
Herbicides	61	899	54,839
In Furrow	15	899	13,485
Insecticides	18	899	16,182
Growth Regulators	1.5	899	1,348.5
Boron	2.02	899	1,815.98
Defoliants	17	899	15,283
BWEP	3.5	609	3,146.5
Ginning	53	899	47,647
Freight	23	899	20,677
Consultants	0.5	899	449.5
Equipment (Variable)	89.27252503	899	80,256
Labor	89.70717464	899	80,646.75
Payroll Taxes	6.86259886	899	6,169.4764
Fuel	59.20	899	62,154.821
Supplies	2.224694105	899	2,000
Water	0.75	899	674.25
Overhead	154.0114565	899	138,456.3
Interest	46.63465501	899	41,924.555
Land Rent	60	899	53,940
Land Rent Adj Pal	−16.25	899	−14,608.75
Irrigation Supplies	10.66963293	899	9,592
Total Operating Expenses	904.192737		821,722.38
Excess (Deficit) Revenue Over Expenses			−55,389.26

Cotton
Budget 2003

	Yield	Price	Total
Revenues:			
Lint Sales	1,433,100	0.65	931,515
Seed Sales	1,003.17	85	85,269.45
Total			1,016,784.5
Expenses:	$/Acre	Acre	Total
Lime	5.6	1,686	9,441.6
Fertilizer	26	1,686	43,836
Nitrogen	20	1,686	33,720
Seed	11.75	1,686	19,810.5
Technology Fee	10.31	1,686	17,382.66
Herbicides	39.66	1,686	66,866.76
In Furrow	14.26	1,686	24,042.36
Insecticides	11.08	1,686	18,680.88
Growth Regulators	9.27	1,686	15,629.22
Boron	2.02	1,686	3,405.72
Defoliants	11.03	1,686	18,596.58
BWEP	5	1,686	8,430
Ginning	74	1,686	124,764
Freight	11.16	1,686	18,815.76
Consultants	4	1,686	6,744

Cotton—Continued
Budget 2003

	Yield	Price	Total
Expenses:	$/Acre	Acre	Total
Equipment (Variable)	43.79233534	1,686	73,833.877
Labor	53.64213128	1,686	90,440.633
Payroll Taxes	4.103623043	1,686	6,918.7085
Fuel	17.77833728	1,686	29,974.277
Supplies	1.779359431	1,686	3,000
Water	0.75	1,686	1,264.5
Overhead	105.0834958	1,686	177,170.77
Interest	13.98229249	1,686	23,574.145
Land Rent	30	1,686	50,580
Total Operating Expenses	526.0515746		886,922.95
Excess (Deficit) Revenue Over Expenses			129,861.5

ATTACHMENT 2

INSURANCE EVALUATION

		CRC			Optional Unit				Enterprise			
		Acres	Production	Yield	Per/Acre Loss	Total Loss	Per/Acre Premium	Total Premium	Per/Acre Loss	Total Loss	Per/Acre Premium	Total Premium
Year	2000	-	-	-	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Year	2001	370.0	452,784.0	1,223.7	$ 33.92	$ 12,552	$ 94.12	$ 34,824	$ 33.10	$ 12,247	$ 35.44	$ 13,112
Year	2002	400.0	334,151.0	835.4	$ -	$ -	$ 83.77	$ 33,507	$ -	$ -	$ 31.54	$ 12,615
Year	2003	387.0	310,109.0	801.3	$ -	$ -	$ 88.61	$ 34,290	$ -	$ -	$ 33.27	$ 12,876
Year	2004	1,570.0	1,359,563.0	866.0	$ 57.09	$ 89,639	$ 91.02	$ 142,900	$ 57.10	$ 89,647	$ 33.82	$ 53,096
Year	2005	1,427.0	1,253,477.0	878.4	$ -	$ -	$ 85.16	$ 121,522	$ -	$ -	$ 31.62	$ 45,116
Year	2006	1,370.0	1,395,947.0	1,018.9	$ 6.44	$ 8,826	$ 90.61	$ 124,133	$ -	$ -	$ 33.64	$ 46,085
Year	2007	779.0	838,024.0	1,075.8	$ -	$ -	$ 94.13	$ 73,326	$ -	$ -	$ 34.97	$ 27,241
Year	2008	1,521.0	1,444,396.0	949.6	$ 109.58	$ 166,667	$ 92.93	$ 141,350	$ 109.60	$ 166,702	$ 34.58	$ 52,569
Year	2009	1,236.0	829,557.0	671.2	$ 53.25	$ 65,814	$ 88.38	$ 109,213	$ 9.60	$ 11,866	$ 32.82	$ 40,562
				Total	$ 33	$ 343,498	$ 90	$ 815,063	$ 31	$ 280,461	$ 33	$ 303,272
				Net Per/Acre	$ (52)				$ (2.52)			
				Net Total	$ (471,567)				$ (22,811)			

	Optional	Enterprise
Coverage Level:	0.75	0.75
High/Low:	0.772	
T-Yield:	782.0	

(Best)

The 75% EU option was the most consistent protection for the price. The premium difference between OU and EU makes the difference each year.

ATTACHMENT 3

CLEMSON
EXTENSION
Department of Applied Economics and Statistics
Phone: 864-656-3475

CORN FOR GRAIN - IRRIGATED - CONSERVATION TILLAGE (ROUNDUP READY)
ESTIMATED COSTS AND RETURNS PER ACRE, 2010/2011
160 BUSHEL YIELD, 100 ACRE CENTER PIVOT - 6" OF WATER

	UNIT	QUANTITY	PRICE OR COST/UNIT	TOTAL PER ACRE	YOUR FARM
1. GROSS RECEIPTS					
CORN	BU.	160.00	$4.00	$640.00	
TOTAL RECEIPTS:				**$640.00**	
2. VARIABLE COSTS					
SEED	THOU.	28.00	$3.20	$89.46	
FERTILIZER					
NITROGEN	LBS	190.00	$0.71	$134.90	
PHOSPHATE	LBS	60.00	$0.61	$36.60	
POTASH	LBS	60.00	$0.55	$33.00	
LIME (PRORATED)	TON	0.50	$51.50	$25.75	
HERBICIDES	ACRE	1.00	$30.70	$30.70	
INSECTICIDES	ACRE	1.00	$11.15	$11.15	
IRRIG., MACH & LABOR	ACRE	1.00	$48.16	$48.16	
DRYING (3 POINTS)	BU.	169.33	$0.15	$25.40	
HAULING	BU.	160.00	$0.40	$64.00	
TRACTOR/MACHINERY	ACRE	1.00	$25.58	$25.58	
LABOR	HRS	1.82	$6.50	$11.83	
INTEREST ON OP. CAP.	DOL.	$217.65	9.0%	$19.59	
TOTAL VARIABLE COSTS:				$556.12	
3. INCOME ABOVE VARIABLE COSTS:				**$83.88**	
4. FIXED COSTS					
TRACTOR/MACHINERY	ACRE	1.00	$42.55	$42.55	
IRRIGATION	ACRE	1.00	$99.37	$99.37	
TOTAL FIXED COSTS:				**$141.92**	
5. OTHER COSTS					
LAND RENT	ACRE	1.00	$25.00	$25.00	
GENERAL OVERHEAD	DOL.	$556.12	9.0%	$50.05	
TOTAL OTHER COSTS:				**$75.05**	
6. TOTAL COSTS:				**$773.09**	
7. NET RETURNS TO RISK AND MANAGEMENT:				**-$133.09**	

BREAK-EVEN YIELD			**BREAK-EVEN PRICE**	
VARIABLE COSTS	136	BU.	VARIABLE COSTS	$3.48
TOTAL COSTS	199	BU	TOTAL COSTS	$4.83

* PLEASE NOTE: THIS BUDGET IS FOR PLANNING PURPOSES ONLY

CORN FOR GRAIN - IRRIGATED - CONSERVATION TILLAGE (ROUNDUP READY)

PER ACRE MACHINERY AND LABOR REQUIREMENTS FOR 160 BUSHEL IRRIGATED CORN						
MONTH	OPERATION	TIMES OVER	LABOR HOURS	MACHINE HOURS	VARIABLE COSTS	FIXED COSTS
3	SUBSOILER-PLANTER 6-ROW	1.00	0.20	0.18	$7.34	$8.93
4	HERBICIDE APPLICATOR 16'	1.00	0.12	0.11	$1.58	$1.32
4	FERTILIZER SPREADER	1.00	0.13	0.12	$1.85	$4.54
9	COMBINE W/ HEADER	1.00	0.36	0.33	$14.81	$27.76
PER ACRE TOTALS FOR SELECTED OPERATIONS			0.81	0.74	25.58	42.55
UNALLOCATED LABOR(HRS./AC.)			1.01			

INCOME ABOVE VARIABLE COSTS AT DIFFERING YIELDS AND PRICES					
YIELD	PRICE ($/bu.)				
BU.	$3.60	$3.80	$4.00	$4.20	$4.40
144	-$28.78	$0.02	$28.82	$57.62	$86.42
152	-$4.45	$25.95	$56.35	$86.75	$117.15
160	$19.88	$51.88	$83.88	$115.88	$147.88
168	$44.21	$77.81	$111.41	$145.01	$178.61
176	$68.54	$103.74	$138.94	$174.14	$209.34

CHEMICAL USE ASSUMPTIONS FOR 160 BUSHEL IRRIGATED CORN					
	UNIT	QUANTITY	PRICE OR COST/UNIT	TOTAL PER ACRE	MONTH
HERBICIDES:					
glyphosate (Roundup ultra)	QT	1.00	$13.75	$13.75	X MAR. 1X APR
s-metolachlor+atrazine (Bicep)	QT	1.30	$8.74	$11.36	MAR
atrazine (Aatrex)	QT	1.00	$3.89	$3.89	APR
carfentrazone (Aim)	OZ	1.00	$1.70	$1.70	MAY
INSECTICIDES:					
terbufos (Counter)	LB	5.00	$2.23	$11.15	MAR
TOTAL:				$41.85	

The above listed chemicals are examples and do not imply exclusive recommendations by Clemson University. The "Pest Management Handbook" must be consulted. Production assumptions provided by Pawel Wiatrak, (803) 284-3343, pwiatra@clemson.edu

THE CLEMSON UNIVERSITY COOPERATIVE EXTENSION SERVICE OFFERS ITS PROGRAMS TO PEOPLE OF ALL AGES, REGARDLESS OF RACE, COLOR, SEX, RELIGION, NATIONAL ORIGIN, OR HANDICAP AND IS AN EQUAL OPPORTUNITY EMPLOYER. COOPERATIVE EXTENSION WORK IN AGRICULTURE AND HOME ECONOMICS–STATE OF SOUTH CAROLINA, CLEMSON UNIVERSITY, U.S. DEPARTMENT OF AGRICULTURE, AND SOUTH CAROLINA COUNTIES COOPERATING.

ATTACHMENT 4

CLEMSON
EXTENSION

Department of Applied Economics and Statistics

Phone: 864-656-3475

COTTON - CONVENTIONAL TILLAGE, IRRIGATED

ESTIMATED COSTS AND RETURNS PER ACRE, 2010/2011

1000 POUND YIELD, 100 ACRE CENTER PIVOT – 6" OF WATER

	UNIT	QUANTITY	PRICE OR COST/UNIT	TOTAL PER ACRE	YOUR FARM
1. GROSS RECEIPTS					
COTTON LINT	LBS	1000.00	$0.6500	$650.00	
COTTON SEED	LBS	1670.00	$0.0900	$150.30	
TOTAL RECEIPTS:				**$800.30**	
2. VARIABLE COSTS					
SEED	LBS	10.00	$2.00	$20.00	
FERTILIZER					
NITROGEN	LBS	100.00	$0.71	$71.00	
PHOSPHATE	LBS	60.00	$0.61	$36.60	
POTASH	LBS	60.00	$0.55	$33.00	
BORON	LBS	0.50	$1.13	$0.57	
SULFUR	LBS	10.00	$0.31	$3.10	
LIME (PRORATED)	TON	0.33	$51.50	$17.00	
HERBICIDES	ACRE	1.00	$36.58	$36.58	
INSECTICIDES	ACRE	1.00	$55.05	$55.05	
DEFOL. & GROWTH REGULATOR	ACRE	1.00	$14.75	$14.75	
SCOUTING	ACRE	1.00	$8.50	$8.50	
IRRIGATION, MACHINERY & LABOR	ACRE	1.00	$55.15	$55.15	
AERIAL APPLICATION	APPL	3.00	$6.00	$18.00	
GINNING	LBS	1000.00	$0.12	$120.00	
HAULING	ACRE	1.00	$6.50	$6.50	
CHECK-OFF FEE	ACRE	1.00	$5.50	$5.50	
BOLL WEEVIL ERADICATION	BALE	2.08	$1.92	$4.00	
CROP INSURANCE	ACRE	1.00	$20.00	$20.00	
TRACTOR/MACHINERY	ACRE	1.00	$81.10	$81.10	
LABOR	HRS	5.69	$6.50	$36.99	
INTEREST ON OP. CAP.	DOL	$225.20	9.0%	$20.27	
TOTAL VARIABLE COSTS:				**$663.66**	
3. INCOME ABOVE VARIABLE COSTS:				**$136.64**	
4. FIXED COSTS					
TRACTOR/MACHINERY	ACRE	1.00	$91.78	$91.78	
IRRIGATION	ACRE	1.00	$105.66	$105.66	
TOTAL FIXED COSTS:				**$197.44**	
5. OTHER COSTS					
LAND RENT	ACRE	1.00	$25.00	$25.00	
GENERAL OVERHEAD	DOL	$663.66	9.0%	$59.73	
TOTAL OTHER COSTS:				**$84.73**	
6. TOTAL COSTS:				**$945.83**	
7. NET RETURNS TO RISK AND MANAGEMENT:				**-$145.53**	

BREAK-EVEN YIELD			**BREAK-EVEN PRICE**	
VARIABLE COSTS	798	LBS	VARIABLE COSTS	$0.5134
TOTAL COSTS	1219	LBS	TOTAL COSTS	$0.7055

* PLEASE NOTE: THIS BUDGET IS FOR PLANNING PURPOSES ONLY

COTTON - CONVENTIONAL TILLAGE, IRRIGATED

PER ACRE MACHINERY AND LABOR REQUIREMENTS 1000 LBS COTTON - CONV. TILLAGE - IRR

MONTH	OPERATION	TIMES OVER	LABOR HOURS	MACHINE HOURS	VARIABLE COSTS	FIXED COSTS
3	LIGHT DISKING W/ HERBICIDE	1.00	0.17	0.15	$3.37	$3.47
3	SUBSOILER-BEDDER 8-ROW	1.00	0.13	0.12	$5.32	$5.49
5	DO-ALL FIELD CONDITIONER 8-ROW	1.00	0.10	0.09	$2.47	$2.08
5	PLANTER W/ SPRAYER 8-ROW	1.00	0.13	0.12	$3.76	$5.28
5&6	CULTIVATOR W/ HERBICIDE 8-ROW	3.00	0.33	0.30	$5.88	$8.18
5	TRACTOR MTD SPRAYER	1.00	0.18	0.16	$1.71	$1.81
6,7&9	HIBOY	4.00	0.26	0.24	$7.96	$15.20
10	COTTON PICKER 4-ROW	1.00	0.42	0.38	$39.03	$40.46
10	COTTON MODULE BUILDER	1.00	0.12	0.11	$2.79	$2.43
10	BOLL BUGGY	1.00	0.37	0.34	$6.06	$6.83
11	ROTARY MOWER 7'	1.00	0.32	0.29	$2.75	$2.55
PER ACRE TOTALS FOR SELECTED OPERATIONS			2.53	2.30	$81.10	$91.78
UNALLOCATED LABOR(HRS./AC.)			3.16			

INCOME ABOVE VARIABLE COSTS AT DIFFERING YIELDS AND PRICES

YIELD (LBS)		PRICE ($/lbs.)				
LINT ——>>		$0.5200	$0.5850	$0.6500	$0.7150	$0.7800
	SEED ——>>	$0.0720	$0.0810	$0.0900	$0.0990	$0.1080
800	1336	-$126.67	-$62.64	$1.38	$65.40	$129.43
900	1503	-$75.04	-$3.02	$69.01	$141.04	$213.06
1000	1670	-$23.42	$56.61	$136.64	$216.67	$296.70
1100	1837	$28.20	$116.24	$204.27	$292.30	$380.34
1200	2004	$79.83	$175.86	$271.90	$367.94	$463.97

CHEMICAL USE ASSUMPTIONS FOR 1000 LBS COTTON - CONV. TILLAGE - IRR

	UNIT	QUANTITY	PRICE OR COST/UNIT	TOTAL PER ACRE	MONTH
HERBICIDES					
trifluralin (Treflan EC)	PT	1.50	$3.10	$4.65	MAR
fluometuron (Cotoran)	QT	1.00	$9.42	$9.42	MAY
pyrithiobac (Staple)	OZ	0.60	$7.15	$4.29	MAY
MSMA	GAL	0.32	$21.25	$6.80	2X JUN
prometryn (Caparol)	PT	2.40	$4.76	$11.42	2X JUN
INSECTICIDES					
aldicarb (Temik)	LB	5.00	$3.48	$17.40	MAY
acephate (Orthene)	OZ	3.00	$0.72	$2.17	MAY/JUN
cyfluthrin (Baythroid)	OZ	10.00	$2.11	$21.10	4X JUL/AUG
spinosad (Tracer)	OZ	2.00	$7.19	$14.38	JUL
GROWTH REGULATOR & DEFOLIANTS					
mepiquat chloride (Pix)	OZ	16.00	$0.18	$2.94	2X JUN/JUL
ethephon (Prep)	PT	1.33	$4.45	$5.92	SEP
tribufos (Folex)	PT	1.00	$5.89	$5.89	SEP
TOTAL:				$106.38	

The above listed chemicals are examples and do not imply exclusive recommendations by Clemson University. The "Pest Management Handbook" must be consulted. Production assumptions by Michael A. Jones, Extension Specialist, (843) 669-1912, majones@clemson.edu.

ATTACHMENT 5

COTTON Irrigated- Enterprise Planning Budget Summary
Estimated Costs Per Acre — Note: To customize this budget, you may change the any numbers
Following Recommended Management Practices — Yield Goal 1200 Pounds per Acre
ALABAMA, 2010

NOTE: The following costs are estimates, Actual costs and quantities will vary from farm to farm, The most important information will be contained in the "Your Farm " column that you provide.

	UNIT	QUANTITY	PRICE OR COST/UNIT	TOTAL PER ACRE	YOUR FARM
1. VARIABLE COSTS					
Seed	BAG	0.15	150.00	23.07	
Seed Treatment	BAG	0.15	120.00	18.46	
Tech Fee (RF/BG2)	BAG	0.15	412.00	63.37	
Fertilizer					
Nitrogen	UNITS	120.00	0.50	60.00	
Phosphate	UNITS	80.00	0.35	28.00	
Potash	UNITS	80.00	0.42	33.60	
Micronutrients					
Lime (Prorated)	TONS	0.33	30.00	9.90	
Herbicides					
Burndown	ACRE	1.00	18.00	18.00	
Post	ACRE	1.00	12.00	12.00	
Lay-By	ACRE	1.00	12.00	12.00	
Insecticides					
Planting	ACRE	0.00	12.00	0.00	
Early Season	ACRE	1.00	5.00	5.00	
Mid Season	ACRE	0.25	18.00	4.50	
Late Season	ACRE	1.00	4.00	4.00	
Systemic Fungicides	ACRE	0.00	2.00	0.00	
Growth Regulator	OZ.	13.33	0.75	10.00	
Defol/Harvest Aid	ACRE	1.00	15.00	15.00	
Consultant/Scouting Fee	ACRE	0.00	6.00	0.00	
Irrigation	AC/IN	8.00	12.00	96.00	
Gin/Whse. Net of seed value	ACRE	1.00	7.50	7.50	
Crop Insurance	ACRE	1.00	25.00	25.00	
Aerial Application	ACRE	2.00	9.00	18.00	
Boll Weevil Eradication	ACRE	1.00	3.00	3.00	
Cover Crop Establishment	ACRE	1.00	25.00	25.00	
Land Rent	ACRE	0.00	80.00	0.00	
Labor (Wages & Fringe)	HOUR	6.25	8.25	51.56	
Tractor/Machinery	ACRE	1.00	55.00	55.00	
Interest on Operating Capital	DOL.		0.0750	22.42	
TOTAL VARIABLE COST				**$620.38**	
(Approximate Range per Acre : $300 to $750)					
2. FIXED COSTS					
Tractor/Machinery	ACRE	1.00	90.00	90.00	
Irrigation	ACRE	1.00	125.00	125.00	
Land Ownership Cost	ACRE	1.00	0.00	0.00	
General Overhead	DOL.	620.38	0.08	49.63	
TOTAL FIXED COSTS				**264.63**	
(Approximate Range per Acre : $80 to $300)					
3. TOTAL COST OF ALL SPECIFIED EXPENSES				**$885.01**	
(Approximate Range per Acre : $380 to $1050)					

Yield* (Lbs./acre) Required to Obtain Desired Returns
At Different Price Levels, Assuming .... $620,38 Variable ($264.63 Fixed Cost

Returns Above Specified Expenses	Specified Expense(s)→	0.65 Var.	0.65 Total	0.70 Var.	0.70 Total	0.75 Var.
		EFFECTIVE FARM PRICE (Cents/LB) — Pounds Per Acre				
$0 (Break even)		954	1362	886	1264	827
$50		1031	1438	958	1336	894
$100		1108	1515	1029	1407	961
$150		1185	1592	1101	1479	1027
$200		1262	1669	1172	1550	1094

* PRODUCTION COSTS ARE CONSTANT FOR THIS TABLE

ATTACHMENT 6

Monthly Economic Outlook: National Cotton Council

http://www.cotton.org/econ/reports/outlook.cfm

Accessed 5/4/2010

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U.S. Cotton Acreage—USDA's March Prospective Planning report indicates U.S. producers to plant 10.51 million acres of cotton in 2010/11, up 14.8% from the previous year. Upland area is projected to be 10.32 million acres, up 14.5% from 2009/10 while ELS area is projected at 190,000 acres, a 34.1% increase. The NCC's planting intention survey, released in early February, indicated U.S. farmers intend to plant 9.92 million acres of upland cotton and 176,000 acres of ELS cotton.

Projected upland area in the Southeast of 2.39 million acres represents an increase of 26.4% from the previous year. In the Mid-South, projected plantings of 1.73 million acres represent an increase of 6.3%. The largest acreage increase is expected to be seen in the Southwest in Texas where producers intend to plant 600,000 more acres of upland cotton than planted in 2009/10. Out West, producers intend to plant 320,000 acres of upland cotton, up 29.8% from last year.

U.S. Cotton Production—In it's April report, USDA estimates that the U.S. produced a crop of 19.2 million bales in the 2007 crop year. For 2008, the USDA forecast U.S. production at 12.8 million bales. A slight drop is projected for the 2009 crop with production falling 670,000 bales to 12.2 million bales. USDA released 2010–2011 projections during last month's Agricultural Outlook Forum. U.S. production is estimated to be 16.00 million bales for 2010–2011.

U.S. Cotton Supply—In USDA's April report, USDA estimates production at 19.2 million and beginning stocks of 9.5 million for the 2007 crop year. Combined with imports this gives total supplies of 28.7 million bales for the 2007/08 marketing year.

For the 2008 crop year, combining projected production with expected beginning stocks of 10.0 million bales results in a total U.S. supply of 22.9 million bales. This is down more than 5.8 million bales from the 2007 level.

By adding beginning stocks of 6.3 million bales to the roughly 12.1 million bale crop, USDA believes total U.S. supply will drop roughly 4.4 million bales to 18.5 million bales in 2009.

For the 2010 crop year, combining projected production of 16.7 million bales with expected beginning stocks of 3.1 million bales results in a total U.S. supply of 19.8 million bales. This is up 1.3 million bales from the 2009 level.

U.S. Cotton Demand—Moving along, we'll focus on U.S. cotton demand.

U.S. Retail Fiber Consumption—Net domestic consumption is a measure of the U.S. retail market's size. It measures both cotton spun in the U.S. (mill use) and cotton consumed through textile imports. Total fiber consumption in 2009 was 43.0 million bale equivalents. Cotton's share of net domestic consumption decreased 1.0% this past year to 43.0%, which translates to 18.6 million bales. As for 2010, NCC projects net domestic consumption of all fibers to increase to 45.9 million bales. With a projected share of 43.1%, **<u>cotton's net domestic consumption is projected to be 19.8 million bales.</u>** *

Cotton's Share of Consumption—While it is important that the retail market continue to grow, cotton must also be concerned with its share of the market and the competition from manmade fibers. During the past few years, cotton's share of the U.S. retail market had generally been on the rise. In 2002, cotton's share reached just over 43%. The higher prices of 2003 were met with some shifting from cotton to other fibers. As a result, cotton's share of the retail market dipped. However, in 2006 cotton's share of the retail market climbed back up to 43.1%. For 2007, cotton's share of the retail markets remained roughly unchanged at 43.1%. For 2008, cotton's share of the retail markets reached the 44.0% mark. In 2009, cotton's share has fallen back to just over 43%.

U.S. Retail Cotton Consumption (Historical)—Imported goods make up the largest portion of U.S. net domestic consumption. However, for the second time since 2001, imported cotton textiles declined from 20.5 million bale equivalents in 2008 to an estimated 18.4 million in 2009.

U.S. Cotton Textile Imports—Increasing imports over the past several years have devastated the U.S. textile and apparel industries. While cotton textile imports did not increase in calendar 2009, they still made up almost 99% of U.S. net domestic consumption of cotton. Imports of cotton goods in 2009 are estimated to have di-

* Emphasis added.

minished by over 10.0% to 18.4 million bale equivalents. In calendar 2010, NCC projects cotton textile imports to increase to 19.5 million bales.

U.S. Cotton Content—For imports, it is important to consider that a significant portion of imported goods contain U.S. cotton. Since much of what the U.S. exports to the NAFTA (North American Free Trade Agreement) and the CBI (Caribbean Basin Initiative) countries is in the form of fabric and piece goods that come back in the form of finished goods, the trade gap is not as wide as implied by gross imports and exports. NCC analysts estimate that 26.8% of all cotton goods imported in 2009 contained U.S. cotton. This is a 1.2% decrease over the previous year. In bale equivalents, these imported cotton goods contained over 4.9 million bales of U.S. cotton. This is due, in large part, to our trading partners in NAFTA and the CBI.

Cotton Textile Trade With Mexico—Imports from Mexico in 2009 are estimated at 1.3 million bales, down approximately 13.7% from the previous year. This marks the ninth straight year in which imports from Mexico have declined.

Cotton Textile Trade With CBI—Imported cotton goods from CBI for the year are estimated at 2.3 million bale equivalents, down 21.9% from the previous year.

Cotton Textile Imports From China (Historical)—For the fifth consecutive year, China was the largest supplier of cotton textile imports into the U.S. Also, China was one of the few countries who showed an increase in their cotton product imports into the U.S. in 2009 compared to 2008. Total cotton product imports from China increased slightly to an estimated 5.8 million bale equivalents in 2009, up 7.3% from 2008 and up 600.9% from 2001 when China entered the WTO. China's share of imported cotton goods in the U.S. market accelerated from 11.3% in 2004, 21.2% in 2005, 25.6% in 2006, 30.2% in 2007, and 29.5% in 2008 to 31.3% in 2009.

Calendar Mill Use—Mill use of cotton declined for the twelfth consecutive year in calendar 2009 and is 3.3 million bales, 24.4% below the amount consumed in 2008. For calendar 2010, NCC forecasts domestic mill use of cotton at 3.5 million bales.

Crop Year Mill Use—USDA's latest estimate for mill use in the 2008 crop year is 3.6 million bales. Current estimates are 3.5 million bales for the 2009 crop year. **Mill use is projected to fall to 3.4 million bales in 2010.** *

U.S. Cotton Production & Use—Pulling the U.S. balance sheet together for 2007, we see that exports improve and mill use remains under pressure. Looking ahead to the next marketing year, USDA expects exports to weaken while both U.S. production and mill use continue to fall. For 2009, USDA expects exports, mill use and production to continue to fall. U.S. production is estimated to be 16.00 million bales for 2010–2011. Mill use is set at 3.40 million bales while exports are reported to increase slightly to 12.60 million bales.

World Market—Exports of U.S. cotton will be dependent on conditions in the world market.

China Cotton Supply & Use—For 2008, USDA estimates that Chinese mill use will be 44.00 million bales.

In 2007, production approached 37.0 million bales. For 2008, USDA forecasts production will be roughly 36.7 million bales. These projections imply a good size differential between production and mill use, leading to imports of 7.0 million bales.

Looking forward for China, production is expected to drop to 31.5 million bales . . .

The CHAIRMAN. Thank you very much for that excellent testimony, Mr. Bell.

Mr. Esposito, welcome to the Committee, you are recognized.

STATEMENT OF EDWARD D. ESPOSITO, SPECIALTY CROP, CORN, AND POTATO PRODUCER, NEWVILLE, AL

Mr. ESPOSITO. Mr. Chairman, Members of the Committee, first, let me start by saying what both an honor and a privilege it is to be here today. I have a small vegetable operation, fruits and vegetables, in the Echo community near Newville.

For more than a century, economists have predicted the demise of the small family farm. We have been labeled backwards, ineffi-

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* Emphasis added.

cient and unproductive compared to large-scale, mechanized, corporate-type operations. I believe this view needs to be challenged.

Small farmers make better stewards of the land through diverse cropping systems, landscapes and biological organization. We responsibly manage our natural resources of soil, water and wildlife. Sixty percent of all U.S. farms of 180 acres or less produce significant environmental benefits for society.

Most consumers have had little connection to agriculture and food production. Through farmers markets, community-supported agriculture and direct marketing strategies of small farmers, consumers are beginning to connect with the people who grow their food, and with the food itself as a product of a farmer's cooperation with nature.

Small farms of less than 30 acres can have a greater than ten times the dollar output than larger farms through the production of specialty items such as vegetables and cut flowers.

I would like to laud the USDA Commission on small farms for their call to change that policy that favored large corporate farms, a policy that I believe negatively affects rural communities and the environment.

I am thankful that programs such as the small scale farmer and rancher and beginning farmer are now made available through the USDA–NRCS. I believe programs such as these will be of great assistance to small farmers in America, and that they are long overdue.

Thank you once again. Brief and to the point.

[The prepared statement of Mr. Esposito follows:]

PREPARED STATEMENT OF EDWARD D. ESPOSITO, SPECIALTY CROP, CORN, AND POTATO PRODUCER, NEWVILLE, AL

First let me start by saying that it is both an honor and a privilege to be here today. My name is Edward Esposito of Esposito Farms in Echo, Alabama.

For more than a century economists have predicted the demise of the small family farm. We have been labeled as backwards, inefficient and unproductive in comparison to large scale mechanized corporate agriculture. This view needs to be challenged.

Small farmers make better stewards of the land through diverse cropping systems, landscapes and biological organization. We responsibly manage our natural resources of soil, water and wildlife: 60% of all U.S. farms of 180 acres or less produces significant environmental benefits for society.

Most consumers have had little connection to agriculture and food production. Through farmers markets, community supported agriculture and direct marketing strategies of small farmers, consumers are beginning to connect with the people growing their food and with the food itself as a product of a farmers cooperation with nature.

Small farms of less than 30 acres or less can have greater than ten times greater dollar output than larger farms through the production of specialty items such as vegetables and flowers.

I would like to laud the USDA commission on small farms for their call to change policy that had favored large corporate style farms. Policy that I believe negatively affects rural communities and the environment. I am thankful that programs such as the small scale farmer and rancher and beginning farmer and now made available through the USDA–NRCS. I believe programs such as these will be of great assistance to small farmers in America and that they are long overdue.

Thank you once again for the invitation to speak here today.

The CHAIRMAN. Thank you very much. You get extra points for that, Mr. Esposito.

Mr. Mencer, welcome to the Committee.

STATEMENT OF JOE MENCER, RICE, COTTON, CORN, SOYBEAN, AND WHEAT PRODUCER, LAKE VILLAGE, AR

Mr. MENCER. Thank you, Mr. Chairman. We appreciate the opportunity to be here, and we appreciate the rest of the Committee Members being here today and allowing us the opportunity to bring the points of the rice industry to you today.

Frankly, the only part of the farm program that really works for rice right now is the direct payment. That is the only true part of the program that gives us any safety net right now. The counter-cyclical programs, the loan rates are all so low that, frankly, if we had to depend on that for our survival, we would be out of business. They just are not in sync with the cost of production nowadays. So, we want to try to maintain these direct payments if we can, in some form at the level they are now, because we know there is little chance, if any, of getting the loan rates raised.

If we could get the target price raised some it would help, but I do not think they could justify in the budget bringing them up to the levels it would take for us to survive.

Two programs that are out there that were in the last farm bill that rice really cannot participate in, they have no benefit to us, are the SURE Program and the ACRE Program. In the Mid-South, in Arkansas, especially in cotton, for the last 2 years, we have had devastating weather during the harvest season. We pick around 60 percent of a normal crop. We try to buy insurance at an affordable level and, frankly, without high insurance, SURE does not work. We cannot afford the insurance level we need for SURE to trigger. So most farmers are not collecting anything under SURE.

This next week there are still sales going on in the cotton area in south Arkansas of farmers going out of business because they could not pay out and they are not qualified to collect on SURE. So that program just really does not work in the Mid-South and there is little value in it for rice at all. We do not think we would ever trigger in rice because we normally do not have a yield reduction. Our biggest problem with rice is the cost of inputs. If it is a drought, we put more water, but, that is at an added cost.

And also if we have downed rice issues, when a storm comes through, blows rice on the ground, it can increase 2½ times your normal harvest expense. So the yield is not where we face our biggest problem, it is in the cost of getting the crop out of the field and producing that crop, because of large amounts of energy that it takes.

Another problem with the SURE program is it is based on whole farm revenue, and many of our farms are diversified, in that we grow four or five crops. Your early crops come out, you do pretty good on those and the margins that you make on those offset the huge losses you have in your cotton and your later harvested crops. So that is another problem with SURE.

Where we see there may be some benefit for rice and some other Mid-South crops is in crop insurance. Currently, through a task force that the Rice Federation has formed, we are trying to come up with some new crop insurance programs or policies that y'all could take a look at in the next coming months, and see if those could be worked into this bill in some way.

One of them is a crop margin protection to where data would be collected on the cost of these inputs and if there is a drastic move in energy or fertilizer throughout the year, then there may be an indemnity triggered. We see that would be more of a benefit for us to try to secure a safety net, rather than trying to count on SURE or the ACRE program for us.

Those are two of our main deals, we need to be sure and try to protect the direct payment and build on crop insurance as a better safety net for us.

And once again, I want to thank you for allowing us to come here today to represent the rice industry. And in the future, if there are any questions, I am sure that we would be more than happy to try to help you work through something that would be good for the Mid-South, or for rice in particular.

[The prepared statement of Mr. Mencer follows:]

PREPARED STATEMENT OF JOE MENCER, RICE, COTTON, CORN, SOYBEAN, AND WHEAT PRODUCER, LAKE VILLAGE, AR

Introduction

Chairman Peterson, Ranking Member Lucas, and Members of the Committee, thank you for holding this hearing to review farm policy in advance of the 2012 Farm Bill.

We appreciate the opportunity to offer testimony before the Committee on Agriculture concerning the view of rice farmers relative to current farm policy and the development of the 2012 Farm Bill.

My name is Joe Mencer. I am a rice, cotton, corn and soybean farmer from Lake Village, Arkansas and have been farming for 30 years. My family farms 6,300 acres in the southeastern corner of the state on land that has been in my family since 1936. I serve on the Arkansas Rice Producers' Group board and the USA Rice Producers' Group board and also chair its Crop Insurance Task Force.

U.S. Rice Industry Overview

The U.S. rice industry is a multibillion dollar industry that provides jobs and income for not only producers and processors of rice, but for all involved in the value chain. Much of this economic activity occurs in the rural areas of the Sacramento Valley in California, the Gulf Coast region of Louisiana and Texas, and the Mississippi Delta region where 3 million acres of rice, on average, are produced annually.

Arkansas is the largest rice producing state in the U.S., growing about 1.5 million acres on average, or about ½ of the total U.S. crop. Rice is also produced on another 1.7 million acres in the other five rice growing states, including California, Louisiana, Mississippi, Missouri, and Texas.

The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain, to aromatic and specialty varieties. Last year, U.S. farmers produced a rice crop of nearly $3.1 billion as measured in farm gate value.

Today, about 85 percent of all the rice that is consumed in the U.S. is produced here at home. And, despite significant trade barriers to exports, the U.S. remains the largest non-Asian exporter of rice and the third largest exporter worldwide.

On average, between 40 to 50 percent of the annual rice crop is exported as either rough or milled rice. The top U.S. export markets for rice include Japan, Mexico, Canada, Haiti, and most of Central America. In 2009 we exported $2.2 billion in rice to markets around the world.

Americans consume 25 pounds of rice per year. Of the rice produced by our farmers that remains in the domestic market, 53% is bound for direct human food use, 16% is dedicated to processed foods, 15% is used to produce beer, 14% is for pet food, and the balance is used for industrial purposes.

The 2005 Dietary Guidelines and MyPyramid recommendation, published jointly by the Departments of Agriculture and Health and Human Services, call for five to ten servings of grains daily, with half the servings coming from whole grains, such as brown rice, and 45 to 65 percent of calories coming from complex carbohydrates, such as rice. Rice is a wholesome source of nutrition, with no sodium, no cholesterol, no glutens, and no trans or saturated fats.

Beyond the substantial economic and nutrition benefits of rice is the environmental dividend from winter-flooded rice fields that provide critical habitat for migratory waterfowl and other wetland-dependant species. In point of fact, all of the major rice-production areas in the U.S. host important waterfowl activity during winter months.

Rice-growing areas provide surrogate habitats for hundreds of wildlife species that rely on wetland conditions for species survival, some of which would be threatened but for the wetland environments provided by flooded rice fields.

Without rice farming, wetland habitats in the U.S. would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl, shore birds, and a host of other wetland-dependant species. In the Delta region of Arkansas, Mississippi, Missouri, and northeast Louisiana, at least 70 wildlife species rely on our rice fields for habitat.

2008 Farm Bill Review

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) continued the traditional mix of safety net features consisting of the non-recourse marketing loan and loan deficiency payment program and the direct and counter cyclical payment program.

The farm bill also includes the addition of Average Crop Revenue Election (ACRE) as an alternative to counter cyclical payments for producers who agree to a reduction in direct payments and marketing loan benefits. The bill also added Supplemental Revenue Assurance (SURE) as a standing disaster assistance supplement to Federal crop insurance.

The 2008 Farm Bill made very substantial changes to the payment eligibility provisions of the safety net, establishing an adjusted gross income (AGI) means test and, *albeit* unintended by Congress, resulting in the very significant tightening of "actively engaged" requirements for eligibility.

USDA is still in the process of implementing many of the provisions of the 2008 Farm Bill, and the final payment eligibility rules were only announced in January of this year. As a consequence, we are still adjusting to the many changes contained in the current farm bill, even as we begin the process of developing policy recommendations for the 2012 Farm Bill.

Regarding ACRE and SURE, frankly, neither policy has proved much value to the rice farmer in any of the major growing regions. Specifically, in the first year of ACRE sign-up, only eight rice farms representing less than 900 acres were enrolled in the program nationwide. And SURE has provided little, if any, assistance to rice producers, including those producers in the Mid-South who last year suffered significant monetary losses due to heavy rains and flooding occurring prior to and during harvest.

Regarding the traditional mix of safety net features, the nonrecourse marketing loan and loan deficiency payment program and countercyclical payment program have not yet provided payments to rice farmers under the 2008 Farm Bill because of the new price paradigm which has, as a practical matter, greatly limited the protections afforded to producers under these two features.

In fact, if the protections provided were ever to trigger for rice farmers, the protections would help stem some of the economic losses but, frankly, not enough to keep most rice farms in business even through 1 year of severely low market prices.

As such, whatever its imperfections, the Direct Payment alone has assisted rice producers in meeting the ongoing and serious price and production perils of farming today.

For rice producers, as for most other producers, the existing safety net protection levels have simply not kept pace with the significant increases in production costs. It is for this reason that rice farmers believe strengthening the safety net would be helpful in ensuring that producers have the ability to adequately manage their risks and access needed credit.

Another area that we believe needs attention is the Farm Service Agency (FSA) direct and guaranteed loan programs. These programs have proved invaluable over the years in ensuring producers have access to necessary production financing in times of financial stress due to crop losses. We urge the Committee to work with your colleagues on the Appropriations Committee to ensure adequate funding for these programs and with USDA to ensure the program is administered in a streamlined manner for both producers and their lenders.

In sum, despite what one may read in the newspaper or hear on the radio or television about Uncle Sam lavishly spending money on the farm safety net, rice farmers are certainly not seeing any windfalls and, I would respectfully submit, neither are our brethren who produce other crops. The public perception about government largess in farm policy, so carefully and diligently created and nurtured by critics, is quite divorced from reality on the ground. Spending on the rice safety net in the farm bill has declined from $1.2 billion to about $400 million annually, which is largely made up of only the direct payments.

Crop Insurance

Even risk management products offered under Federal Crop Insurance have been of minimal value to rice farmers to date due to a number of factors, including artificially depressed actual production history (APH) guarantees, which I understand is also a problem for many other producers; high premium costs for a relatively small insurance guarantee; and the fact that the risks associated with rice production are unique from the risks of producing many other major crops.

For instance, since rice is a flood-irrigated crop, drought conditions rarely result in significant yield losses as growers simply pump additional irrigation water to maintain moisture levels to achieve relatively stable yields. However, drought conditions do result in very substantial production cost increases connected to the pumping of additional water.

As such, what rice farmers need from Federal crop insurance are products that will help protect against increased production and input costs, particularly for energy and energy-related inputs. For example, fuel, fertilizer, and other energy related inputs represent about 70 percent of total variable costs.

In this vein, the USA Rice Federation has been working for over a year now to develop a new generation of crop insurance products that we hope will provide meaningful risk management tools for rice producers in protecting against sharp, upward spikes in input costs. Our objective is to gain approval from the Risk Management Agency (RMA) of at least two new products that could be available to growers in time for the 2012 crop year. Without these products in place, rice producers enter the 2012 Farm Bill debate at a serious disadvantage, having just one safety net feature to which they have effective access. We believe that there is the authority within the current Federal crop insurance statute to greatly expand access to higher quality coverage and we hope that USDA will aggressively use that authority given the constraints Congress faces in pursuing this end.

One of the products is a concept called Crop Margin Coverage (CMC) that would provide three levels of protection: yield coverage, price coverage, and margin coverage. The new component, margin coverage, is intended to provide some degree of protection against rising production costs, focused on the major inputs of fuel and fertilizer. We are seeing significant interest for such a product from rice producers and are hopeful that RMA will work with us to gain approval for full development of this concept.

The second product we are working on is a "downed rice" endorsement for existing policies. This would be an add on to existing insurance policies and is intended to help offset some of the additional harvest costs that rice producers experience due to rain and flooding at or near harvest. In such situations, harvest costs can increase two to three times of normal and the existing crop insurance products and SURE provide no protection for this peril.

Concerning crop insurance as it exists today, we should note that the enterprise unit discount provision contained in the 2008 Farm Bill did help remove at least some obstacles to better coverage, making Crop Revenue Coverage (CRC) policies more affordable and effective for some rice farmers. Thanks to this provision, we saw an increase in participation in the 2009 crop year and we anticipate additional participation again this year. We thank you for including this provision in the 2008 Farm Bill and we hope that this pilot program can be universally expanded and made permanent.

Conservation Policies

Rice producers are excellent conservation stewards and, as such, we strongly support and participate in voluntary, incentive-based USDA conservation programs.

Rice producers contribute to beneficial conservation efforts through a number of initiatives including the Environmental Quality Incentives Program (EQIP), the Conservation Security Program (CSP), and the Wetlands Reserve Program (WRP), among others. Through our participation, rice producers are maintaining and enhancing the natural resources of not just our family farms, but that of our communities, states, and our nation as well.

Rice producers support administration of conservation programs primarily at the local level. We appreciate the emphasis Congress has placed on technical assistance to producers and we value these services from NRCS officials and NRCS-certified third-party providers.

In regard to the current farm bill, we believe that release of final conservation program rules is extremely important, as is their consistent implementation and application nationwide. In particular, with the strong interest in the 2008 Farm Bill's expanded national-level Conservation Stewardship Program (CSP) and in the absence of a final CSP rule to date, we are hopeful that the Administration will quickly complete and release the CSP final rule.

When the 2002 Farm Bill's Conservation Security Program was being implemented, rice producers played a proactive role in working with NRCS. More recently, in 2009, the USA Rice Federation filed CSP comments with NRCS, including some concerns about provisions in the interim final rule. Of specific concern to rice farmers are provisions that would administratively impose a payment limit of $40,000 per year and a $200,000 contract limit despite the fact that the farm bill does not impose either.

Also, of specific concern are restrictions on the number of individuals who may apply or contract for CSP. Earlier this year, only one entity per contract was allowed, regardless of whether an operation was signed up at the Farm Service Agency (FSA) as a multi-entity operation. Moreover, only those listed on the FSA's documents as farm operators were eligible to apply and, if deemed eligible, enter into a CSP contract. Finally, the rule states that, to be eligible, a CSP applicant must have documented control of the land for the proposed contract term unless an exception is made by NRCS. However, a CSP applicant may not have a 5 year lease on every acre he or she farms. Landowner-tenant relationships include many types of arrangements. Requiring a 5 year or longer lease is unrealistic in most circumstances, both from the perspective of the landowner and the tenant.

In short, rice farmers take very seriously our responsibility to care for our land and our natural resources. They are our economic lifeblood and an integral part of the legacy that we will leave behind to our children and grandchildren. As has been said many times, farmers often find themselves cash poor but relatively land rich. As such, we have an economic as well as an altruistic motivation to properly care for our land.

But there is also very substantial benefit accruing to the general public as a result of the conservation efforts we undertake on the farm, including cleaner air and water, wildlife and wildlife habitat, reduced soil erosion, and wetlands protection. Accordingly, we believe these highly successful, voluntary conservation cost-share efforts are properly a shared responsibility.

Finally, given the fiscal constraints expected in the context of the 2012 Farm Bill, I would be remiss not to mention that conservation funding is an essential part of any successful farm policy, but it should not come at the expense of the farm safety net. A farmer and rancher must still be profitable in order to properly care for his or her land. The safety net doesn't translate into profitability but it does take out some of the deep economic valleys producers would otherwise face.

Environmental Policy Challenges

Unlike conservation efforts under the farm bill, Federal and state environmental regulations, which are growing in number, frequently appear to put more focus on the means of achieving a desired outcome than the outcome itself, thus creating unnecessary inefficiencies and added costs to conservation.

Policy makers should consider working to avoid these less efficient regulatory frameworks where effective cost-share conservation efforts are proven more effective, while making the cost-share dollars available to assist in meeting Federal and state regulatory regimes when they are nevertheless imposed on producers.

Of serious and ongoing concern to rice producers is the economic impact of climate change legislation on the U.S. rice industry and American agriculture in general. From our vantage point, the cost of pending legislation heavily outweighs any potential benefits.

One of the key areas of focus in our analysis of pending legislation is the impact on rice production costs as a result of higher costs for major inputs such as fuel, electricity, fertilizer, natural gas, and propane. As noted earlier, rice is a flood-irrigated crop, requiring energy to pump either ground or surface water. In addition, rice is a high yielding crop, utilizing nitrogen fertilizer which, in turn, is made using natural gas. Rice must also be dried before it can be stored. And, finally, beyond the increased costs of field production, rice must be milled before it can be consumed or utilized in products, an expense which is also borne by producers if they are part of a cooperative. All of these already significant costs are expected to substantially increase under pending climate change legislation, both in the short and long term, and this does not even take into account increased transportation and other costs expected to rise as a result.

We fear that these increased input costs will make us less competitive *vis-à-vis* our major global competitors, such as Vietnam, Thailand, Pakistan, and India, whose producers already benefit from heavy government protections and which will not likely bind their economies to the same level of commitments to reduce greenhouse gas emissions, if they will bind themselves to any at all.

In sum, we are confronted with no economic upside under pending climate change legislation but plenty of economic downside. For instance, an analysis by the Agricultural and Food Policy Center at Texas A&M University estimates that due to the increase in input costs for rice and the likelihood of no opportunity to meaningfully participate in an offset program, at least at this time, all fourteen (14) representative rice farms analyzed would experience lower average annual net cash farm income. Moreover, the American Farm Bureau Federation estimates that the ***increase*** in rice production costs per acre could reach as high as $153.00.

Beyond climate change legislation, our industry is also facing numerous additional rules and regulations from the Environmental Protection Agency (EPA), including new spray drift guidance, potential National Pollutant Discharge Elimination System (NPDES) permits for the application of pesticides, Endangered Species Act (ESA) and pesticide re-registrations concerns, and additional air quality regulations at both the farm and processing stages. Clean Water Act legislation currently pending in Congress is also troubling because of the legal uncertainty that it would create on the farm. Food Safety and Chemical Security legislation also needlessly create anxiety for producers by failing to address basic concerns over fairness, including, in the case of Food Safety, the failure to provide for a simple indemnification program for producers in the case of an FDA-error.

Trade Policy Challenges

Another key policy focus for our industry is trade since we are greatly dependent on export channels to market nearly half of our annual production. While many previously negotiated trade agreements have promised market access gains for agriculture, much of what was promised has yet to materialize or is continually threatened by artificial sanitary, phytosanitary (SPS) and other non-tariff barriers.

In terms of new agreements, rice was completely excluded from the free trade agreement negotiated with South Korea, foreclosing any new markets for U.S. rice producers in that country. And, the Colombian Free Trade Agreement (FTA), which would provide significant new market access for the Mid-South rice industry, is stalled.

Moreover, one market that has the potential to become a top five export market almost immediately is Cuba. Unfortunately, the U.S. Government maintains restrictions on our agricultural exports to this country. Cuba was once the number one export market for U.S. rice prior to the embargo and we believe it is potentially a 400,000 to 600,000 ton market if normal commercial relations are established. In this regard we wish to commend Chairman Peterson and Congressman Moran for your leadership in introducing legislation to open agricultural trade as well as remove travel restrictions to Cuba. We look forward to working with you to see this legislation enacted into law.

I would be remiss if I did not at least touch on the Doha Round negotiations of the World Trade Organization (WTO). It suffices to say that we are greatly outgunned by high foreign subsidies and tariffs and, at least so far, we have seen nothing in the Doha Round negotiations that would change any of this. In fact, instead, in many ways Doha would make matters worse. Yet, enshrining in our trade agreements decisive advantages for our trading partners, including such countries as China, India, and Brazil, may be marketed as trade liberalization or free trade in Washington or Geneva but we in the countryside see it for what it really is: picking winners and losers in the global economy based on politics.

Given rising future global demand for food, the U.S. should exercise caution in negotiations so as not to arbitrarily forfeit America's domestic production to less efficient competitors.

It is also in light of our highly protected and subsidized competition and the importance of trade to our industry that we believe it is critical that the U.S. maintain adequate funding and resources for our export promotion and market development activities, particularly the Market Access Program, Foreign Market Development program, and the General Sales Manager (GSM) 102 export credit guarantee programs.

Budget Challenges

As we look ahead to the development of the 2012 Farm Bill, we are deeply concerned about the deteriorating budget baseline for agriculture.

As you know, today, less than ¼ of 1 percent of the Federal budget and less than 17% percent of the USDA budget is dedicated to the farm safety net.

Yet, the re-negotiation of the Standard Reinsurance Agreement (SRA) by USDA and the crop insurance companies could result in another baseline reduction of nearly $7 billion. Clearly, agriculture cannot afford this kind of hemorrhaging in advance of what we understand may be a baseline farm bill and at least the potential of another budget reconciliation effort. Of equal concern is the adverse impact of such cuts on a safety net component that producers are told by lawmakers and lenders alike that they will have to rely on more and more.

As you know, the farm safety net sustained cuts in 2005 during budget reconciliation and, again, in 2008 in the context of the farm bill even as other policies administered by USDA received funding increases, some very substantial. The success of farm legislation has always depended upon carefully balanced legislation and coalition-building. We are deeply concerned that singling out the farm safety net for additional cuts may upset this fragile balance.

2012 Farm Bill Development

The rice industry is working internally to analyze all the existing safety net policies and to evaluate their effectiveness in providing a measure of protection in the most efficient manner.

We believe that a strengthening of the farm safety net is important. But we also believe that any improvements should be accomplished in a manner that does not cause disruption and upheaval in the U.S. agriculture production system which continues to provide our country and millions around the world with a safe, abundant, and affordable supply of food, fiber, and fuel.

With regard to a whole farm revenue concept, we have serious concerns about how such a program would perform for rice producers, especially if it has some of the same components as the existing SURE program, which is not working for our industry. In general, whole farm approaches don't work well for rice farmers, particularly those that are diversified with several crops.

At this time, we would like to share with you the key principles that are guiding our work in analyzing the current farm bill policies.

1. The farm safety net should be strengthened for rice producers by the 2012 Farm Bill.
2. The Direct Payment Program, or any variant, should confer a stronger safety net for rice producers.
3. The Marketing Assistance Loan/Loan Deficiency Payment Program should be extended with at least current loan rate levels as a base level safety net for producers and lenders.
4. The Countercyclical Payment Program, or any variant, should better reflect current market conditions for rice.
5. ACRE, or any variant, needs to effectively serve all eligible commodities.
6. SURE, or any variant, needs to effectively serve all eligible commodities and regions.
7. Crop insurance needs to effectively serve all eligible commodities and regions.
8. The 2012 Farm Bill should create long-term certainty regarding payment limitations, adjusted gross income requirements, and other eligibility criteria.
9. There should be no further reduction in pay limits or adjusted gross income requirements or further restrictions on eligibility relative to the current mix of safety net components or the equivalents under any variant.
10. There should be no further reduction in funding levels for the farm safety net nor any reduction in that safety net funding specific to rice producers.

Conclusion

In closing, we would like to thank you once again for this opportunity to share our views on the current state of the rice industry, the diverse challenges we face, and our initial thoughts on the development of a 2012 Farm Bill that can help meet the needs of producers.

We look forward to working with you in this regard and I would be happy to respond to any questions the Committee may have.

The CHAIRMAN. Thank you very much, Mr. Mencer.

Mr. Sanders, welcome to the Committee.

STATEMENT OF CARL SANDERS, PEANUT, CORN, COTTON, AND CATTLE PRODUCER, BRUNDIDGE, AL

Mr. SANDERS. Good afternoon, Chairman Peterson, Members of the Committee. My name is Carl Sanders, I am a peanut producer from Coffee County, Alabama, which is the county just south of here. I am President of the Alabama Peanut Producers Association and am here today representing our organization. My comments will also be in support of the Southern Peanut Farmers Federation that appeared before you yesterday. The Southern Peanut Farmers Federation represents about ¾ of the peanuts grown in the United States.

I have been a peanut producer for over 30 years, I farm approximately 1,000 acres of peanuts, cotton, corn and cattle.

Mr. Chairman and Members of the Committee, our message today is straight forward: peanut producers support the concept of a marketing loan program; the current program does not serve as an adequate safety net for producers; farm programs should be developed for farmers who assume the risk—not for absentee baseholders; and in an effort to address the fiscal challenges before us, we must not compromise the stability and security of production agriculture in this country.

Since the 2002 Farm Bill, peanut variable costs have increased 52 percent. In addition to increased production costs, we are competing with other countries like Argentina, China and India where environmental costs, regulations, and labor rates are much less than ours.

The primary goal for our producer organization is to obtain a legitimate safety net for our growers. We do not believe the current $355 per ton marketing loan is sufficient to be a real safety net for producers.

The peanut loan repayment rate guidelines were established in the 2002 Farm Bill. The loan repayment rate has not functioned appropriately since the 2002 Farm Bill. Congress directed the USDA to consider the following when determining loan repayment rates: Minimize potential loan forfeitures; minimize the accumulation of stocks; minimize the cost to the government; and allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally.

It is this last variable that has not been adhered to. In setting the loan repayment rate, USDA has not taken into account the world market prices. As a result, in years of high production, USDA's pricing generates an excessive carryover that weakens the contract offering for the growers the next year. We ask the Committee to include language in the next farm bill that will assure that the prices in the world marketplace will be considered in establishing the posted price.

We recognize the fiscal and political limitations in drafting a successful farm bill. Peanut producers want to stress to the Committee that we will work with you to develop the best possible program, but the pricing structure of the 2008 Farm Bill is not sufficient.

There are additional considerations for any program change in the next farm bill. Making payments limits more restrictive than the 2008 Farm Bill will create even more problems for producers. We must maintain our separate payment limits for peanuts.

The feeding programs at USDA are very important to our producers. We need USDA to partner with our industry in outreach programs to school nutritionists. This also includes our need for assistance in working with international relief agencies. USDA has the experience and resources to help facilitate communications between the peanut industry and major relief organizations.

Peanut producers received no public support or financial assistance from the Department during the PCA *Salmonella* crisis caused by one irresponsible peanut manufacturer. Peanut state members asked the Secretary to increase peanut butter purchases during the crisis to at least the purchase levels we saw in the mid-1990s, to no avail.

In addition to a fair and supportive national farm policy, maintaining public research in agriculture should be a priority. Research by the land-grant universities and USDA Agricultural Research Service has contributed greatly to keeping the peanut industry competitive.

In closing, I want to say that as producers we look at the Committee as a partner in serving and protecting agriculture. Thank you for allowing me to address you today and the Alabama Peanut Producers and the Federation will be glad to work with you any way we can.

Thank you.

[The prepared statement of Mr. Sanders follows:]

PREPARED STATEMENT OF CARL SANDERS, PEANUT, CORN, COTTON, AND CATTLE PRODUCER, BRUNDIDGE, AL

Good afternoon, Chairman Peterson, Members of the Committee, my name is Carl Sanders. I am a peanut producer from Coffee County, Alabama. I am President of the Alabama Peanut Producers Association and am here today representing our organization. My comments will also be in support of the Southern Peanut Farmers Federation that we are a member of which appeared before you yesterday. The Southern Peanut Farmers Federation represents about ¾ of the peanuts grown in the United States. Peanuts have an economic impact of hundreds of millions of dollars in our states and tens of thousands of jobs.

I have been a peanut producer for over 30 years. I farm approximately 1,000 acres of peanuts, cotton, corn and cattle. I have been active in local, state and national agricultural organizations and am a graduate of the Auburn University.

Mr. Chairman and Members of the Committee, our message today is straight forward.

- Peanut producers support the concept of a marketing loan program.
- The current program does not serve as an adequate safety net for producers.
- Farm Programs should be developed for farmers who assume the risk—not for absentee baseholders.
- In an effort to address the fiscal challenges before us, we must not compromise the stability and security of production agriculture in this country.

As you are aware, peanut program prices were reduced in the 2002 Farm Bill when we changed from a supply-management program to a marketing loan peanut program. The 2008 Farm Bill maintained the same prices as the 2002 Farm Bill. The market prices for this year should hold above the marketing loan price but this is no guarantee and certainly not a guarantee for the future.

Since the 2002 Farm Bill, peanut variable costs, for National Center for Peanut Competitiveness representative farms, have increased 52% per acre. In addition to the increased production costs, we are competing with other countries like Argentina, China and India where the environmental costs, regulations and labor rates are much less than U.S. input costs.

Peanuts not only compete for land with other commodities, but also with other Federal subsidies for those commodities. For example, if corn has a competitive loan rate coupled with its ethanol subsidy, many peanut acres convert to corn as we saw 2 years ago in the Southeast. The 2008 Farm Bill peanut safety net does not support competition with other commodities.

The primary goal for our producer organization is to obtain a legitimate safety net for our growers. We do not believe the current $355 per ton marketing loan is sufficient to be a real safety net for producers.

The peanut loan repayment rate guidelines were established in the 2002 Farm Bill. The loan repayment rate has not functioned appropriately since the 2002 Bill. Congress directed the U.S. Department of Agriculture to consider the following when determining loan repayment rates:

- 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; and
- Allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally.

It is this last variable the Committee included in the 2008 Farm Bill and similar language in the 2002 Farm Bill that has not been adhered to. In setting the loan repayment rate, USDA has not taken into account world market prices. Thus, the USDA posted price set every Tuesday afternoon, is too high. As a result, in years of high production, USDA's pricing generates an excessive carryover into the next year that weakens the contract offerings to growers. We ask the Committee to include language in the next farm bill that will assure that the prices that the world marketplace will be considered in establishing the posted price.

We recognize the fiscal and political limitations in drafting a successful farm bill. Peanut producers want to stress to the Committee that we will work with you to develop the best possible program but the pricing structure in the 2008 Farm Bill is not sufficient and certainly won't work for peanut producers if these same prices hold through the life of the 2012 Farm Bill. If budget variables require the Committee to look at alternatives to our current marketing loan program structure, the Federation will work with you to develop the best safety net possible for our producers. I do want to point out that the ACRE program, as included in the 2008 Farm Bill, is not a viable option for peanut producers.

There are additional considerations for any program changes in the next farm bill. Making payment limits more restrictive than imposed by the 2008 Farm Bill will create even more problems for many peanut producers who may be impacted. We must maintain our separate payment limit for peanuts. This was agreed to when producers worked with the House and Senate Agriculture Committees in the 2002 Farm Bill establishing a marketing loan program for peanuts. The current program will not work without the separate payment limit.

The feeding programs at the USDA are very important to our producers. Peanut butter is a long-time participant in the school lunch program. Peanut butter also qualifies for the breakfast program and afterschool snack program. There are school systems all across this country participating in these Federal feeding programs. The peanut industry does not have the resources to reach even a small percentage of these nutrition programs illustrating the nutritional value, low cost and long shelf life of peanut butter. We need the USDA to partner with our industry in outreach programs to school nutritionists. We are on the USDA lists but many times this falls short of explaining new products for kids, the facts, not rumors regarding peanut allergies and other important peanut butter related variables. This also includes our need for assistance in working with international relief agencies. Our Congressional delegations and industry leaders struggled to get the attention of those preparing food assistance for Haiti relief. Although our industry provided over 3.5 million serving in peanut butter to the relief effort, we were not successful in reaching decision-makers involved in establishing food assistance lists for U.S. and international aid. USDA has the experience and resources to help facilitate communications between the peanut industry and major relief organizations. The peanut butter products available for Ready-to-Use Therapeutic Food (RUTF) alone are a sufficient example of how helpful our products can be in impoverished parts of the world or countries in crisis.

Peanut butter does not qualify for the Fresh Fruit and Vegetable Snack program. We believe that all school feeding programs should allow for the purchase of peanut butter. USDA, land-grant universities, the Department of Defense and other institutions have long recognized the importance of peanut butter as a nutritional resource.

Finally, the recent legislative activity related to the reauthorization of child nutrition programs highlights the need for nutrition legislation to be the sole jurisdiction of the Agriculture Committee. We appreciate that Members of the House seek appointment to your Committee because of their interest in production agriculture, conservation and nutrition. We would hope that in the future House leaders would consider the House Agriculture Committee as the home for all nutrition legislation much like the Senate.

We are hopeful the Congress will pass the agricultural disaster relief legislation similar to the bill approved in the Senate. The current SURE program has not been effective for peanut producers. Despite the USDA website seeking participation in the SURE program, the program was far from ready to go forward. In fact, peanut producers were turned away until recently because local offices had not been given sufficient instructions to receive applications for peanut losses. Even today, local offices are not consistent as to how they will handle producers from multiple counties. Peanut producing states typically have a large number of counties. It is not unusual for peanut producers to farm across a number of county lines.

Peanut producers received no public support or financial assistance from the Department during the PCA *Salmonella* crisis caused by one irresponsible peanut manufacturer, not by peanut producers. Peanut state members asked the Secretary to increase peanut butter purchases during the crisis to at least the purchase levels we saw in the mid 1990's to no avail. Other commodities have received financial assistance and support from USDA when prices have dropped or when their commodity has been in crisis, dairy and pork being just two examples, not peanuts. We believe any relief for the peanut industry will come from Congress whether this is with regard to the function of our program or the use of our product in government domestic and international feeding programs.

In addition to a fair and supportive national farm policy, maintaining public research in agriculture should be a priority. Research by the land-grant universities and USDA's Agricultural Research Service has contributed greatly to keeping the peanut industry competitive. By maintaining new research in the public domain, the cost is less to the producer than if it was privately held. Furthermore, much of the research that has benefited our industry would not have been done without these public facilities. Protecting these funds from cuts has become an annual event. We hope you will protect our agricultural research and the role it play in keeping farmer competitive.

In closing, I want to say that as producers we look at the Committee as a partner in serving and protecting agriculture. In recent years, we cannot say that about the USDA with any conviction. We hope that as you address the upcoming farm bill, that safeguards will be included to be assured that the implementation of the legislation will follow the intent of Congress. Please help the Department remember the importance of production agriculture and the industry it was created to serve.

Thank you for allowing me to address the Committee today and the Federation looks forward to working with you.

The CHAIRMAN. Thank you very much, Mr. Sanders, appreciate that.

Mr. Waide, welcome to the Committee.

STATEMENT OF DAVID W. WAIDE, CORN, SOYBEAN, AND RICE PRODUCER, JACKSON, MI

Mr. WAIDE. Thank you, Mr. Chairman. I certainly appreciate the opportunity to be here and to testify before the Committee. I have been in office during the past writings of the previous three farm bills, and I appreciate also being able to participate in this at the beginning of the 4th.

My remarks today are primarily going to be directed toward the Federal Crop Insurance Program. I do agree with most everything that has been said by the other panelists on this distinguished panel today, and I do appreciate the fact that they have taken the time also to come.

Let me just comment so that you will realize my position on this. I am not a crop insurance purchaser, I do not use CAT and I do not buy the buy-up coverages that RMA offers. The diversity of my farming operation offers me a spread of risk. In my bio I believe it says I am a rice producer, I am not, I am a cattle producer and corn and soybean producer. Because of the diversity I have, I do not participate in the RMA products.

I do realize though that they are essential to protect the huge investment that agriculture has. And I would relate some numbers here as I did in my written testimony. I know it is true in Mississippi, and it is true generally throughout the Mid-South, the high percentage of CAT coverage exists in the Mid-South. I think if you look at the Mississippi numbers, we have about 94.5 percent of actually insured acres in Mississippi, 35 percent of those acres are just insured by CAT coverage only. And I would suggest to you that many of those acres that are insured by buy-up coverage are insured by buy-up coverage at the request of the individual financing the production of that crop, not at the farmer's desire.

In Iowa, I think you will find that the numbers in corn include 88 percent and only two percent of those acres are insured by CAT coverage. The same is true for soybeans, the percentages are a little bit different, 27 percent are covered by CAT in Mississippi compared to only two percent in Iowa.

There is a huge difference in the risk management product that can be purchased in Mississippi, and that is the reason you see that CAT coverage is used so widely in Mississippi.

The problem with the crop insurance that exists in Mississippi deals with how the determination of crop insurance products are priced in Mississippi. The actual production history is the best way to determine what a farmer can insure his crops for, but so often because of the diversity we have in Mississippi, we have to use t-yields, which are the transitional yields within a county. And often, producers have to insure their crop less than their actual capability of producing. I hope that our new farm bill and the risk management products offered will certainly take into account the fact that we are not able to purchase the adequate risk management products in the Mid-South that are needed for the huge investment that we have in crops. Hopefully that can be addressed in some more testimony dealing primarily with risk management products.

The APH determines the grower's premium on the crops that are grown. If the APH is used over 4 to 10 years, if he has that production, certainly he can get real good yield of what he needs for his protection. And I hope that we will look at how we continue offering insurance products in the future, so that we can take advantage of the technology that has been offered for southern crops.

We have a couple of other issues that are important in crop losses this past year. One of the ways that they determined what a grower is going to get for his adjustment was a quality loss. We had different companies requiring different methods of adjusting that quality adjustment. Some required them to harvest the crop and to at least try to sell it to a salvage dealer. In many cases, that salvage dealer was more than 200 miles from their farm and it was not economical, it simply added a lot of cost to a farmer to get his crop to a salvage dealer. And I hope that we will be able to get a uniform method of getting the quality adjustment, if we can just simply get the destruction in the field if the crop is not worth salvaging. Hopefully that will be part of the next farm bill that will include a uniform way of getting salvage values.

The other thing that I would like to mention, and I will be quick in my closing. We have a lot of crops that are not insurable except under NAP. That is just very minimum coverage, it very seldom covers the expense, it does not allow the farmer to have the opportunity to protect his risk and we have numerous crops that are just under NAPs. Sweet potatoes, one of the best economic crops in my state, cannot get but somewhere in the $300 to $400 range of protection for crop coverages, and it costs about $2,500 an acre to grow those crops. So I hope that we will consider peanuts, sweet potatoes and certainly rye grass. It is big in Mississippi as a stocker grazer forage and I hope that we will consider expanding the crop insurance program to growers that do not have the ability to get anything but NAP coverage.

Thank y'all and I sincerely appreciate the opportunity to be here.

[The prepared statement of Mr. Waide follows:]

PREPARED STATEMENT OF DAVID W. WAIDE, CORN, SOYBEAN, AND RICE PRODUCER, JACKSON, MI

Members of the House Agriculture Committee, thank you for the opportunity to appear this morning before the Committee to discuss the 2012 Farm Bill. I am David Waide, President of the Mississippi Farm Bureau® Federation (MFBF). Farm Bureau is the largest general farm organization in the country, with members who produce everything from catfish to peanuts. Today, my testimony will primarily focus on some of the shortcomings of the Federal Crop Insurance programs in Mississippi and the Southeast region. Recently, I have heard much discussion out of Washington, pushing for downsizing the direct payment program in favor of expansion of the crop insurance programs. I am adamantly opposed to that idea, and I firmly believe the direct payment program serves as a consumer subsidy to food products and only contributes to the abundance of our food supply in this country.

One of MFBF's priorities is to improve the cost effectiveness of the risk management tools available to producers across agriculture. Unfortunately, we believe the current crop insurance products available in the Southeast region do not provide adequate risk protection.

Fortunately, the diversity of my farming operation enables me to offset my risk without participation in the Federal crop insurance programs. Such diversity is uncommon in Mississippi, and many MFBF members cannot feasibly distribute risk in an effective manner. Therefore, they choose to participate in the Federal programs. However, a comparatively high portion of Mississippi producers only buy catastrophic coverage (CAT), which is virtually fully subsidized, only requiring the payment of administrative fees. In Mississippi, 94.5% of corn acres are insured; of those, 35% are only insured by CAT coverage, In Iowa, 88% of corn acres are insured; of those, just 2% are insured by CAT only. Similarly, for soybeans, of the insured acres in Mississippi, 27% are CAT-only insured compared to 2% in Iowa. I understand that the intricacies of the various crop insurance programs are complex and producer education may be an issue, but obviously a significant amount of Mississippi producers do not find the Actual Production History (APH) and Crop Revenue Coverage (CRC) insurance products competitive when compared to the participation rates in the Midwest region.

Additionally, we encourage continued producer education of risk management alternatives, efforts to refine existing risk management tools, and the development of new crop insurance and other risk management products. We believe all producers should have access to crop insurance programs and policies. In the following, I will briefly address a few of the issues that have been communicated to me by producers in Mississippi.

I. Inequitable Yield Calculations

The farmer's actual production history (APH) determines the grower's premium rate as well as the grower's yield guarantee. Farmers document their APH in a simple average of 4–10 years of historical yields for the insured unit. Farmers who lack 4 years of yield records can still get crop insurance by using a Transitional or T-Yield, which is based on the county's 10 year average.

Today, due to significant technological advances, producers in the Southeast have been able to improve yields drastically over what was possible just 10 years ago. These technological advancements are not quantified in the 4–10 averages used to calculate APH. Producers in Mississippi and other southeastern states have the ability to plant a much greater diversity of crops than producers in the Midwest. This diversification confers some inherent advantages in terms of risk management; however, it also presents some challenges related to the crop insurance program. For example, with a relatively large number of crops available for rotation on a given farm it may take several more years to establish a complete APH for any particular crop. Moreover, a producer wanting to plant a new crop on a particular farm will lack any yield history for determining APH. Producers who lack a 4 year APH can only buy crop insurance based on the t-yield guarantee. T-yields are not calculated considering the technological advances that have substantially increased yields in the South in recent years. Therefore, many of our producers are forced to buy insurance based on yield guarantees well below their reasonable production expectations and sometimes below their break-even yield, depending upon the yield guarantee they can afford.

Even when a producer has a long track record of good production, one or two failure/disaster years will drop his APH to levels that have little relation to his typical production level. Each year of crop failure reduces the producer's APH, eroding the safety net provided by crop insurance, and limiting the amount of insurance he can buy. The bottom line is this—a producer's 75% yield guarantee purchased using the APH or t-yield formulas will only cover 60% or less of his true expected yield.

II. Perceived Lack of Uniformity in Loss of Quality Adjustments

Many Mississippi crops are subject to Special Provision of Insurance (SPOI) quality adjustments. Quality adjustment is a process that reduces the quantity of mature production when it meets certain requirements provided in the crop provisions. This adjusted production to count is used for indemnity anti actual production history purposes. Discount factors and additional procedures for quality adjustment are listed in the specific special provisions statements for each county/crop, and are governed by the Loss Adjustment Manual (LAM) published through the Risk Management Agency (RMA).

While RMA sets the standards in LAM, the individual Approved Insurance Providers (AIPs) actually enforce the LAM standards for quality loss. Most of the complaints I have encountered stem from the procedures for obtaining "zero market value production" which entitles the producer to maximum payment under the terms of their insurance. Upon filing a potential "zero market value production" claim, the AIP does an on-site inspection and makes a determination whether the crop is salvageable. If the AIP thinks the crop is salvageable, the farmer must harvest the crop and make attempts to sell the product on the salvage market. If the ALP does not think the crop is salvageable, the farmer must simply destroy the crop to receive his maximum payout.

Substantial costs and labor are required to harvest a crop, and even more so for a damaged crop. Consider this scenario. Farmer A's AIP decides his crop is salvageable, so if he wants to receive maximum payout, he must harvest and "make every reasonable effort" to sell the crop. Farmer A's neighbor, Farmer B, has very similar crop damage, and his AIP determines his crop is not salvageable, and tells Farmer B to destroy the crop to collect maximum payout.

In the above real scenario, Farmer B received his maximum payout without the added labor, fuel, and equipment wear and tear costs which were endured by Farmer A. It further reasons that Farmer A is frustrated and angry because he worked 24 days in January harvesting a worthless crop because his AIP determined it *might* be salvageable.

We urge RMA to remove the mandatory harvest requirements from Federal Crop Insurance claim provisions, and adjust crops at or below harvest cost to be considered a zero level of production. Additionally, we believe tremendous strides could be made by simplifying application, reporting and claim procedures by promoting flexibility in the process and communication between agents, adjusters, FSA, and others.

III. A Lack of Cost Effective Insurance Products are Available for Many Commodities

We believe crop insurance should be available to provide producers of all crops options for various insurance products that accurately reflect individual risk considerations when making crop insurance purchasing decisions.

NAP Program

When insurance coverage products are not available in a county under a Federal Crop Insurance policy, the producer's only option is to enroll in the Noninsured Crop Disaster Assistance Program (NAP). Administered by the Farm Service Agency (FSA), this program can provide financial assistance to producers when natural disasters occur.

In Mississippi, many of our farmers produce crops that are otherwise uninsurable without NAP. No insurance products are offered for sweet potatoes, watermelons, tomatoes, sweet corn, rye grass, and many others, all of which significantly contribute to the wonderful agricultural diversity in Mississippi. It is estimated that

75% of sweet potato acres in Mississippi are insured by NAP alone. The program protects against yield losses and prevented planting due to catastrophic events such as excessive rain, floods, *etc.* The cost of NAP insurance is low, but so is the liability protection it offers. A farmer collects nothing unless his expected yield (based on APH) drops below 50% or he is prevented from planting more than 35% of the insured acreage. So a farmer may lose 49% percent of his expected yield, and he will not receive any indemnity. Farming is a business, and any business that loses 49% of their yearly revenues would be in dire financial straits without an infusion of capital. NAP simply is unable to provide enough coverage to meet our producers' needs. Coverage of 50% may not he substantial enough for producers in cases of complete loss. Imagine any manufacturer losing 50% of their product, while maintaining the same overhead and fixed costs as though they produced at 100%. How long would they be able to conduct business in your community?

In summation, we hope FSA will completely review the NAP program elements including the applicable dates, guarantees, premium payments, and prices related to the program, in order to better serve the needs of Mississippi farmers.

SURE Program

The largest of the new farm disaster programs from the 2008 Farm Bill, the Supplemental Revenue Assistance Payments Program (SURE), was designed to compensate eligible producers for a portion of crop losses that are not eligible for an indemnity payment under the crop insurance program (*i.e.,* the policy deductible), through a revenue approach. To be eligible for payment, a producer must be in or contiguous to a county that has been declared a disaster area by the Secretary of Agriculture, or have an overall 50% farm loss. The producer also must at least have CAT coverage for insurable crops or NAP for uninsurable crops

Many Mississippi producers have expressed concern that payments for crop losses under SURE cannot be determined until after the marketing year ends, since a portion of the disaster payment formula is based on the average market year prices. For example, SURE payments from the 2008 crop cycle finally made their way to our farmers in early 2010. Waiting over a year for disaster payments after such massive losses of revenue is assuring bankruptcy to many in the farming community.

The SURE program, as designed and implemented, is largely a supplement to crop insurance coverage. The linkages between SURE and crop insurance are such that SURE does little to address perceived deficiencies in the crop insurance program and may actually magnify them by providing further incentives for buy-up coverage in areas where buy-up coverage is already being purchased. If enhancing crop insurance is the goal, it should be more efficient and more effective to work directly on the crop insurance program itself.

IV. Conclusion

In the United States, we have the safest, most affordable, and most abundant food supply in the world. The Southeast region produces food in a diversity and variety that is unmatched by other parts of the country. Farming, like any other business, is compounded by financial risk. Unlike other businesses, the majority of the risk in farming is blind once the crop has been planted, fully exposing the farmer to Mother Nature's wrath, with his only defense being effective risk management. In the past few years, this government has doled out numerous bailouts and incentive plans to big business in an effort keep the struggling economy afloat. Many of our farmers are going bankrupt, but they do not want a handout or a bailout. They do need a little help in the form of risk management products that can help keep their operations viable through a bad crop cycle. They help feed your family; let's help them feed their own.

Thank you again for the opportunity to speak this morning, and I am happy to answer any questions you might have.

The CHAIRMAN. Thank you very much, Mr. Waide and thank all of the panelists for their testimony.

I was going to go to Mr. Bright, but I think I am going to start off here.

I agree with you that we need to fix this crop insurance thing. And I think we can. I am glad the rice growers are finally focusing on this and trying to develop it. We want to work with you to make that happen, because in the long term, this is going to be hugely important. At the end of the day, that might be all that they are left with, at some point. So I agree with that.

But as we get there, we just keep adding stuff on top of what we have been doing. You know, this last time, we added the revenue coverage and then we added SURE, which does not work for you guys. And one of my concerns is that we are making this overly complicated, and we are not coordinating these programs so they work together.

And I understand the importance of direct payments to you guys because nothing else works. So that is something you can depend on. Now even though you might not need it one year, you want to hang onto that because the next year, you might need it. So I understand all that. But if we are going to develop these products, we are going to have to look at rearranging what we are doing in order to have the money to be able to do this. I have asked all of the different representatives and leaders in your industries to work with us to look at this.

I think there is a way that we can rearrange these programs, give you the same kind of certainty you have with the direct payments, the current system, but give you a better safety net that works. But it is probably not going to look exactly like it does today. I know it makes people nervous, but that is what we are going to have to look at, in my opinion.

So on to the questions. We pick up quite a bit of money if we eliminate CAT coverage and NAP coverage. And I personally think we should do that, because they are really not doing you any good. Most people are buying these things because they have to, because in order to get a disaster payment or whatever. It was originally started to get people used to using crop insurance, and I think it accomplished that. It got a lot of people into the system and a lot of people started using it and it served its purpose.

But if you eliminate it and go to an actuarial situation with CAT and NAP—we would still make those policies available, you would just have to pay the actuarial value of them—we would pick up quite a bit of money in that process. We could then use that money to try to enhance these other crop insurance products to get at the problem that you guys have raised.

The other thing that saves money is that the more you can insure the whole operation, the cheaper it is. And if you had a whole farm type of policy, it is considerably less than if you are insuring it crop by crop. So there is some potential there, and there are concerns and problems with it, but I think we need to look at that as a way to try to expand this and make it work over the whole farm.

You know, part of what I run into in my district with the problem is the mentality of people that have been using the program, where they do not like the idea that they are going to use one crop's profits to offset the losses in another crop. Because they look at everything, I am going to buy crop insurance based on whether it is going to pay out for me, or whether I am going to make money off of it.

You know, if we shift to more of a revenue type of thing with crop insurance, we have to start thinking differently in terms of insuring your whole operation at a higher level, but you may not get paid all the time. When you do not need it, you may not get a payment. But that takes a big shift of thinking, probably more in my area than yours because we have used it more.

So, that is one of the reasons I am doing these hearings early, is to try to get this process jump started and get people to start thinking about this now. We are going to have about a year to work on this stuff, and we want to work with you guys to try to bring some simplification and coordination to this system, and see if we can use the money more efficiently and give you a better safety net.

Do any of you oppose getting rid of CAT coverage and NAP coverage and make it actuarial?

[No response.]

The CHAIRMAN. That would be okay?

Mr. Esposito, I have been a big promoter of local foods. I have had a conference in my district for the last 5 years promoting local foods. I think it is a good thing because there is a market and the people that get into it can make money, and that is great and I am all for it.

But I do not like this idea of pitting one against the other. I do not think it is right and I do not think it is necessary. You know, we need production agriculture and we need as much of it as we can get. And we are going to have a heck of a time feeding not only this country but the rest of the world, going forward.

So I am for all kinds of farms. You know, if you can make a living on 30 acres, God bless you. And people can do that. If it takes 5,000 acres, I am for that. If it takes 20,000 acres, I am for that. Whatever makes sense economically and works for the producer, I am for it.

We are not going to get into the business of deciding how big a farm should be, because that is way beyond our expertise. So I would just hope that we do not get into any kind of conflict between organic, local, and commercial agriculture because there is no reason for it. There are plenty of markets. You agree with that I guess, you are shaking your head.

Mr. ESPOSITO. Mr. Chairman, I do agree with that.

The CHAIRMAN. Pardon?

Mr. ESPOSITO. I do agree with you.

The CHAIRMAN. Because we have had some kind of conflicts that have developed—it is not necessary, it is not right. There is a great market there for the people that want to get into that. In my area, a lot of young people are getting into farming, people moving out of Minneapolis that you would have never thought, getting into agriculture, a family has never been in agriculture, doing a great job. And that is good, we need more young people. You have something similar going around here in that regard?

Mr. ESPOSITO. Yes, sir, I do. And the point was made basically on how small producers are being treated as opposed to larger agriculture.

The CHAIRMAN. I understand. We made a step in that direction.

Mr. ESPOSITO. A good step.

The CHAIRMAN. I had a lot to do with that.

Mr. ESPOSITO. I am the first one to realize that 3 acres is not going to feed the nation, nor is it going to feed the world.

The CHAIRMAN. Right.

Mr. ESPOSITO. And organic production, although I favor it, will not feed the world.

The CHAIRMAN. Right. So we recognized local foods, organic foods in the last farm bill for the first time. We will do better hopefully this next time, but I have to say there are a bunch of folks that are in your business that also do not want us to overdo. If you get too many people getting into this, you are going to collapse the market, potentially, in certain areas. I think that could be a danger if you get—if we started subsidizing it, you could collapse the whole thing. And so we have to be careful how much we push it.

I have gone over my time.

The gentleman from Virginia.

Mr. GOODLATTE. Well, thank you, Mr. Chairman, and I share those sentiments.

I would like to ask the panel—I have been calling for you to find ways for us to save money. I want to suggest that the government can help you on your bottom line as well, and that is to just ask you what kind of ideas you have about ways we can help your production costs and, in particular, what government regulations might be impacting you in that regard. We need to have a clean environment, we need to have safe work places. But it seems to me that we have, in many instances, gone way overboard in terms of not only what we regulate but how we go about doing that. We are allowing bureaucracies to micromanage your farms and to figure out the best way to do something when they have no clue of the best way to accomplish a particular goal.

Mr. Bell, you testified that there has been a 72 percent increase in production costs. What is the biggest factor in that increase in cost of production?

Mr. BELL. Fuel and fertilizer.

Mr. GOODLATTE. Fuel and fertilizer, both which are produced as a result of natural resources that we have in this country, but we do not fully exploit.

I would like to ask each member of the panel if they have any thoughts on government regulations and, in particular, the cap-and-trade legislation that passed the House of Representatives last year, has not yet been taken up in the Senate. This concerns me in terms of a policy which I see as moving toward increasing the cost of our traditional sources of energy to make newer sources more competitive, but at risk of driving a lot of people in farming, manufacturing, transportation, even service industries, out of business. Our competitors around the world are not going to follow suit, certainly not in China and India and many other developing countries, which are proving to be some of our biggest competitors. They are not adopting a policy that essentially penalizes the use of coal and oil and natural gas and even nuclear power, which the cap-and-trade legislation does not advantage even though it is the largest source of electricity generation that has no CO_2 gas emissions.

We will start with you, Mr. Bell, and work our way across.

Mr. BELL. Well, as I said earlier, the increases, fuel, fertilizer makes up a large portion of it. But over the last 10 years, farmers have been provided with new technology but they have not been able, from a financial standpoint, to capture much from that technology. It has changed our production process, but from a bottom line standpoint, we have not recognized anything from that.

Mr. GOODLATTE. Do you favor the cap-and-trade legislation that Congress is working on?

Mr. BELL. In some ways yes, some ways no.

Mr. GOODLATTE. You want to elaborate?

Mr. BELL. I would rather pass that to someone else.

[Laughter.]

Mr. GOODLATTE. We will give it to Mr. Esposito.

Mr. ESPOSITO. Well, sir, as small as I am, I do not have much of a carbon footprint. Most of my stuff is hand labor and I try to keep my weeds down, so I am not really spraying too much.

I am not well versed on the cap-and-trade, but what I have heard about it is it could force prices of fuel use, energy use, up based on an allotted amount. But other than that, I really do not know much about it.

Mr. GOODLATTE. Thank you. Mr. Mencer.

Mr. MENCER. Yes, sir, we oppose cap-and-trade the way it is currently proposed. Some analysis that has been done shows that it could affect us a $70 to $150 an acre increase in cost of production for a rice operation, with little to no opportunity to capture any benefit in the form of payments in cap-and-trade. Every analysis that has been run shows that—we had one done by the Agriculture Food and Policy Center at Texas A&M and it showed that every rice farm realized a loss of income if cap-and-trade was enacted.

Mr. GOODLATTE. Thank you. Mr. Sanders.

Mr. SANDERS. From what I understand of cap-and-trade, it is going to really affect coal-fired electrical production which most of ours in the Southeast is. And it is going to really hurt us. Therefore it is going to run up the cost of my electricity on my farm. We just switched from diesel fuel to electric because we were trying to bring down cost. And now we are fixing to run up the cost of my electricity. And when we use the natural gas for electricity production, that is going to run up the price of my fertilizer drastically. So it does not look good on the farm.

Mr. GOODLATTE. Thank you. Mr. Waide.

Mr. WAIDE. I am opposed to cap-and-trade. I do not think there is anything good that is going to come from it for agriculture. I am not sure that it will benefit this country in the long run in any way. I think that we are the premier producer of all farm commodities, and we certainly cannot remain if we get in a non-competitive area with our counterparts in other countries that are going to be allowed to produce without that.

I think the one thing we have to remember—and I do appreciate Mr. Mencer's comment on the increased cost of rice production as it relates to the energy, as a result of some of the cap-and-trade provisions. We need to be mindful of the fact that farmers are price takers. We have never been able to establish a price regardless of what our production costs are. We have to be at the market's risk at all times. Weather, certainly even celebrities can cause us to take a tremendous drop in our farm gate values, by just some comment they make. And this cap-and-trade issue is going to be real because we are going to be taxed for that energy cost that we have to bear. It is not optional with us if we produce the crop. And the thing in my opinion that makes us so respected throughout the world is the envy the other parts of the world have for our food sources and the production methods we have. And I certainly do not believe we need to sacrifice that in any way for something that has not been proven to be science-based.

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

The CHAIRMAN. I thank the gentleman.

The gentleman from Alabama, Mr. Bright.

Mr. BRIGHT. Yes, sir, thank you, Mr. Chairman.

Let me thank the panelists for your testimony today, and I have very limited time so I will try to get in as many questions as I can. If you will pay attention to my questions, I am probably going to take one and maybe ask a comment from each one of you.

You know, everybody in this room and you particularly as your testimony today indicates, you are very concerned about our economy. We have just been through and are still going through one of the worst recessions we have had in our country since I have been living in my short 39 years that I have been here. It has been real serious and I hope I do not ever have to go through another one, particularly from this side of the table as an elected official because a lot of people are affected, a lot of people are concerned about it today.

I travel, not just in my district, but statewide, and in other parts of our country, and people are very concerned about the economy and availability of credit available to small businesses. And I assume—and I maybe should never assume and I try to teach my staff never to assume—but it affects you too as producers in the agricultural industry. Would you each one take an opportunity and let us know what effect, if any, whether it is positive or negative, the credit crunch or the lack of credit that has been the subject of our economy over the last number of months, couple of years. Has it affected you and if it has affected you, how has it affected you? Mr. Bell, I will start with you since you were the first to testify.

Mr. BELL. As of this point, we have not been affected by available credit.

Mr. BRIGHT. Lack of available credit.

Mr. BELL. Yes.

Mr. BRIGHT. Okay.

Mr. BELL. But if we continue to produce a crop at a loss, it is just a matter of time.

Mr. BRIGHT. Okay. Mr. Esposito.

Mr. ESPOSITO. I have not pursued any credit. I do not want it, I tend to go as I can, I do not want to be in debt.

Mr. BRIGHT. Mr. Mencer.

Mr. MENCER. We have not been affected by it. As long as you can show a cash flow, we have availability for plenty of credit.

Mr. BRIGHT. You are fortunate, thank you. Mr. Sanders.

Mr. SANDERS. Yes, I personally have not been affected by the lack of credit, but it runs up the cost of everything else when other people are having problems.

Mr. BRIGHT. Yes. Mr. Waide, have you got a comment?

Mr. WAIDE. Yes, sir, I would. Personally I have not been affected but I would tell you this, I have had more phone calls because of the farm credit crisis that exists out there in the last 30 to 40 days, because farmers are trying to get production loans and the cash flow is a big issue.

Mr. BRIGHT. Any suggestions as to what we can do as a panel of Congressmen to help in that area?

Mr. WAIDE. Well, I guess the concern that everybody has is some of the things that we are dealing with with SURE. The fact that those marketing loans, some of the SURE program benefits are tied to market loans and that is a year down the road. Any way we could speed up the projection of what that may be and offer any amount of income to a farmer at the end of that bad year would be a big help.

Mr. BRIGHT. Okay.

Mr. WAIDE. And I could also address that in other ways dealing with crop insurance, timely settlements for claims and that sort of thing.

Mr. BRIGHT. Okay. I have a short time left and in my time I want to recognize—Mr. Chairman, if you would allow me to do a point of order. I am not sure you recognized another very important person in the USDA arena, the FSA Director for the State of Alabama, Daniel Robinson. Daniel, would you stand up and let everybody see you? Because this man right here will help you out there if you have an issue in the FSA area, and I wanted to make sure he got his face before everybody here.

Specifically Mr. Bell, in regard to crop insurance: I told you earlier that I am very concerned about that in our region, in our state. You mentioned in your testimony that you conducted a study on the economic feasibility of revenue coverage *versus* catastrophic coverage and in your study, you concluded that revenue coverage would have cost you significantly more in premiums than it would have paid out in claims. Surely this is not the case for farmers across the country, but I hear this all the time throughout the district. Could you explain why revenue coverage is too expensive for farmers like you? And use the microphone so we can hear you.

Mr. BELL. I think the problem has to do with the cost of production *versus* the value that is set for the crop. Cotton, for instance, is set at 77¢. You know, today's cost is about $900 an acre to produce an acre of cotton. A 1,000 pound crop at 77¢, 75 percent coverage, you are insuring about ½ of the cost of production. So there again, it goes back to the cost of production. And 77¢ may be a dated number in today's environment.

Mr. BRIGHT. My time has run out but just one last thing. Has any one of the panelists, are y'all familiar with the BCAP biomass program today? And if you are, do you have an opinion as to whether or not—what we need to do to that to tweak it to make it work so we can get into the second phase of it?

Mr. Waide, are you familiar with it?

Mr. WAIDE. I am familiar with it, but mainly because the funding has been cut. The members in Mississippi that were getting BCAP funding to harvest timber to make it economically feasible on some of the acreage that they were harvesting, has just dried up the market altogether.

I think it was a good program, it certainly enhanced the economic value, and I think it was doing something else in the use of bioenergy. It was creating a demand there for some products, some wood fiber products that had not existed. I hope we can get something that makes it work in the future.

Mr. BRIGHT. Mr. Sanders, do you have anything in addition to that?

Mr. SANDERS. No, sir, I am not familiar with that at all.

Mr. BRIGHT. All right, good.

Mr. Chairman, my time has expired, I will yield back.

The CHAIRMAN. I thank the gentleman.

The gentleman from Alabama, Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

Mr. Bell, I know you started off talking about your concern about crop insurance. What is the one take-away that you want us to leave from here hearing from you about what you want done, specifically about crop insurance that would make it a more viable program for you?

Mr. BELL. We just need a realistic target value set to the crop. And it needs to be kept in step with the cost of production.

Mr. ROGERS. And how would you like to see that realistic value arrived at?

Mr. BELL. I have never written farm policy before, so I do not have a good answer for you.

Mr. ROGERS. Mr. Mencer, you mentioned that you and some of your fellow rice farmers have gotten together and come up with some alternative structures for crop insurance that you hope to present to us in a few months. Is that—did I understand you correctly?

Mr. MENCER. We are in the process of getting a concept approved by RMA and get it submitted.

Mr. ROGERS. Have y'all hired a consultant, is that how you are doing it?

Mr. MENCER. Yes.

Mr. ROGERS. Oh, good, excellent. Are you following the model of another area of the country?

Mr. MENCER. We are working with the spring wheat.

Mr. ROGERS. Have they been able to resolve their concerns with crop insurance?

Mr. MENCER. They are closer and we are trying to team up with them and present the two crops together.

Mr. ROGERS. Are you aware of anything that the cotton industry, cotton sector, is doing on this to try to—I heard the Chairman talk yesterday about how folks in Minnesota had done what Mr. Mencer is doing and kind of fixed their problem. They had to hire a consultant, but they got a structure put together that works for them. And now it is no longer a problem. So are you aware of anything folks in your sector are doing to try to deal with the crop insurance problem other than talking to us?

Mr. BELL. No.

Mr. ROGERS. Okay. What about the ACRE—yes, sir, Mr. Waide.

Mr. WAIDE. Could I respond to that?

Mr. ROGERS. Certainly, yes.

Mr. WAIDE. Just so you will know, we have appointed a risk management committee in Mississippi and we are going to work with all the commodities including the minor commodities that are not currently protected, and offer a suggestion on what would make this a true insurance product. We do not want a social program out of it, we want protection for the at-risk part of what a farmer invests in his production costs. That is what we are looking for. And I think we will have some ideas from the group that is going to be working on it that will be very beneficial in writing, updating the risk management products.

Mr. ROGERS. Excellent, I look forward to hearing that. This is the most common complaint I have from farmers throughout the Third Congressional District, is what Mr. Bell is saying, we have to come up with something that works, is practical.

Yesterday in Atlanta at our hearing, there was a cotton farmer who made the point that there was not a single farmer in the State of Georgia that was participating in the ACRE program. Is that the case here?

Mr. WAIDE. Is that for me?

Mr. ROGERS. Yes, sir.

Mr. WAIDE. As far as I know, there are none participating in Mississippi. And I have been in touch with the state FSA Director. His statement to me was it simply does not work in Mississippi.

Mr. MENCER. In rice, I think last year there was only nine farms nationwide that signed up for ACRE.

Mr. ROGERS. Is that right? What about peanuts?

Mr. SANDERS. The economists that I have heard refer to it say it does not work for peanuts.

Mr. ROGERS. And the SURE program, I heard y'all talk about the SURE program a little while ago. How would you characterize its effectiveness, any of you?

Mr. MENCER. Failure.

Mr. ROGERS. I'm sorry?

Mr. MENCER. It was a failure for rice and a failure for cotton in the Mid-South last 2 years.

Mr. ROGERS. Mr. Waide.

Mr. WAIDE. The diversity we have in Mississippi, it is unusual for a producer to miss or have a loss in every entity that they have. And unless you are farming a single commodity, it is just not going to work in our state.

Mr. ROGERS. I was very interested in your response to Mr. Bright's question about credit pressures. Every other small business person I am talking to in my district, except folks in the grocery store business, are just really struggling with access to credit. We have a farm credit fellow in the audience, I should ask to have him put up here so he could talk to us about it. But it is not affecting you from a production standpoint, I understand your answers to that. Do you see the tightening credit standards affecting the stream after it leaves the farm, some of your customers? Or is this not in any way affecting you in the foreseeable future, not just from a production standpoint but downstream?

Mr. WAIDE. My opinion is that it is going to have a long term effect and one of the greatest fears I have, because I farmed in the 1980s when we had 19–20 percent interest rates, and that is the greatest fear I have. And when it gets to 19–20 percent, farmers are shut down. We cannot pay that kind of interest on production loans.

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

Mr. BRIGHT [presiding.] We have an empty seat. One of the benefits of being part of the Majority and the only other Democratic in the house is to take over when the Chairman steps away. So I am going to exercise my privilege and my authority as the temporary Chairman to call on the next Congressman, my colleague from Nebraska, Adrian Smith.

Mr. SMITH. Thank you. It is great to be here all the way from Nebraska here in Mr. Rogers' neighborhood I guess.

Mr. BRIGHT. Okay.

Mr. SMITH. Neighborhood.

Mr. BRIGHT. Oh, neighborhood, not district. You see what I have to put up with.

[Laughter.]

Mr. SMITH. No, America is a great country with a diverse everything. Here we are today with agriculture and so I am grateful that we have some opinions on the panel.

Mr. Esposito, if you would not mind elaborating a little bit. I am intrigued by your production. You do not need credit and that is great. But can you tell me more about your actual production?

Mr. ESPOSITO. What would you like to know?

Mr. SMITH. What do you grow? You have obviously found a niche market, how many acres?

Mr. ESPOSITO. I am doing approximately seven now condensed. But keep in mind, gentlemen, I know you are talking to these folks over here that do several acres, I do not sit there and do bushels to the acre or tons. I think of dollars per square foot. Keep that in mind. I have a quarter acre of broccoli now, if I get 75¢ a stick, that is 42,520 sticks, so you do the math, if I get rid of it. So that is what I am talking about, condensed acre planting and such. So right now, I am doing your common late spring greens—broccoli, cabbage, collards, turnips, and mustard and so forth and so on, new potatoes; followed by your common summer stuff—squash and tomatoes.

My market tends to be in my local community. I do not do too much wholesale or anything like that. My goal personally—I am retired military, I really do not need to be doing this, but my goal is to provide a nutritious product for folks right there in the neighborhood. I donate—I am working with the Wiregrass Food Bank, the House of Relief for Battered Women and I even donate to the county jail so old Wally does not have to spend too much money on the incarcerated, it can go more to where he needs it.

I like touching bases with young'uns. I have a customer that comes over and when the broccoli is in, he wants to hold it in the back seat. Well, by the time they get halfway home, they have to come back because he has eaten it. He is not eating candy, he is eating broccoli. I got that same young'un growing his own broccoli. So what is he doing now? He is not doing this, he is not playing with a joystick in front of the TV, he is tending, he is out in the fresh air growing broccoli. That is the kind of difference I intend to make in my community.

I would not mind making a little cash too.

[Laughter.]

Mr. ROGERS. A comprehensive wellness program. I commend you for that. Thank you very much.

Mr. Bell, you suggested that perhaps there are some good points. I kind of heard you say that there might be some good points to cap-and-trade. Would you elaborate on those? Unless I misheard.

Mr. BELL. I really do not agree with cap-and-trade.

Mr. ROGERS. Okay.

Mr. BELL. From an energy standpoint and the costs that are going to be increasing and what we will be associated with.

Mr. ROGERS. Okay. Well, I think that probably concludes my questions, but again I appreciate the opportunity to be here and for everyone participating, and you all are invited to Nebraska any time.

Mr. BRIGHT. The chair will now recognize the gentleman from Pennsylvania, Mr. Glenn Thompson.

Mr. THOMPSON. Thank you, Congressman, and thank you to the panel for your testimony today. As we embark on preparing for this next farm bill, this is so important to get this kind of input.

I want to start with Mr. Esposito, but I will expand to the rest of the panel as well, but I want to start with the smaller farms in particular and then we will go to larger ones. It really is about legacy, it is about every time—well, I think every year the amount of farmland that is turned over into strip malls and pavement and that we lose, that we take out of active production, is significant. As we lose those, it is difficult to get back.

And so in terms of loss of farms and specifically family farms, what are the challenges to keeping farms in the family from generation to generation, and therefore keeping it in production providing us with quality affordable food supply? Mr. Esposito, we will start with you.

Mr. ESPOSITO. Well, sir, I am not a heritage farmer, I put my farming desires on hold to serve my country for a number of years. I would say the number one problem I think with keeping a farm in production is making a living off of it. I mean most farmers that I know around where I am, they have another job.

Mr. THOMPSON. Profitability.

Mr. ESPOSITO. Yes. I mean how are you going to sustain it and make a living off of it. What I am understanding is that back years ago, I do not know how long ago, but a farmer received 33¢ or 34¢ or so on every agricultural dollar and what are we getting now, 11¢? We cannot live like that.

Mr. THOMPSON. And the smaller farms, I am assuming, my experience is that most—when we are talking 30 acres or less, small amount of acreage, a lot of those farmers have other jobs off the farm as well because of that profitability issue.

Mr. ESPOSITO. Yes. I mean some of them do not. If you are lucky enough to find a niche market, something high dollar you can get rid of, I mean, you can live off it. I think the biggest concern about holding onto farmland is why should I be struggling to do this when someone is going to give me X amount of dollars an acre like they did down in south Florida. Went for $25,000 an acre to $50,000 an acre and 5 acre plots for $1.5 million. Who can farm on something like that?

Mr. THOMPSON. Right. How about other gentlemen, other concerns, barriers for keeping the farms in the family—estate tax or any issues that you can identify. Mr. Bell.

Mr. BELL. Profitability would take care of all these problems.

Mr. THOMPSON. Profitability would take care of all the problems.

Mr. BELL. Absolutely.

Mr. MENCER. That is the way I see it too, is profitability. These younger generations are not going to come in and work for the small margins that we are currently existing on. We have seen our margins grow smaller and smaller every year, and I just do not see how we can encourage a guy out of college to come back there when he sees he can go somewhere else to make a better living with a lot less stress and probably half the hours that we put in in a day's time out there.

Mr. SANDERS. I would have to agree with Mr. Mencer, that profitability and if we get some profitability out there, we will have young people and we will have sustainability on the farm. I always like the carrot approach better than the stick approach.

Mr. THOMPSON. Okay.

Mr. WAIDE. I agree with all of them. If we fix the profitability issue, we will be able to continue domestic production of food and fiber.

Mr. THOMPSON. Okay, thank you, gentlemen.

Mr. Bell, you noted that government subsidies seems to have an adverse effect in some cases. I wonder if you could expand a little bit on that comment, where do you see adverse effects from subsidies.

Mr. BELL. A lot of times the payments are tied to the landowner *versus* the actual production entity and the funds never reach the actual cost of production. If there is, for example, an additional payment that is sent out, in effect that may just increase your land rent for that parcel of property *versus* enabling the production entity to cover additional costs.

Mr. THOMPSON. Mr. Mencer, you testified to a new crop insurance called Crop Margin Coverage. What would that margin coverage cover?

Mr. MENCER. Basically it would take two of our largest cost inputs there, which are energy and fertilizer, and we would establish a base price there at the beginning of the growing season. Then if there is drastic increases in those two costs during the growing season, as we saw a couple of years ago where we saw fertilizer more than doubled in just a matter of a few months and fuel went up $1.50 a gallon in just a few weeks. Rice is such a big user of fuel and fertilizer that if we could hedge our bets on that, if we saw that same increase again, then we would trigger an indemnity payment back to the grower. So you are setting your baseline up on the front end there and protecting against that.

Mr. THOMPSON. Now is that obtained through a supplement to another policy or is that a whole separate policy?

Mr. MENCER. We hope to attach that to a CRC policy.

Mr. THOMPSON. Okay.

Mr. MENCER. And we are also looking into another separate issue—we are saying separate right now, we really do not know where it is going—is a downed rice issue so that if we have a storm that blows the rice down, it doubles your harvest expense, then you may trigger an indemnity payment there, similar to what hail insurance is right now, is how we want to take the approach with that.

Mr. THOMPSON. Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN [presiding.] I thank the gentleman. We are not going to do another round because we do not have time, but Mr. Goodlatte has been kind enough to let me—I need an answer to a couple of things.

One, on the disaster program that is being considered, the Senate has put this language in, I assume you are aware of that, and they are only going to have to have a five percent loss in order to qualify. Did that come out of you guys or where did that come from?

Mr. MENCER. That came from Farm Bureau I think. It was not even—I think it was zero is what we had to show up front. If you drew a payment you got a payment, is the way the first version of it came out.

The CHAIRMAN. I am very concerned about the precedent we are setting here. If you only have a five percent reduction in income and you are going to trigger another payment, I mean the precedent we are setting, I just——

Mr. MENCER. It does not look good.

The CHAIRMAN. No.

Mr. MENCER. And the way I have looked at it, I know that rice and a lot of other crops will not qualify, but in the Mid-South if you grew a stalk of cotton, you would qualify last year.

The CHAIRMAN. Yes, and I am sympathetic and I think they need some help, and we are trying to work through this. It just seems like this is a little overkill.

Mr. MENCER. Just another comment about that. In the Mid-South in cotton, guys are still being put out of business this week because the bankers were counting on disaster assistance coming in a timely manner, they did not get it, and somebody has to farm the land.

The CHAIRMAN. I understand. You know, part of the discussion we have had, if we are going to come up with some new system, we have to make it work so that we do not have these *ad hoc* disasters. We cannot keep doing this. We have said over and over again we are never going to have another one and then we always do. So that is going to be part of the solution.

And the last thing, on the direct payments, the comment has come up a couple of times about how it drives up the price of land and so forth. I think you mentioned it, Mr. Bell, am I correct, that you think direct payments just raise the rent sometimes.

Mr. BELL. Right.

The CHAIRMAN. You know, and they are tied to the base, I guess some people updated in 2002 and so forth. I am more interested in supporting production than I am landowners, you know. What is your position on that?

Mr. BELL. If we were able to have a realistic target value and had some mechanism to keep it in step with inflation and designate to the farms that are actually still in production, tell them what percent of their base that they can produce at that level, at least we would have a percentage of the farm that we know would work.

The CHAIRMAN. What do the rest of you think about it?

Mr. MENCER. Well, the biggest deal about direct payments is you can go to the bank and you know you have this coming every year.

The CHAIRMAN. Right.

Mr. MENCER. And if we had a higher target price, we could rely on that because it would trigger countercyclical in those low years, and we would not need the direct payment.

Mr. SANDERS. If base was tied to the producer instead of to the land, I think that would accomplish part of your goal.

The CHAIRMAN. And you would be for that?

Mr. SANDERS. Yes, sir.

The CHAIRMAN. Mr. Waide.

Mr. WAIDE. I would agree with that. I think it needs to go to the person actually producing the commodity, that is what I think the program was designed for in the beginning, and then it got away from that and went to the land. But I think it needs to be tied to the producer.

Mr. MENCER. That would affect our payment limits if it is tied to the producer at the current level.

The CHAIRMAN. Well, I am not in favor of payment limits and I think that if we could rejigger what we are doing here, we might be able to eliminate this whole payment limit discussion, which we should because it is not what the issue is about. You know, we are off on a tangent with these payment limits.

Mr. MENCER. If you go to a insurance-based program, which is written on private paper, EWG and all them will not know what is going on.

The CHAIRMAN. Right, that would be a good thing. But that is part of what I am trying to look at, is there some other way to do this. It would all be predicated on it having to be enough to cover your cost of production and get you up to where you need to be before we will ever be able to even consider changing anything. But it just seems like the way we are doing it is kind of inefficient, the way we are—you know, it works, but it is not really getting where it needs to get, from what I can tell.

I will just say one last thing, that the last go-round when we—folks, especially in the South, that were involved in this from lobbyists and other people, were so focused on maintaining a payment limit that they could live with and maintaining direct payments, that we never got into any other discussion. So the whole thing just focused on that and that is part of why the SURE program ended up the way it was. You were fighting to keep these other programs and you were not at the table on the SURE stuff. And frankly I was not there that much.

So we need to work on this and the message to you folks is we want to work with you and we want to try to make this stuff work down here in the Mid-South and the Southeast, so that it works like it does for us. I have 98 percent crop insurance in my district and it is a different situation up there, and we need to get you guys into that kind of a program down here.

I want to thank the panel very much. You guys have done a great job in bringing things forward in a clear manner, and it has been very helpful to the Committee. We appreciate your time you have taken out of your Saturday to be with us.

The panel is dismissed and we will call the next panel to the table and the Members can take a very short break while we are rearranging things here, but we do not want to wait too long.

Mr. Lamar Dewberry who is a forestry producer from Lineville, Alabama; Mr. Doug Gibbs, a beef producer from Ranburne, Alabama; Dr. Steven Taylor, Professor and Head of the Department of Biosystems Engineering at Auburn University; and Mr. Ricky Wiggins, cattle, cotton and peanuts producer from Andalusia, Alabama.

So I guess we are going to take a couple minute break here while we get this organized.

[Recess.]

The CHAIRMAN. If you need to continue your conversations, we would ask you to do it outside. There is barrel racing going on over here, there is an extra horse if anybody wants to enter the competition. They offered it to me but I think I probably am going to decline.

Anyway, we welcome the panel to the table and—what happened to your sign there? You did not get one? Mr. Dewberry, right?

Mr. DEWBERRY. That is correct.

The CHAIRMAN. You are a forestry producer. Welcome to the Committee and you are recognized. You need to get that microphone kind of close, it works better that way.

STATEMENT OF LAMAR DEWBERRY, FORESTRY PRODUCER, LINEVILLE, AL

Mr. DEWBERRY. Good afternoon, gentlemen. My name is Lamar Dewberry from Lineville, Alabama. My wife and I are private forest landowners in Clay County, Alabama and I manage our forestland. I want to thank the Committee Chairman, Congressman Peterson and Congressman Mike Rogers for making it possible for me to testify before this important Committee.

My work as an agriculture education teacher made it possible for my wife and I to own Dewberry Lands today. I hope I can pass this property on to my son and daughter some day. And with that being said, we need to do everything possible to protect family farms today.

We are seeing aging generation of farmers and private forest owners, of which many of these farms will fall to development. I think we should do as much as we can to keep this property in the hands of private individuals.

The management objectives on our property are timber and wildlife. These two objectives go hand-in-hand and it is said that these are the twin crops of modern forest management. Alabama is 70 percent forestland and Clay County, where I live, is over 82 percent forestland. Of this forestland, the majority is owned by private individual landowners just like myself.

This past year only one EQIP contract was approved for forest management practices in our county. I do not know why, but possibly part of the problem may be the work committee that sets the resource concerns is weighted heavily in another commodity area. I do know for Clay County, forestry and wildlife are ranked as second as a resource concern and have been since 2007. To me, it was better when forestry was funded as a special project, Forest Health Initiative, to get funds to protect forestland which make up the majority of Alabama.

A continuation of cost share funding for forest management practices needs to happen. Too much forestland is harvested and is never reforested. As we see a turnover in ownership, it becomes so important that we have technical expertise on the ground to assist these new and beginning farmers and landowners. An example is in EQIP and WHIP, the establishment of a longleaf pine ecosystem. Much of this ecosystem has been lost in the last 200 years, and we are now trying to reestablish this forest type. Most of the private forest owners in the Piedmont region of Alabama are not familiar with the longleaf pine ecosystem and the use of prescribed fire as a management tool. Education is important and this comes from technicians on the ground working directly with landowners.

The 2008 Farm Bill requires each state forester to develop and submit to the Secretary of Agriculture a statewide assessment of forest conditions. The key elements of the study were to identify threats to our natural resources, develop strategies to address these threats and apply resources to implement these strategies. Alabama has completed our assessment and we know what these threats are. The problem is we do not have the resources to apply to the problems.

Here in Alabama, our state forestry agency, the Alabama Forestry Commission, has seen a steady decline in all funding sources, especially in USDA–U.S. Forest Service cooperative state and private program funding. For example, the overall President's 2011 proposed Forest Service budget for Cooperative State and Private is almost 13 percent less than the 2010 enacted budget. The Alabama Forestry Commission is looking at a $2 million reduction in cooperative state and private funding beginning in 2011. That loss, coupled with a substantial reduction in timber severance taxes due to the slowdown in the housing market, has left the Commission with a $5 million shortfall. The Commission is currently looking at laying off 106 employees, or ⅓ of its workforce this year. This is where the technical assistance comes from in implementing these cost share practices provided in the 2008 Farm Bill.

Program delivery by resource professionals at the state and county level must be a key component of any farm bill. The 2012 Farm Bill should include a line item for cooperative state and private forestry funding as a mechanism for delivering and implementing forestry practices that provide a sustainable resource for our rural communities.

As a local producer of wood, there is a need for more markets to sell the wood. In our county, unemployment is over 15 percent. Many of these are loggers, truck drivers and workers in the wood industry. We have really taken a hit from the problems in the housing market. Those still in business in Clay County are hauling pine pulpwood up to 90 miles one way to sell it. There is only one market for pine saw logs left in our area and this wood is hauled 70 miles one way. Fuel cost makes it impossible for the landowner to get much for their product. In 2008, I had a pine stand thinned to improve the stand and I had to give the wood away to get it cut. The stand was 12 years old and I grew it, paid taxes on it and got nothing for the product, but the cut improved the quality of the stand. The wood was chipped on site and hauled for fuel at an OSB, oriented strand board, mill. Since then, the plant has closed and two markets taking wood have been lost, fuel wood and wood for OSB. I know there are many factors that go into this problem, and I do not have an answer for this dilemma.

In the 2008 Farm Bill, I was glad to see forestry added to the Conservation Stewardship Program. This will encourage forest landowners to continue doing a good job in protecting the soil and water and wildlife on their property and encourages them to do more. Each year, we have 5th graders from the local schools come out to our property for "Classroom in the Forest". They are exposed to how a southern forest is managed to protect water, soil and wildlife. They learn about something besides a rainforest. It is a fun day for all involved.

Nothing is more pleasing than walking through a beautiful, well-managed forest. The water is clearer, the air is fresher, the soil is more stable and wildlife is more abundant.

Thank you, Chairman Peterson, and Agriculture Committee Members for coming to Alabama and allowing me to share these thoughts with you and for your concerns for conservation, the wise use of our natural resources.

[The prepared statement of Mr. Dewberry follows:]

PREPARED STATEMENT OF LAMAR DEWBERRY, FORESTRY PRODUCER, LINEVILLE, AL

Good afternoon gentlemen. My name is Lamar Dewberry from Lineville, Alabama. My wife and I are private forest landowners in Clay County, Alabama and I manage our forestland. I want to thank Committee Chairman Peterson and Congressman Mike Rogers for making it possible for me to testify before this important Committee.

My work as an agriculture education teacher made it possible for my wife and I to own Dewberry Lands today. When we married we owned no property but have been blessed to be able to purchase forestland and now we own and manage 800 acres. I hope I can pass this property on to my son and daughter someday and with that being said, we need to do everything possible to protect family farms today. We see an aging generation of farmers and private forest owners of which many of these farms will fall to development. I think we need to keep as much of this property as we can in the hands of private individuals and keep these farms working, no matter what kind of farm it is.

The management objectives for our property are timber and wildlife. These two objectives go hand-in-hand and it is said that these are the twin crops of modern forest management. Alabama is about 70 percent forestland and Clay County where I live is over 82 percent forestland. Of this forestland the majority is owned by private individual landowners just like me.

This past year only one EQIP contract was approved for forest management practices. I don't know why but possibly part of the problem may be the work committee that sets the resources concerns is weighted heavily in another commodity area. I do know for Clay County forestry and wildlife are ranked second as a resource concern and has been since 2007. To me it was better when forestry was funded as a special project, "Forest Health Initiative", to get funds to protect forestland which makes up the majority of Alabama.

A continuation of cost share funding for forest management practices needs to happen. Too much forestland is harvested and is never reforested. This land becomes unproductive, the aesthetics are slow to return, it quickly becomes unattractive for wildlife habitat, recreational purposes are lost and often soil will erode in these areas. As we see a turnover in ownership it becomes so important we have technical expertise on the ground to assist new and beginning farmers. An example is in EQIP and WHIP the establishment of longleaf pine ecosystems. Much of this ecosystem has been lost in the last 200 years and we are now trying to reestablish this forest type. Most of the private forest owners in the Piedmont Region of Alabama are not familiar with the longleaf pine ecosystem and the use of prescribed fire as a management tool. Education is important and this comes from the technicians on the ground working directly with landowners.

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In Clay County out of the last 6+ years we have only had a county forester in the county for 2.5 years. Our NRCS office closed in Clay County and combined with Randolph County and the office is in Randolph County.

Program delivery by resource professionals at the state and county level must be a key component of any farm bill. The 2012 Farm Bill should include a line item for cooperative State and Private Forestry funding as a mechanism for delivering and implementing forestry practices that provide a sustainable resource for our rural communities.

As a local producer of wood there is a need for more markets to sell wood. In our county unemployment is over 15%, many of these are loggers, truck drivers and workers in the wood industry. We have really taken a hit from the problems in the housing markets. Those still in the business in Clay County are hauling pine pulpwood up to 90 miles one way to sell it. There is only one market for pine saw logs left in our area and this wood is hauled 70 miles one way. Fuel cost makes it impossible for the landowner to get much for their product. In 2008, I had a pine stand thinned to improve the stand and I had to give the wood away to get it cut. The stand was 12 years old and I grew it, paid taxes on it and got nothing for the product but the cut improved the quality of the stand. The wood was chipped on site and hauled to a plant for fuel making Oriented Strand Board (OSB). Since then the plant has closed and two markets taking wood has been lost; fuel wood and wood for OSB. I know there are many factors that go into this problem and I don't have an answer for the dilemma.

In the 2008 Farm Bill I was glad to see forestry added to the Conservation Stewardship Program. This will encourage forest landowners to continue doing a good job in protecting the soil, water, and wildlife on their property and it encourages them to do more. Each year we have 5th graders from the local schools come out to our property and have "Classroom in the Forest." They are exposed to how a southern forest is managed to protect the water, soil, air and wildlife. They learn about something besides a rainforest. It is a fun day for all involved!

Nothing is more pleasing than walking through a beautiful, well managed forest. The water is clearer, the air is fresher, the soil is more stable and wildlife is more abundant. Thank you, Chairman Peterson and Agriculture Committee Members for coming to Alabama and allowing me to share these thoughts with you and for your concerns for conservation, the wise use of our natural resources.

The CHAIRMAN. Thank you very much, Mr. Dewberry, we appreciate that.

Mr. Gibbs, welcome to the Committee.

STATEMENT OF DOUG GIBBS, BEEF PRODUCER, RANBURNE, AL

Mr. GIBBS. Chairman Peterson, and Members of the House Agriculture Committee, I guess you can see I am a little out of my element by my uniform and lack of cap, but I am here not only representing myself but the Alabama Cattlemen's Association. And not just that, but I am the third of four generations that are living and working on our family farm over in northeast Alabama, right on the Georgia-Alabama state line.

My family's role in the beef industry is we are a 500 head momma cow, Simmental, SimAngus and Angus herd that sells seed stock, breeding stock.

Like you, I am passionate about my country and our agricultural way of life. But I want to tell you, however, I am very deeply concerned about both. Survival of the family farm is essential to the wellbeing of our great country. Our lives are dedicated not only to producing a product that consumers around the globe can enjoy, but also to helping fellow cattlemen use their animals that they purchase from my family to be more profitable in their enterprises.

Also like you, I understand that decisions made in Washington, D.C., have the potential to impact agriculture producers just like me all across the country. Today, my 67 year old dad and my 15 year old son, with my mother driving the truck are in the hayfield. My 91 year old grandpa is in his truck sitting there wishing with all his heart that he could do more to help. You know, the purpose I left them today is to come here and speak out on behalf of all the working cattlemen in Alabama and the rest of this country as well.

To be able to say something in 5 minutes, to demonstrate to you how important it is to prepare the farm bill as wisely as possible, is an almost impossible task. With all the challenges facing the family farm already, from the impact of what other countries are doing to our fuel and fertilizer prices, to the impact of foreign trade on our beef production demand, to the very questionable benefit of ethanol production, to the death tax, the last thing we need is for our government to produce a bill that does not keep the absolute best interests of the people that feed this country as its top priority. I want you to just think about it, what would happen if the younger generation or just 25 percent of the farmers decided there is no future in agriculture and just hang it up and just leave? I do not know about you, but it scares me to death. Please consider the following points and opinions as you start the deliberation for the crafting of the 2012 Farm Bill:

Number one is crop management tools, risk management tools. Crop insurance programs are vital to protect the stability of America's farming and ranching families. In a business where our bottom line can literally turn red overnight due to environmental factors beyond our control, these programs are extremely important and deserve your attention. I want you to think back to our late President Teddy Roosevelt as he stood surveying the death and devastation after a most cruel North Dakota winter. He threw up his hands and he went back East and went into politics. This is a decision that is just too horrible to contemplate for most farming families. Neither farmer/rancher, nor this country can take too much quitting.

Number two is the conservation programs. Incentive-based programs meant to preserve and protect wildlife and delicate ecosystems have been embraced by landowners like myself for years. CRP, WHIP, EQIP and other programs like them absolutely define a mutually beneficial relationship between land managers and agency officials. But at the same time, some of these programs can approach the point of systematic abuse when monies are paid to those who choose simply to neglect a piece of property in the name of conservation rather than actively manage it. In these instances, those enrolled acres should be taken out of enrollment under the premise that active management of land to produce a viable commodity, in addition to protecting wildlife, is actually a much better use of the resource.

Number three is non-farm programs. Now I am positive I am not the only one here expressing concern over the number of times our Administration has mentioned non-farm programs in relation to our next farm bill. I thoroughly understand and am aware that 70 percent of the farm bill funds are used on programs for non-productive agriculture. But I still am very wary over the talk of dedicating farm bill funds to address issues like high speed Internet access and graduation rates in rural America. Please, let us just keep our focus during the farm bill dialogue on protecting our farming and ranching families first.

Number four, conventional growers *versus* small scale and sustainable. While I think it is terrific that there is a vegetable garden now growing on the grounds of the White House lawn, I think the fact that it is being maintained as an organic venture and promoted solely as such does a disservice to those of us in mainstream America. Farms like mine should not be discriminated against in the court of opinion and certainly not within the confines of the 2012 Farm Bill. You know, the scale of my operation is what makes me efficient and, hopefully, makes me profitable. We have already established that there are fewer and fewer family farms. We already know that the business climate is getting more and more challenging. Do you think we are going to be able to feed this country and even the world by going backwards with our production methods? Please, let us not let buzz words like *natural* and *organic* and the like be used to vilify traditional commodity producers like us. And by the way, I bet you you could go to the grocery store and ask ten different people what these two words mean and get ten different answers. This past Sunday morning on the Atlanta news, they were interviewing customers who were shocked and surprised that they were paying ridiculous prices for foods produced with little or no USDA oversight. The products I produce are every bit as safe and wholesome as those generated from an operation relying on opinion-driven marketing.

Finally, wildlife *versus* ag products. Like our past President Teddy Roosevelt, I do not think you can find a bigger sportsman than I am. And In fact, the farmers and ranchers are the original stewards of the land. But just as my earlier comment on the abuse of some conservation programs highlighted the worth and benefit of land being used to generate actual ag products, so too is it a legitimate argument to scrutinize wildlife programs with the same attention. While I do not begin to argue that wildlife protection programs are not important, I do maintain that ecosystems as well as local rural economies can all benefit from a multi-tiered benefit of the two working together.

You know, it is uncanny the timing of this question my son asked me last Saturday afternoon as we was rotating heifers from one pasture to the other. He said, "Daddy, what would happen to the land if it was not for the farmer and the rancher taking care of it?" Well, I thought to myself, how many in this country do you think are ready to go back to being hunter/gatherers in either a grown up jungle or a concrete city or a subdivision? Please, let us consider all the positives derived from year-round ag production when considering wildlife related land use programs as well.

In closing, thank you guys so much for giving me this opportunity to speak. My Congressman Mike Rogers, I am a constituent of his and a fellow Alabamian with Mr. Bright and I would like to thank the Pike County Cattlemen's Association for letting us use this building today. You know, this is a group of dedicated volunteers that have been a good example to show us that you can come together as like minded people and benefit the ag industry in your own community.

Thanks again. I as well as the rest of the 11,000 members of the Alabama Cattlemen's Association are here to help in any way we can. Thanks.

[The prepared statement of Mr. Gibbs follows:]

PREPARED STATEMENT OF DOUG GIBBS, BEEF PRODUCER, RANBURNE, AL

Chairman Peterson, and Members of the House Agriculture Committee, I'm delivering this statement to you today not only as a cattleman and member of the Alabama Cattlemen's Association; but also as the third of four generations currently living and working on our family farm located in the eastern edge of Cleburne County near the Alabama-Georgia state line. My family's role in the beef cattle industry involves hosting an annual production sale where we market 250 bulls and heifers from our herd of 500 Simmental, SimAngus, and Angus cows, as breeding stock. The remaining offspring are sold private treaty off the farm, or sent to Kansas where we contract them to be fed and harvested.

Like you, I am passionate about my country and our agricultural way of life. I am however deeply concerned about both. Survival of the family farm is essential to the well being of our great country. Our lives are dedicated not only to producing a product that consumers around the globe can enjoy, but also to helping fellow cattlemen use the animals they purchase from my family to be more profitable with their own farms and ranches, as well as help them market their own product as wisely as possible.

Like you, I understand that the decisions made concerning ag policy in Washington, D.C. have the potential to impact agriculture producers just like me all across our country. Today my 67 year old father and 15 year old son are in the hayfield, with my 91 year old grandpa sitting in his truck wishing with all his heart that he could be more help, and I've left my family farm to be with you here for the purpose of speaking out on behalf of the hard working cattlemen in Alabama, as well as the rest of this great nation.

To be able to say something in 5 minutes to demonstrate to you how important it is to prepare this farm bill as wisely as possible is an almost impossible task. With all the challenges facing the family farm already, from the impact of what other countries are doing to our fuel and fertilizer prices, to the impact of foreign trade on beef demand, to the very questionable benefit of ethanol production, to the death tax, the last thing we need is for our government to produce a bill that does not keep the absolute best interest of the people that feed this country as the top priority. Just think about it, what would happen if the younger generation, or just 25% of farmers and ranchers decide that there is no future in agriculture, and give it up. This scares me to death. Please consider the following points and these opinions as you begin the process of deliberations for crafting the 2012 Farm Bill:

Risk Management Tools—Crop insurance programs are vital for protecting the stability of America's farming and ranching families. In a business where our bottom line can literally turn red overnight due to environmental factors beyond our control, these programs are extremely important and deserve your attention. Think back to our late President Teddy Roosevelt, who after surveying the death and devastation of a most cruel North Dakota winter, hung it up and moved back East to pursue politics. For the overwhelming majority of family farmers, this is a decision just too horrible to contemplate. Neither the farmer/rancher, or our country can take too much quitting.

Conservation Programs—Incentive-based programming meant to preserve and protect wildlife and delicate ecosystems have been embraced by landowners like my family. CRP, WHIP, EQIP, and other programs like them can absolutely define a mutually beneficial relationship between land managers and agency officials. At the same time, some of these programs can approach the point of systemic abuse when monies are paid to those who choose to simply neglect a piece of property in the name of conservation rather than actively manage it. In these instances, those enrolled acres should be taken out of enrollment under the premise that active management of land to produce a viable commodity in addition to protecting wildlife is actually a better use of that resource.

Non-farm Programs—I am positive that I'm not alone in expressing concern over the number of times our Administration has mentioned nonfarm programs in relation to our next farm bill. While I'm aware that more than 70% of farm bill funds are used on programs other than production agriculture, I still am wary over the talk of dedicating farm bill funds to address issues like high-speed Internet and graduation rates in rural America. Please, let's keep our focus during the farm bill dialogue on protecting our farming and ranching families first.

Conventional Growers ***versus*** *Small Scale & Sustainable*—While I think it's terrific that a vegetable garden is now growing on the grounds of the White House lawn, I think the fact that it's being maintained as an "organic" venture and promoted solely as such does a disservice to those of us in mainstream agriculture. Farms like mine shouldn't be discriminated against in the court of public opinion and certainly not within the confines of the 2012 Farm Bill. The scale of my operation is what allows me to be both profitable and efficient. We have already established that there are fewer and fewer family farms, and the business climate is getting more and more challenging, do you think we will be able to feed this country and world by going backwards with our production methods? Please, don't let buzz words like "natural", "organic", and the like be used to vilify traditional commodity producers like me. And by the way, you could probably ask ten different consumers how natural or organic foods are produced and get ten different answers. For example, news reports this past Sunday morning, documented the surprise of families who were paying ridiculous prices for foods produced with little or no USDA oversight. The products I produce are every bit as safe and wholesome as those generated from an operation relying on opinion-driven marketing.

Wildlife ***versus*** *Ag Products*—Like our past President Teddy Roosevelt who I mentioned earlier, I don't know how you could be much more of a sportsman than I am. And in fact, the farmers and ranchers are the original stewards of the land. But just as my earlier comment on the abuse of some conservation programs highlighted the worth and benefit of land being used to generate actual ag products, so too is it a legitimate argument to scrutinize wildlife programs with the same attention. While I don't begin to argue that wildlife protection programs aren't important, I do maintain that programs focused on protecting the actual production of farm crops can have multi-tiered benefits for ecosystems as well as local rural economies. It is uncanny the timing of the question my son asked me while we were rotating heifers to new pasture this past Saturday afternoon. He asked, "Daddy what would the land look like if it were not for the farmers and ranchers to see after and maintain it?" I thought to myself, how many in this country do you think are ready to go back to being hunter-gatherers in a grown up jungle, concrete city, or subdivision? Please, consider all the positives derived from year-round ag production when considering wildlife related land use programs.

In closing, I'd like to thank the House Agriculture Committee for this opportunity to speak on the 2012 Farm Bill. As a constituent of Congressman Mike Rogers and a fellow Alabamian with Congressman Bobby Bright, I'm proud of their service as Members of the House Agriculture Committee. I'm also proud to be able to deliver my comments in this outstanding venue which is owned and operated by the Pike County Cattlemen's Association. This group of dedicated volunteers is an example of what good can come of a conjoined effort of like minded people who want to benefit the agriculture industry in their community.

Thank you again for allowing me to speak today. I, as well as the rest of the 11,000 members of the Alabama Cattlemen's Association, look forward to working with you in the future.

The CHAIRMAN. Thank you very much, Mr. Gibbs; and thank you for your passion for agriculture, we appreciate that.

Dr. Taylor, welcome to the Committee.

STATEMENT OF STEVEN TAYLOR, PH.D., P.E., PROFESSOR AND HEAD, BIOSYSTEMS ENGINEERING DEPARTMENT, AUBURN UNIVERSITY, AUBURN, AL

Dr. TAYLOR. Thank you, Mr. Chairman. My comments today cover three primary messages. There are significant opportunities for developing a new bio-economy in the southern U.S. There are numerous policy needs related to bioenergy in the farm bill, and the creation of a successful biorefining industry is only possible through significant and sustained funding of R&D conducted primarily through our land-grant university programs in education, research and extension.

I am here representing Auburn University and its Center for Bioenergy and Bioproducts. As such, I speak for a diverse group of educators and scientists working hard on developing our nation's bioeconomy.

We feel strongly that a sustainable biofuels industry is within our grasp and that it has the potential to strengthen our local communities, and to revitalize our agricultural and forest economic sectors. This industry must be based on a balanced portfolio of regionally appropriate feedstocks and biofuel conversion technology.

Here in Alabama, like most southern states, we are blessed with over 22 million acres of highly productive forestland. In addition, there is great potential to produce dedicated agricultural energy crops, and to take advantage of other waste and residues from agricultural forests, commercial and municipal sources. Just for one example, each year in Alabama, there are approximately 15 million tons of biomass that is available from logging residues and currently unmerchantable small-diameter trees. These 15 million tons alone have the potential to produce nearly 1.5 billion gallons of liquid fuels per year.

While this is significant, our vision of the size of the southern bioeconomy should not be constrained by the current production levels. History tells us that Alabama farmers and forestland owners will respond to market conditions and ramp up production to meet demand. New varieties of genetically improved trees and agricultural crops, as well as highly advanced production and harvesting systems, are either already available or under development to help meet the demands of the biorefining industry in a sustainable manner. Auburn University extension professionals and researchers have a long successful history of working with Alabama producers to implement new technologies such as: precision agriculture, precision forestry techniques, or high productivity harvesting and transportation systems for our southern forests.

In a similar fashion, we believe it is critical to support the development of a balanced portfolio of biofuel conversion technologies—both ethanol production systems, as well as those that make other fuels like butanol or synthetic gasoline. To build on our intellectual wealth, Auburn University, with the support of Congress and the State of Alabama, has invested significant resources into research and education on bioenergy and bioproducts. Our researchers are currently developing new methods to process the variety of types and forms of biomass into a set of relatively uniform commodity products such as cellulose, hemicellulose and lignin that can be shipped and traded on global markets for more efficient production of liquid fuels and value-added coproducts. Our programs also emphasize thermochemical conversion processes like biomass gasification and gas-to-liquids technologies that result in synthetic diesel fuel, gasoline and aviation fuel.

Beyond our new fluidized bed gasification reactor that is coming on line this summer, we operate a unique mobile biomass gasification and power generation laboratory. This one-of-a-kind traveling laboratory allows us to take our research right to the source of the bioenergy feedstock and study its potential for use in generating renewable electrical power. It has traveled over 15,000 miles, even to our nation's capital, has been seen by literally thousands of people who have learned that generating renewable electrical power from biomass is a reality.

Many of these programs have been made possible through the support of Alabama Congressman Mike Rogers and Congressman Bobby Bright.

In preparation for the 2012 Farm Bill, I would like to highlight two areas of need in the context of bioenergy policy.

First, we encourage Members of the House and Senate both to continue to work together to coordinate the various definitions of *renewable biomass,* such as those found in the renewable fuel standard, the 2008 Farm Bill and the recently passed Waxman-Markey Bill and the proposed Senate legislation. As you know, some of these definitions have had the potential to prevent many of our farmers and forest landowners from participating in the new bioeconomy, and some of them have had the potential to add even further regulation to what are already well-managed and sustainable farming or forestry systems.

A second area of need is with the Biomass Crop Assistance Program or BCAP. It is very critical to fully study the impacts of such programs before implementation, and then to provide consistent and uninterrupted funding which allows those programs to have the desired effect of establishing a new bioeconomy. We encourage consideration of programs that provide cost share funds to help landowners plant biomass crops, as well as provide mechanisms to reduce risk for those producers through such things as biomass crop insurance program, much like crop insurance programs that are provided for agronomic crop systems that we have already discussed today.

Continued investment in new scientific discoveries and innovative practices in our agricultural, forest and food sectors is critical to the future success of our nation's economy, and the wellbeing of communities across America.

As you know, the support that Congress provides today for these education, research and extension programs comes in two primary forms—competitive funds and formula funds provided to each state. The newly established Agriculture and Food Research Initiative, or AFRI, is a highly competitive program that provides funding for education, research and extension activities in high priority national areas of need. The formula funds such as Hatch, Smith-

Lever, McIntire-Stennis and Evans-Allen provide a base level of support for research and extension programs delivered by the land-grant universities. This formula funding, which is matched with additional dollars from each state, fills a critical role by allowing researchers and extension professionals to focus on local issues that are typically not funded by the competitive programs like AFRI.

While both these funding mechanisms address the issues of global food security, nutrition and health, bioenergy, and environmental concerns, unfortunately this support is at a level that is not adequate to properly address such major challenges in comparison to other Federal programs. For every dollar spent on agricultural research the National Institutes of Health spends $120. Overall, agriculture, forestry and food sciences receive only about one percent of the Federal R&D funds. The growth of AFRI is critical, but it is equally critical to continue to provide sustainable funding to the traditional formula funding programs. These programs fill an important role by providing a base level of support that helps states maintain a scientific core devoted to solving locally or regionally specific problems in our agricultural and forest sectors. These programs are even more important today when state budgets are being reduced considerably.

As farmers, forest landowners, scientists or policymakers, we are all focused on leaving a legacy for our children and grandchildren. At Auburn University, we hope that part of our legacy for America will be a secure, sustainable energy supply; a healthy population; and a culture of caring for our environment.

Thank you again, Mr. Chairman, for allowing Auburn University to join you today.

[The prepared statement of Dr. Taylor follows:]

PREPARED STATEMENT OF STEVEN TAYLOR, PH.D., P.E., PROFESSOR AND HEAD, BIOSYSTEMS ENGINEERING DEPARTMENT, AUBURN UNIVERSITY, AUBURN, AL

Thank you Mr. Chairman and good afternoon.

In my comments today I would like to deliver three primary messages: (1) there are significant opportunities for developing a new bioeconomy in the southern U.S.; (2) there are major policy needs related to bioenergy in the farm bill; and (3) the creation of a successful biorefining industry will only be possible through significant and sustained funding of R&D conducted primarily through our land-grant university programs in education, research, and extension.

I'm here representing Auburn University and, more specifically its Center for Bioenergy and Bioproducts. As such, I speak for a diverse group of educators, scientists, and researchers working hard on developing our nation's bioeconomy. Our scientists are world leaders in technologies for producing and harvesting forest and agricultural biomass. We have nationally recognized experts in the conversion of biomass into liquid fuels, electrical power, and other valuable co-products. Further, our faculty ranks include researchers who study the impacts of the bioeconomy on the social and economic fabric of our communities.

We feel strongly that a sustainable biofuels industry is within our grasp and that it has the potential to strengthen our local communities and to revitalize our agricultural and forest economic sectors. This industry must be based on a balanced portfolio of regionally-appropriate biomass feedstocks and biofuel conversion technologies. We recognize the significant strides that the corn-based ethanol and soy-based biodiesel industries have made for the acceptance of biofuels. However, it is clear that to achieve U.S. energy security goals, we need additional biomass feedstocks and biofuel products. Like many others, we believe that various forms of lignocellulosic biomass hold great promise for expanding the biofuels industry and should therefore be emphasized in our national R&D funding priorities.

Here in Alabama, like most other southern states, we are blessed with over 22 million acres of highly productive forestland. In addition, there is great potential to produce dedicated agricultural energy crops and to take advantage of other wastes and residues from agricultural, forest, commercial, and municipal sources. For example, each year in Alabama, there are approximately 14.6 million dry tons of biomass available from logging residues and currently unmerchantable small-diameter trees. These 14.6 million tons have the potential to produce nearly 1.5 billion gallons of liquid fuels per year.

Our vision of the magnitude of a southern bioeconomy should not be constrained by current production levels. History demonstrates that Alabama farmers and forest landowners will respond to market conditions and ramp up production to meet demand. New varieties of genetically improved trees and agricultural crops as well as highly advanced production and harvesting systems are either already available or under development to help meet the demands of a biorefining industry in a sustainable manner. Auburn University researchers and extension professionals have a long, successful history of working with Alabama agricultural and forestry producers to implement new technologies such as precision agriculture and forestry techniques that can result in increased crop yields with more efficient and precise placement of fertilizers and herbicides. Our researchers were recently awarded one of two grants nationwide to work collaboratively with Alabama forest biomass producers to demonstrate high-productivity biomass harvesting and transportation systems for pine plantations that hold the potential to deliver biomass at cost levels needed by developing biorefineries.

In a similar fashion, we believe that it is critical to fund the development of a balanced portfolio of biofuel conversion technologies—both ethanol production systems as well as those that make other fuels like butanol or synthetic gasoline. To build on our intellectual wealth, Auburn University has invested significant resources into research and education on bioenergy and bioproducts. Our researchers are currently developing new methods to process the variety of types and forms of biomass into a set of relatively uniform commodity products such as cellulose, hemicellulose, and lignin that can be shipped and traded on global markets for more efficient production of liquid fuels or value-added co-products. Current biomass handling and conversion systems, which are challenged by the infinite varieties and forms of biomass, can be made more efficient by transforming these various biomass types into a more uniform and consistent set of universal chemical feedstocks. Our programs also emphasize thermochemical conversion processes like biomass gasification and gas-to-liquids technologies which result in synthetic gasoline, diesel fuel, and aviation fuel from biomass, as well as from biomass and coal mixtures. Many of these programs have been made possible through the support of Alabama Congressman Bobby Bright and Congressman Mike Rogers.

As we develop the U.S. bioeconomy, it is imperative that we fully understand its social, environmental, economic, and policy issues. In preparation for the 2012 Farm Bill, I would like to highlight two areas of need in the context of bioenergy policy. First, we encourage Members of the House and Senate to continue to work together to coordinate the various definitions of renewable biomass, such as those in the Renewable Fuel Standard, the 2008 Farm Bill, and the proposed legislation for a Renewable Electricity Standard. Some of these definitions of biomass have the potential to prevent many of our farmers and forest landowners from participating in the new bioeconomy or they have the potential to highly regulate well-managed and sustainable farming or forestry systems. All of us should have the same goals of encouraging farmers and landowners to sustainably produce feedstocks that can be used for clean, renewable fuels and electrical power without having to create any unneeded administrative or regulatory processes.

Our second area of need is with the Biomass Crop Assistance Program (BCAP), which was established in the 2008 Farm Bill and has the potential to help stimulate the growth of a biomass production industry. It is critical to fully study the impacts of such programs before implementation and then to provide consistent, uninterrupted funding which will allow the program to have the desired effect of establishing the new bioeconomy. As BCAP is carried out under the current or future farm bill, we encourage consideration of programs beyond those that offer payments for biomass harvesting. It is equally important to have systems that provide cost-share funds to help landowners plant biomass crops as well as provide mechanisms to reduce risk for producers through biomass crop insurance programs—much like crop insurance programs are provided for agronomic crop producers today. Also, for BCAP to work most effectively, it must provide financial incentives for all major groups in the bioenergy supply chain: the farmer or landowner, the producer of the biomass, and the bioenergy production facility.

Supporting the sectors of our nation that produce renewable fuel, fiber, and food is a vital responsibility for Congress. Continued investment in new scientific discoveries and innovative practices in our agricultural, forest, and food systems is critical to the future success of our nation's economy, and the well being of communities across America. Today we face a daunting list of challenges that include: producing an adequate and affordable supply of healthy food for an ever-growing global population; addressing the problem of an overweight or obese American population; providing clean and renewable sources of energy and biobased products from our abundant natural resources; as well as responding to climate change and increasing demands on resource sustainability.

As you know, the support that Congress provides today for these education, research, and extension programs comes in two primary forms: competitive funds and formula funds provided to each state. The 2008 Farm Bill established the National Institute of Food and Agriculture (NIFA) as well as the new Agriculture and Food Research Initiative (AFRI), which is USDA's primary competitive grants program. AFRI is a highly competitive program that provides funding for education, research, and extension activities in high-priority national areas of need. The formula funds, such as Hatch, Smith-Lever, McIntire-Stennis, and Evans-Allen provide a base level of support for research and extension programs delivered by the land-grant universities. This funding, which is matched with additional dollars from each state, fills a critical role by allowing researchers and extension professionals to focus on local issues that are typically not funded by the competitive programs like AFRI.

While both of these funding mechanisms address the issues of global food security, nutrition and health, bioenergy, and climate change outlined previously, unfortunately this support is at a level that is not adequate to properly address such major challenges. For every $120 spent by the National Institutes of Health on research, we invest only $1 for competitive funding in agricultural research. AFRI was one of the few Federal science programs to receive no investment in the recent recovery act funding. Fewer than 22% of the qualified research proposals are funded in AFRI. Overall, agriculture, forestry, and food sciences receive only about one percent of the total Federal research and development funds.

It is imperative that Congress continues to support the growth of AFRI through significant increases in funding. This includes insuring that funds are provided at the full authorized level now, as well as providing significant increases in the 2012 Farm Bill. Currently, our faculty at Auburn University, like many across the nation, are submitting proposals to the AFRI programs. In some cases, these are large regional efforts that employ systems approaches to problem solving and involve partnerships with multiple academic institutions and industry partners. In other cases, these are smaller individual grants focused on specific research needs. It is important to maintain a healthy balance in funding devoted to large regional funding opportunities and those that allow smaller research or extension teams to make new discoveries or deliver focused extension programs to a targeted audience. Also, it is important to have a funding base large enough to support long-term programs focused on a wide variety of problem areas so that our ranks of qualified scientists and educators remain strong. In addition to increasing the support of AFRI, it is equally critical to continue to provide sustainable funding to the traditional formula funding programs. These programs fill an important role by providing a base level of support that helps states maintain a scientific cadre devoted to solving locally or regionally specific problems in our agricultural and forest sectors. These programs are even more important today when state budgets are being reduced considerably.

As farmers, forest landowners, scientists, or policy makers, we are all focused on leaving a legacy for our children and grandchildren. At Auburn University, we hope that part of our legacy for America will be a secure, sustainable energy supply; a healthy population; and a culture of caring for our environment.

Thank you again, Mr. Chairman for allowing Auburn University to join you today.

The CHAIRMAN. Thank you, Dr. Taylor, we are pleased to have you.

Mr. Wiggins, welcome to the Committee.

STATEMENT OF RICKY WIGGINS, CATTLE, COTTON, AND PEANUT PRODUCER, ANDALUSIA, AL

Mr. WIGGINS. Chairman Peterson, and Members of the Committee, thank you for scheduling these hearings to get input from those of us directly impacted by farm legislation.

My name is Ricky Wiggins and I am a partner in a family farming operation along with my son, Russell, and my father, Gene. We currently work about 2,500 acres of row crops and pasture in Covington and Escambia Counties, located in south Alabama. We have been at the same location since 1952, and have a history of growing corn, wheat, soybeans, watermelons, tomatoes, grain sorghum and hogs. But we currently grow peanuts, cotton and cattle.

My wife, Sharon, and I have four children and ten grandchildren. Our concern today is whether or not they will have the same opportunity to pursue the American dream in the future. Overwhelming national debt, deficit and uncontrolled spending casts a dark shadow over their futures. As a farmer, I stand ready to work to pass a fiscally responsible 2012 Farm Bill. However, I am not prepared to sit back and watch agriculture take disproportionate cuts while runaway spending is allowed to continue in other parts of the budget.

Farmers understand that this next farm bill will not be written in a vacuum. We know that tough choices will have to be made. Effective farm policy maximizes scarce resources by triggering programs when prices and conditions warrant, and by giving farmers the flexibility to respond to changes in supply and demand. Good farm policy is not only important to us who live on the farms, but also to every American who enjoys an affordable, reliable and safe food supply.

These are trying times for southern agriculture. Several years of prolonged drought along with several devastating hurricanes have taken a toll on many in the Southeast. Couple these weather events with increased regulation, higher production costs and prices for cotton and peanuts that are at or below levels we saw 2 decades ago, and you can see that southern agriculture is hurting.

The current three-part safety net of marketing loans, direct payments and countercyclical payments has worked fairly well for southern farmers or southeastern farmers. We do have some issues with USDA regulations on eligibility and see the need for Congress to be more specific on intent. Policy should encourage maximum participation without regard to farm size or structure.

With more costly environmental regulation on the horizon, now is not the time to be shifting funds out of the commodity title and into other causes. Providing for the continued stability of American farms is the best way to strengthen rural communities, conserve natural resources and ensure a safe and affordable food supply.

We also understand the issues with the WTO and that America tries to set the example of adhering to compliance, but that usually puts us at a disadvantage in the world of trade. It is frustrating to have trade agreements be negotiated that will truly help us and Congress chooses not to take them up.

In summary, we think that the current farm bill works well. If policy changes are inevitable as part of the 2012 Farm Bill, we remain ready to work with your Committee to explore alternative programs that can provide the needed safety net to our industry in a manner that is consistent with our international trade obligations and within our budget constraints.

Thank you for listening to me today.

[The prepared statement of Mr. Wiggins follows:]

PREPARED STATEMENT OF RICKY WIGGINS, CATTLE, COTTON, AND PEANUT PRODUCER, ANDALUSIA, AL

Chairman Peterson, and Members of the Committee:

Thank you for scheduling these hearings to get input from those of us directly impacted by farm legislation.

My name is Ricky Wiggins and I am a partner in a family farming operation along with my son, Russell, and father, Gene. We currently work about 2,500 acres of row crops and pasture in Covington and Escambia Counties, located in south Alabama. We've been at the same location since 1952 and have a history of growing corn, wheat, soybeans, watermelons, tomatoes, grain sorghum and hogs. We currently grow peanuts, cotton and cattle.

My wife, Sharon, and I have four children and ten grandchildren. Our concern today is whether or not they will have the same opportunity to pursue the American dream in the future. Overwhelming national debt, deficit and uncontrolled spending cast a dark shadow over their futures. As a farmer, I stand ready to work to pass a fiscally-responsible 2012 Farm Bill. However, I'm not prepared to sit back and watch agriculture take disproportionate cuts while runaway spending is allowed to continue in other parts of our budget.

Farmers understand that this next farm bill will not be written in a vacuum. We know that tough choices will have to be made. Effective farm policy maximizes scarce resources by triggering programs when prices and conditions warrant and by giving farmers the flexibility to respond to changes in supply and demand. Good farm policy is not only important to us who live on farms, but also for every American that enjoys an affordable, reliable and safe food supply.

These are trying times for southern agriculture. Several years of prolonged drought along with several devastating hurricanes have taken a toll on many in the Southeast. Couple these weather events with increased regulation, higher production cost and prices for cotton and peanuts that are at or below levels we saw 2 decades ago, and you can see that Southern agriculture is hurting.

The current three-part safety net of marketing loans, direct payments and countercyclical payments has worked fairly well for Southeastern farmers. We do have some issues with USDA regulations on eligibility and see the need for Congress to be more specific on intent. Policy should encourage maximum participation without regard to farm size or structure.

With more costly environmental regulation on the horizon, now is not the time to be shifting funds out of the commodity title and into other causes. Providing for the continued stability of American farms is the best way to strengthen rural communities, conserve natural resources and ensure a safe and affordable food supply.

We also understand the issues with the WTO and that America tries to set the example of adhering to compliance, but that usually puts us at a disadvantage in the world of trade. It is frustrating to have trade agreements be negotiated that will truly help us and Congress chooses not to take them up.

In summary, we think that the current bill works well. If policy changes are inevitable as part of the 2012 Farm Bill, we remain ready to work with your Committee to explore alternative programs that can provide the needed safety net to our industry in a manner that is consistent with our international trade obligations and within our budget constraints.

Thank you for listening to me today.

The CHAIRMAN. Thank you very much, Mr. Wiggins, and I thank all of the panelists for taking the time to be with us today. We will now move to questions.

I am going to recognize the gentleman from Virginia first, Mr. Goodlatte.

Mr. GOODLATTE. Thanks, Mr. Chairman. I will go through these questions as quick as I can and start with you, Mr. Dewberry.

I am pleased to see that you are engaged in forestry. A big portion of the land in my district is forested land, and we have many of the same frustrations that you described. Are most land owners that you deal with aware that they are eligible for conservation programs?

Mr. DEWBERRY. The majority I would say are not.

Mr. GOODLATTE. And are you aware of any outreach efforts on the part of the Natural Resources Conservation Service to forest landowners to inform them of their eligibility for these programs?

Mr. DEWBERRY. I do not know of any.

Mr. GOODLATTE. You talked about several conservation programs in your testimony. Based on your experience, do you believe the USDA currently has the technical expertise to assist forest landowners when they consider enrolling in programs such as EQIP?

Mr. DEWBERRY. In some areas, but in some areas they are not. For example, the USDA district conservationist is not trained, I do not think, in forestry issues in most cases, and right now, in Alabama, we have three wildlife biologists that are paid from the Natural Resources Department, Conservation and Natural Resources in Alabama, and they are used in like the WHIP program. It would be good if the USDA had more technical assistance in forestry and maybe wildlife biologists on staff.

Mr. GOODLATTE. Thank you. Mr. Gibbs, I appreciate your enthusiasm. You testified of the need for risk management tools. Are there insurance policies available for cattlemen?

Mr. GIBBS. Yes, sir.

Mr. GOODLATTE. Do you utilize them?

Mr. GIBBS. We currently participate.

Mr. GOODLATTE. Do you think most cattlemen in this area do?

Mr. GIBBS. For the most part, the beef industry is a standalone type. We take care of ourself, it is not highly subsidized and it has just started and yes, sir, we are going through an education process helping each other learn.

Mr. GOODLATTE. So you think it has good prospects?

Mr. GIBBS. It had better if they are going to survive.

Mr. GOODLATTE. Okay. And do you use the futures market to mitigate your risk?

Mr. GIBBS. Sometimes, yes, sir. We send our cull cattle to Kansas to be fed out and harvested; so yes, sir, we do.

Mr. GOODLATTE. And you think a lot of Alabama cattlemen do?

Mr. GIBBS. People that feed and retain ownership are doing it, but with today's markets and all, it is so speculative, it is pretty—if you can find anybody that understands it, I am wanting to hire them.

[Laughter.]

Mr. GOODLATTE. Okay. I am not that person.

Dr. Taylor, the goal of the energy title in the 2008 Farm Bill was to assist the development of second generation biofuels and their feed stocks. Do you believe this goal is being achieved?

Dr. TAYLOR. Yes, I think so. There are quite a few developing industries around the country, some with interests here in Alabama, some around the Southeast that are building the conversion plants to produce those second generation fuels. Sure, it is within our grasp. Depending on what part of the farm bill you are referring to, different parts of it are developing slowly. The research title is helping significantly. I think we just need more funds to broaden that base of research.

Mr. GOODLATTE. You have heard me describe earlier the desperate situation we are in. Increased funding for these programs is highly unlikely. So if you needed to have some funding allocated into this area, what would you cut out elsewhere? What research dollars for agriculture that you think is a lower priority that would be better justified if it were put into the programs you just described?

Dr. TAYLOR. I do not know that I have a good answer for you. You know, the statistics I mentioned, for every dollar we spend, NIH spends $120. I think we are so far behind that we cannot afford to cut anything really. The AFRI program this year is targeted on very specific areas and that is laudable, but the problem with that is you have to maintain a consistent base of funding across the board to keep those programs underway. You cannot just flip a switch and turn off a certain program this year and bring it back next year. So I do not have a good answer for you. I do not think we can shut anybody off at this point.

Mr. GOODLATTE. The energy title of the 2008 Farm Bill provides nearly a billion dollars to assist in the advancement of next generation biofuels. However, those programs did not carry a baseline and we will be challenged to find new money to continue these programs. What priorities should we have in drafting the next energy title to our bill? This is a different way of asking you the same question.

Dr. TAYLOR. Yes. Continue to fund, encourage that sort of regional approach where there is regionally appropriate feed stocks, do not necessarily put all your eggs in one particular basket. Be willing to realize that in certain regions there are going to be variations in the feed stock as well as the conversion technology that goes with them.

Mr. GOODLATTE. Do you offer much hope to Mr. Dewberry?

Dr. TAYLOR. Yes, I think so, I think so. We are certainly at Auburn working very hard on that. The BCAP program has the potential to help him. I guess I can mention I am a forestland owner, my family owns farmland and forestland in Alabama as well as Kentucky. We have the same issues that he has. Stumpage prices are probably at an all time low here in the South if you look in real dollars. So programs like BCAP are potentially very important to help encourage that industry.

Mr. GOODLATTE. Thank you very much.

Thank you, Mr. Chairman. And I apologize for having to slip out, but I have a long way to go.

The CHAIRMAN. No problem. I thank the gentleman.

I recognize the gentleman from Alabama, Mr. Bright.

Mr. BRIGHT [presiding.] Good, thank you, Mr. Chairman.

Mr. Dewberry, are you enrolled in the Wildlife Habitat Incentives Program?

Mr. DEWBERRY. I am.

Mr. BRIGHT. Are you accomplishing anything with resources from that particular program?

Mr. DEWBERRY. Yes.

Mr. BRIGHT. If you would, elaborate a little bit.

Mr. DEWBERRY. Okay.

Mr. BRIGHT. And before you do that, Mr. Dewberry, let me recognize—Mr. Chairman, I am going to take a point of order again and recognize somebody very key to the community, the longstanding mayor of Troy, Alabama, Mr. Jimmy Lunsford. Mr. Mayor, would you wave your hand back here? He helped make our meeting here possible today, he and Mr. Johnson, and I wanted to thank him and recognize him publicly. And thank you for also attending the hearing today, Mr. Mayor.

Go ahead and continue, Mr. Dewberry.

Mr. DEWBERRY. We are enrolled, part of our property is enrolled in the WHIP program. It was actually enrolled under the 2002 Farm Bill, but we planted 55 acres of longleaf pine and every 3 years we do a controlled burn. It is habitat establishment for the longleaf pine and that is the program we are enrolled in.

Mr. BRIGHT. The 2008 Farm Bill opened the Conservation Stewardship Program for the first time to forest owners. What do you think this program is accomplishing on forestlands like yours?

Mr. DEWBERRY. It is a new program and we have enrolled part of our property in that program. If the program works like it is supposed to work, I think it is great as far as an incentive to encourage landowners to continue managing their property the way it needs to be managed. And also it has an incentive there in doing other management practices that you are not doing. You look for things you can do to make your property better. And I think that is a positive thing in the Conservation Stewardship Program, and I was glad to see forestry included in that program.

Mr. BRIGHT. Thank you very much.

Mr. Gibbs, let me commend you for your enthusiastic testimony today. Your testimony kind of brings home to people like me, I am the son of a sharecropper, and so I really know what it means to a family and what the farm delivers to people who live and work—and work awfully hard and sweat awfully hard—to make sure those farms are protected out there.

And Mr. Wiggins, thank you also for your family farm and your input and for your dedication to making sure the family farms are out there and continue in existence.

It is hard pretty much to deny that livestock and poultry have both become more vertically integrated. So along those lines, Mr. Gibbs, what do you see as the impacts of increasing vertical integration in the livestock and poultry industries, if you have an opinion there?

Mr. GIBBS. Well, the pork and the poultry are very vertically integrated, and there have been some kind of efforts to make livestock somewhat, but they have been good ideas that have gone bad thus far, such as when you start talking about packers owning cattle and the risk that involves. You know, the average beef producer is probably like less than 40 head of cattle. It is going to be a good bit harder to vertically integrate with it that spread out.

Mr. BRIGHT. Good.

Dr. Taylor, thank you for your testimony today. You are part of a great university, not to mention the fact that my connection to the university is as an alumnus, but it probably is the greatest university in the State of Alabama, not to mention the nation as a whole. But there may be some opposition to that before the end of the day. But I had to say it since you were here.

Through April 2, 2010, USDA has approved 4,605 agreements for the delivery of more than 4.18 million tons of biomass and paid eligible biomass owners over $165 million in matching payments under BCAP's first phase. I understand there are some problems with the BCAP first phase. Can you elaborate on that a little bit? And also go a little bit further into why we cannot get those issues resolved and get on to the second phase of BCAP so that we—as I understand, the second phase could possibly have a real economic effect on people in District two if we go ahead and move forward and try to implement that phase.

Dr. TAYLOR. I will try, and I am not the BCAP expert.

Mr. BRIGHT. You take as much time as you need because this is very key, very important and will help create jobs in my district. And if your time runs out you take whatever time you need to answer because I am Chairman right now.

[Laughter.]

Dr. TAYLOR. Certainly the idea behind BCAP was to encourage the development of a biomass production sector. And so there were payments that were offered as cost share to the facility that purchased biomass as well as the producers of biomass. Maybe one of the issues—it was rolled out fairly quickly. In fact, it was implemented really before even—I think the public comment period was still underway when they implemented it. So, it was one of those things that you always want to think it through fairly thoroughly before you implement it if possible. I think everybody's heart is in the right place to encourage that industry, and I know of specific individuals—Mr. Dewberry and I were talking—who were right on the edge financially and those payments that have been offered the last few months have really helped them kind of make it through some very trying economic times. I guess the overall idea is fine. I think we just need to refine how it is implemented. One of the things that Mr. Dewberry and I discussed, for that to work effectively really we need three people involved. Right now the facility and the producer are the two that have been getting payments, but the landowner is kind of left out of that.

Mr. BRIGHT. We need to get the landowners and producers——

Dr. TAYLOR. So all three—the landowner, the producer as well as the facility that purchases it—all three of them have to benefit from that for that to be a successful program.

Mr. BRIGHT. How do we go about doing that? Any suggestions?

Dr. TAYLOR. I am not sure I have the right suggestion for you, but I think the thing to do now is step back and think those policies through to make sure that those cost share payments are maybe spread to all three, that all three have a chance to provide input on what works for them.

Mr. BRIGHT. Okay.

Dr. TAYLOR. Does that answer your question or do you want to talk some more about it?

Mr. BRIGHT. We may need to do that I guess because my time has run and I am going to go ahead and pass it over to my colleague from Alabama, Mike Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

Dr. Taylor, talk more about the technology that you spend so much time focusing on. Yesterday when we had our hearing in Atlanta, we had a fellow there who was in the timber industry, and I asked him about his concerns over pressures that new technologies that would use biomass for fuel might put on their markets. And one of your colleagues from that school over there they call Georgia, who emphasized that the cellulosic ethanol technology still had many hurdles to being commercially viable.

I remember in 2004 and 2005 hearing we were a year away from having those technical obstacles behind us. Where are we, in your view, on being able to have some commercially viable biomass energy sources?

Dr. TAYLOR. From a liquid fuel standpoint?

Mr. ROGERS. Yes.

Dr. TAYLOR. From a liquid standpoint, we are closer definitely. There are commercial plants that have come on line in Tennessee. It would not be a full scale plant, but DuPont Danisco Cellulosic Ethanol is a joint venture and they have built a plant south of Knoxville that is taking corn cobs right now and producing ethanol. Their next step will be to take switchgrass and produce ethanol. Obviously there is a company in Georgia that has been building a large plant, a gasification, gas-to-liquids plant, that would eventually produce ethanol. I think their first step is to produce methanol, is what is planned.

Mr. ROGERS. Are they planning on using trees?

Dr. TAYLOR. That one would be a forest biomass plant.

Mr. ROGERS. Do they have the technology or is this something they are hoping will come along?

Dr. TAYLOR. The technology is there. We know how to do these and you have seen our labs at Auburn. We can do it on a small scale. The challenge is still scaling it up economically to make the economics work out at scale.

Mr. ROGERS. So you think the company in Georgia has the technology, they just have not let the rest of the world in on it for competitive reasons.

Dr. TAYLOR. Yes, but I do not think there is anything that unusual about their particular technology. It is gasification, gas-to-liquids technology that a lot of us are working on. So in their case, that is—you know, there is nothing particularly unusual about what they are doing. There are other people that have that capability.

Mr. ROGERS. But you do not see in the near future these technologies putting price pressures on timberland—timber products?

Dr. TAYLOR. I would not say in the next 6 months, no, I would not say that. You know, it is still going to be—we are still a little ways out before those industries will come on line enough that they do put pressure on us.

Renewable power production has the potential to put pressure on the market sooner. You know, most of our electric utilities have already tested forest biomass in their coal-fired plants. I would not say they are ready to go, but they have done their homework, they know what they would need to do to begin producing electricity with forest biomass. So that one probably has the potential to put pressure on us earlier.

And then the other bioenergy industries, the pellet industry today across the South, that is primarily an export market that is providing pellets for the European market, but that continues to grow and will continue to place upward pressure on the market.

Mr. ROGERS. Excellent.

First let me say I love being back in Alabama, mainly when I hear y'all talk, it gives me a warm, comfortable feeling. You might imagine I hear a lot of accents in Washington and it is nice to be home.

Mr. Dewberry, when you look at conservation programs, what would you like to see this Committee, as their single take-away, leave here trying to incorporate into the farm bill that would help you from a conservation standpoint in the farm bill?

Mr. DEWBERRY. In the 2008 compared to 2012, most of the conservation programs that are in there for forest management, I think I would like to see them in there. If there is anything I think that could change that would probably help the landowner and also the technical side, I know of cases where landowners have three management plans. One to take care of EQIP, one for WHIP and then they have one stewardship plan on that property.

If a stewardship plan could suffice for EQIP and WHIP in the management plan, if these areas of management are addressed, I think it would help all concerned, the paperwork side for the technical people on the ground, and also for the landowner. Also it would free up time for that technical person because they would not be spending time rewriting a plan that was pretty much already there. So if there was some way that a management plan for EQIP and WHIP could be substituted, the substitute could become the stewardship plan that was already on that property, written by a certified forester, I think that would help all concerned. Right now, a plan has to be written for the EQIP program and one for WHIP and the landowner may already have a plan on his property.

Mr. ROGERS. Excellent, thank you. My time has expired, I yield back.

Mr. BRIGHT. The gentleman from Nebraska.

Mr. SMITH. Thank you and thank you to the panel for your participation and sharing your expertise.

Mr. Gibbs, have you weighed in on any of the food safety legislation in Washington? The new efforts basically determining that the *status quo* is unsafe and coming up with new procedures, not only ensuring standards but telling producers how to achieve that standard. Have you weighed in on any of that?

Mr. GIBBS. Every day. We live it every day and we are the safest food supply in the world. I mean it is obvious, it is evident. If you go tour any IBP processing facility, it is like a hospital. They work two shifts on and one shift cleaning. I mean we are doing our vaccinations and we are BQA certified, be quality assurance certified. Everything we do—now we are stressing humane issues. I mean we are producing the safest food supply the world has to offer.

Mr. SMITH. On the humane issues, if you could elaborate.

Mr. GIBBS. We make a conscious effort now to be absolutely humane in everything we do. Have you heard of or seen the HBO deal with Temple Grandin as far as correct handling facilities so that you have no corners, so that the cattle flow. I mean our cattle is our greatest asset. So if they are not—I mean they get fed before I do always—always.

Mr. SMITH. Right. It is interesting, the humane issues, whether it is the so-called food safety issues, obviously to maintain competitive position in the marketplace, you know the importance of food safety. So I appreciate the efforts that the industry does.

Mr. GIBBS. You know, the one thing I can say, I am a simple type person but it sometimes appears that we are worried about taking care of everybody but us. I mean does it not say something like government by the people, for the people? And I mean that means us American citizens, us American business people. We are competing against food products that do not have anything like the requirements we do. That is pretty tough.

Mr. SMITH. Did you say food requirements or energy requirements or both?

Mr. GIBBS. Food safety. Do not get me on energy. Is ethanol economically viable?

Mr. SMITH. It is in Nebraska.

[Laughter.]

Mr. GIBBS. I think, does it not take like 7 gallons of fossil fuel to produce 1 gallon of ethanol and then if you put ten percent into fuel, you get 20 percent less fuel mileage?

Mr. SMITH. I represent a huge livestock district along with a huge ethanol district and so it does give me an amount of objectivity.

Mr. GIBBS. I apologize.

Mr. SMITH. But I hear what you are saying, and I think that regardless, when we look at our industry today, whether it is energy, whether it is food safety, whether it is food supply, quantity, quality, you name it; it is truly inspiring how far we have come. And that is why I do not think that, as the Chairman said earlier, we want to pit small against large, large against small, medium. Who knows what the optimal size is other than what consumers will support. And so, when I look at the energy issue, I am inspired as well. I mean we have been growing record yields of corn in Nebraska with record low amounts of moisture. Thanks to the research and development of our university and the biotechnology across the country and around the world, we can feed the world. So I think that we have come a long way, thanks to producers though being willing—the willingness of the producers to try a better way, sometimes when it might be a little risky. They are willing to engage in that because hopefully there is some reward down the road that the government will not take it away, and discourage that risk the next time.

So as we do move forward though, I would be curious, Mr. Dewberry, where does most of your product end up these days?

Mr. DEWBERRY. Are you talking about from where it comes from the farm? The pulp is going into the pulp and paper industry and if it is saw timber, it is going into the lumber industry. You know as well as I do what that means.

Mr. SMITH. Do you track that very much or are you able to—because one thing that really concerns me about cap-and-trade and just increasing the cost of doing business and increasing the cost of shipping—you know, we do not have a lot of wood pulp in Nebraska.

Mr. DEWBERRY. Right.

Mr. SMITH. You know what I am saying? And so we depend on regions other than ours, even though we have a need for wood pulp, whether it is paper, whether it is lumber.

Mr. DEWBERRY. Right.

Mr. SMITH. How far do you track that out geographically?

Mr. DEWBERRY. Most of it is sold locally and where it goes from there, I am sure all over the United States. A lot of it will be shipped out of Mobile Bay, part of it will go down there and go out Mobile Bay. So it is worldwide.

Mr. SMITH. Is that largely by rail?

Mr. DEWBERRY. Is that what?

Mr. SMITH. By rail, shipped by rail?

Mr. DEWBERRY. Most of it is trucked or either by the river, some of it shipped by the river.

Mr. SMITH. Thank you, Mr. Chairman.

The CHAIRMAN [presiding.] I thank the gentleman.

The gentleman from Pennsylvania.

Mr. THOMPSON. Thank you, Mr. Chairman.

Obviously the point of this is to look forward to the 2012 Farm Bill, but the starting point obviously has to be where we come from with the last effort in 2008. So I would like to throw out to all of you gentlemen—are there any provisions of the 2008 Farm Bill that have not been implemented yet that you would really encourage that be moved ahead with?

Mr. DEWBERRY. I cannot answer that.

Mr. THOMPSON. Nothing you are aware of. Mr. Gibbs?

Mr. GIBBS. No.

Mr. THOMPSON. Dr. Taylor.

Dr. TAYLOR. Under BCAP, to go back to the earlier question, one of the provisions in BCAP now is to provide cost share funds to establish biomass crops or bioenergy crops, and to my knowledge that has not been implemented yet. So that is one. It is in the language, it just needs to be implemented. You cannot harvest things without reforestation or without establishing those new crops. So that is going to be a pretty critical issue to make sure that happens.

Mr. THOMPSON. Mr. Wiggins, any that you are aware of?

Mr. WIGGINS. Not that I am aware of, no.

Mr. THOMPSON. Okay. Exports, obviously very important market for us, seven billion individuals around the world that are potential markets for our agriculture products. And I wanted to get an opinion, we have three pending trade agreements—South Korea, Panama, Colombia—any thoughts—you know, those are kind of lingering right now. If we get those implemented would that be a positive impact? Do you see any downside to them?

Mr. DEWBERRY. I myself, I cannot see any downside. Any time we can sell a product and sell it to other countries, I think is a positive thing. And if we can make it where we can do that, I think the more markets the better.

Mr. THOMPSON. Great. Mr. Gibbs, any thoughts?

Mr. GIBBS. Absolutely, we want money flowing this way.

Mr. THOMPSON. There you go.

Dr. Taylor.

Dr. TAYLOR. I do not have anything to offer.

Mr. WIGGINS. Yes, sir, I am in favor of implementing the agreements that have already been negotiated and I just do not understand why we are not doing that. Maybe y'all can tell us why.

Mr. THOMPSON. No. I have only been there 16 months, I have not figured out why we have not yet.

Mr. Gibbs, I share your concern with this Administration's focus on things other than production agriculture. It seems like there has been overall just a really hyping of organic, which is good, it has its place, it is an important niche and I would never detract from that. But to just focus on that one area of agriculture, that one sector, I think to the harm of all parts of agriculture, I have a significant concern about that and in the focus on things other than production agriculture in the context of developing this next farm bill. While things like graduation rates in rural America obviously are extremely important, they are not the base focus of our commodity programs, nor should they be.

I am concerned that this Administration is trying to turn our farming communities into bedroom communities, which we find more and more. In your current dealings with the Department, have you already seen ways this Administration is trying to move away from production agriculture?

Mr. GIBBS. I have to turn the news off a lot of times to function during the day because of all the fears that surround us. We are getting—we are on the Georgia-Alabama state line just south of Interstate 20 and we are getting swallowed by Atlanta. We are raising cattle on family land that has been in the family for over 100 years and it is too expensive—if it was not for us having them signed up on the conservation program, we could not even pay the taxes on it, our business would not survive.

You know, we have to just simplify things a little bit. I mean if we want a high speed Internet access bill, let us name it a high speed Internet access bill, not a farm bill. I mean, we just pile so much stuff in there that we miss what we are really trying to work on. That is just me.

Mr. THOMPSON. Not just you, I agree, Mr. Gibbs. I have come to the conclusion there is only one reason for a bill that is more than about 1,000 pages, and that is to hide stuff.

Mr. Chairman, I yield back.

The CHAIRMAN. Well, that may be true, but we do not hide anything in the farm bill. We have a very open process, everybody knew what we were doing, there were no earmarks in the House bill, there will not be any earmarks this time. It is unfortunate it takes a lot of language, but you know, all of this energy stuff that we did was all brand new and it took a lot of language. We did not get it all right, got a lot of it right. Some other people screwed up some of this stuff, the BCAP thing. That was my idea, the idea was to grow new products, figure out how to do it. And it got off on a tangent for a number of different reasons and they are getting it straightened out. I think they are going to get the rules out to establish new crops and that stuff pretty quick.

Since trade came up, some of you maybe cannot answer this or be interested, but one of the things, we used to have a big market in Cuba—rice and a number of other products—that we have basically eliminated ourselves, the past Administration put restrictions on. I have a bill to open up trade with Cuba that we are hopefully going to bring up in the Committee in another 3 or 4 weeks. Are you in favor of that, opening up Cuba?

Mr. DEWBERRY. From what I know, I am.

The CHAIRMAN. Mr. Gibbs.

Mr. GIBBS. I mean it would be kind of going against what we have always stood for if we do that.

The CHAIRMAN. What is that?

Mr. GIBBS. Human rights. We feed everybody. I mean yes, we are giving them assistance and all anyway, are we not?

The CHAIRMAN. So——

Mr. GIBBS. Humanitarian efforts.

The CHAIRMAN. I do not know that we are doing anything.

Mr. GIBBS. Well, we do everything everywhere else.

The CHAIRMAN. But you know, this policy has been going on for 50 some years and it has not worked too well. Some of us think it might be time to change.

So you are not on board with that. Your national organization I believe is.

Mr. GIBBS. I will study that out, I just spoke out of turn.

The CHAIRMAN. No, that is fine. I understand that reaction because a lot of people have that reaction. But we had that situation with Vietnam. Vietnam has become a Communist country, we opened it up, it has been a huge success the way we have changed the economy, Vietnam is turning into a market-based economy because we opened it up. And I think that will happen in Cuba.

Mr. GIBBS. But how long has that been? I mean that was my uncle in 1968. If we would have gone in there and won, we would not have had to wait 40 years for it to start opening up.

The CHAIRMAN. Well, I do not disagree with that, but you and I cannot change that. And we are both too young to have been involved in 1968 anyway.

[Laughter.]

The CHAIRMAN. Mr. Wiggins, do you have any opinion about it?

Mr. WIGGINS. I totally agree with you, Mr. Chairman.

The CHAIRMAN. Thank you.

I got distracted, I have been working on some other things here. I just want to thank the panel for your being with us today and for your great testimony and answers to the questions, taking your Saturday afternoon. The Committee very much appreciates it and I think we will excuse the panel.

I will recognize our host, Mr. Bright, for any closing comments that he might have.

Mr. BRIGHT. Very briefly, Mr. Chairman. Let me once again stress to you our appreciation for you bringing this U.S. Congress field hearing to Troy, Alabama.

And I will make somewhat of an apology and correction. We are sitting here in the home of Troy University and here I was talking about Auburn University being the number one university in the state. I would have to kind of back pedal a little bit and recognize that Troy and Troy University is also a great university, second only to Auburn University.

Let me thank everyone who came, observed, and who have participated, the panelists, thank you so very much. This is so key. Agriculture is, in my opinion—and each person can speak for themselves—it is so key to the strength of our sovereignty as a nation as a whole. It is right there with the military community. In order to be able to keep a strong country, we have to do two things. Number one, we have to make sure our military is strong, the strongest in the world; but we also have to make sure that our food chain is protected and it remains strong. It gives me great pleasure from our district to serve on the Agriculture Committee and serve with great gentlemen and other ag interested Congressmen that we have here on this riser today. I have seen them in action and they are truly concerned about our agriculture industry and they want to protect it.

So thank you for being here. Thank you, Mr. Chairman again and I thank my colleague from Alabama, Mr. Mike Rogers, it has been an honor to serve with him, and he is also protecting the farmers and ag industry in our state and our nation.

So thank y'all very much and it is great to be in God's country. I will say that I flew down yesterday, this old country boy from Dale County, Alabama flew down on a United States of America jet from Washington, D.C. with these guys in a red, white and blue airplane. I thought I was in hog heaven until we landed in Atlanta, Georgia and I got out and the heat and the humidity hit me in the face I said, "Man, this feels like home," and somebody said, "Well, you are in Georgia." I said, "Oh, gosh, we are not in God's country yet, but we are close to it."

But anyway, thank you very much for coming and participating. This group today—by the way, I was in Georgia yesterday, you were bigger and better than they were in Georgia. So thank you for your interest and your participation.

Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentleman and thank him for his hospitality. We have enjoyed it and it has been a very productive hearing.

Mr. Dewberry, I was going to say I grew up in Clay County, Minnesota. A little different probably than Clay County, Alabama.

One of the gentlemen I talked to was telling me that this facility here, it is a beautiful facility, was built with all volunteer people and they maintain it. They only pay one person to clean a little bit and everything else is done, people in the community come in and do whatever has to be done and built this thing. And so that is a tremendous thing for a community to come together and do that.

[Applause.]

The CHAIRMAN. So with that, under the rules of the Committee, the record of today's hearing will remain open for 30 calendar days to receive additional material and supplementary written responses from the witnesses to any question that is posed by a Member.

This hearing of the Committee on Agriculture is adjourned.

[Whereupon at 4:00 p.m. (CDT), the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT BY HAL WILLIAMS, FARMER, LUVERNE, AL

Colin

We are 3rd generation farmers in south Al and have not made a decent profit under the 2002 peanut program. In the 1990's when we were receiving $670/ton for peanuts, production costs were affordable and if a farmer had good weather, no diseases, insects, hurricanes and good luck gathering you could make a decent profit. The peanut industry (shellers and manufacturers) could make their profits as well. Then the industry realized this and went to work to write THEIR peanut program. They put the politicians in their pockets and wrote a peanut program that took the profits away from the producers and handed it to themselves. Why do politicians spend 4-5 million dollars campaigning for a job that pays $100,000 annually? We have had no any grower representation since Howell Heflin left office. Farmers are the only business where the grower, producer or manufacturer has no say so in what he receives and is at the mercy of cooperate America. Shouldn't we be the ones telling the peanut industry what they can buy our peanuts for?

We need a base type program (a ten year history) to limit the amount of acres planted for each farmer and index the 1990's price upward to account for the increase prices in fuel, seed, chemicals, fert, parts, new equipment and our cost of living. The producers would much have a program where you planted 100 acres for $ 8-000/ton, rather than plant 200 acres for $500/ton. You could plant better land, have longer rotations, less diseases, lower input costs and your equipment would last a lot longer. Then allow the industry to purchase our peanuts at our price like they used to.

Cooperate owned politicians, an oversized, over paid, under worked, toxic, out of control government is ruining this country and you are seeing voters sending strong messages now and will get stronger this fall.

I do hate to see fellow farmers jump the gun and sign $425-450 contracts. The peanut industry is just using them to make their big profits. They are hurting the ones who are trying to get a fair contract who farm for a living and trying to raise their families. What do they think is going to happen when you have $500/ac invested in your crop and you have a drought and make 2000lbs/ac? They obviously aren't intelligent enough to know you can't upgrade any equipment on half priced peanuts.

This is the type peanut program you need to be pushing for in future farm bills.

Hal Williams-farmer. Hal

I would Like to have input in our next peanut program. We need a program by the farmers, for the farmers.

HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

MONDAY, MAY 17, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Lubbock, TX.

The Committee met, pursuant to call, at 9:00 a.m., at the Texas Tech Museum, Corner of 4th and Indiana, Lubbock, Texas, Hon. Collin C. Peterson, [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Cuellar, Childers, Rogers, Neugebauer, Conaway, Smith, and Thompson.

Staff present: Aleta Botts, Dean Goeldner, John Konya, Clark Ogilvie, Anne Simmons, April Slayton, Kevin Kramp, Josh Mathis, and Sangina Wright.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

The CHAIRMAN. The hearing of the Committee on Agriculture to review the U.S. agriculture policy in advance of the 2012 Farm Bill will come to order. And we welcome everybody to the hearing, especially our witnesses.

We've had so many people who wanted to testify, and we weren't able to get everybody in there, and we apologize for that. So I have a statement for the record from The Texas Cattle Feeders Association. Without objection, I would like their full testimony to be made a part of the record today. Hearing no objection, that's so ordered.

We also have testimony from the sheep industry, who also we couldn't fit in, and I would also like, without objection, to have their thoughts be made a part of the official record. And without objection, it's so ordered.

[The document referred to is located on p. 1023.]

We pick up lots of good information from folks that don't get an opportunity to testify, and so we have—we are web-casting this hearing. So people are watching it on the web.

In addition, we have these cards that are someplace, I guess, outside, where you can—anybody can offer testimony to the Committee through our website, *www.agriculture.house.gov.* And we encourage that. Sometimes we pick up some real good ideas and some real good information from people that we may have missed having the opportunity to hear testify. So we encourage people to do that.

We have with us today some people that are very important to us with the USDA operation. The FSA State Director, Mr. Juan Garcia, he had to be at a funeral today. So he isn't able to be with us, we understand, on that, but Jerry Don Glover, who is the Chair of the State Committee in Texas—where is Jerry? Will you stand up and be recognized? We appreciate your service and the work that you do.

The Rural Development State Director, Francisco Valetin, Jr., thank you for being with us, and the NRCS Conservationist, Don Gohart—Gohmert—excuse me—we appreciate you being with us. Let's give them a hand. They do a great job.

[Applause.]

The CHAIRMAN. And I will forego my opening statement, other than to say, we've got a tough job ahead of us. We've got—We're getting started early, so we can start having a discussion about how to make all of this work.

And we're not going to have any extra money. I think everybody has heard me say that a million times. We may not even have as much money as we have now. So it's going to be a challenge to make this stuff work for production agriculture, but we're convinced that we can do it, and we want to work with you to make that happen.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good afternoon, and thank you for joining us for today's House Agriculture Committee hearing. We are glad to be here in Lubbock to hear from area farmers and ranchers about the issues facing agriculture and rural communities.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business. But we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture.

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of this busy time of year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. A bill this large and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process that is open, transparent, and bipartisan.

For all those joining us today in the audience, I hope that you will also participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on our Committee website, and we have cards available today with that web address so that everyone has a chance to tell the Committee about what is working and what new ideas we should consider for the next farm bill.

We have a lot of ground to cover, so let's get started.

The CHAIRMAN. So I will recognize, first of all, the host of the hearing here today, Mr. Randy Neugebauer, one of our Subcommittee Ranking Members, to welcome us and make any statements he would like to make.

Mr. Neugebauer.

OPENING STATEMENT OF HON. RANDY NEUGEBAUER, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Mr. NEUGEBAUER. Thank you, Mr. Chairman, and I appreciate you bringing this hearing here. This is very important, obviously, not only to my Congressional district, but it's important to the country to have good agriculture policy.

I've already had an opportunity to look at a lot of the testimony, and I think we're going to have some—a great, great hearing today. I appreciate my other colleagues coming, and, obviously, Mr. Cuellar and Mr. Conaway from Texas, also, being here. And so we are looking forward to that.

At this time, do you want to recognize the Chancellor, or do you want me to?

The CHAIRMAN. The what?

Mr. NEUGEBAUER. Chancellor Hance.

The CHAIRMAN. Yes, that would be fine.

Mr. NEUGEBAUER. At this time, I would like to recognize our host, being on campus today, the Chancellor of Texas Tech University, the Honorable Kent Hance, who is a former Member of this Committee, by the way. So Chancellor?

Mr. HANCE. Thank you very much. And I will tell you this: We are excited that you're here. To have eight sitting Members of Congress in our community is an honor, and on behalf of everyone in west Texas, the State of Texas, I appreciate what you do.

I'll tell you it's a—everybody can second-guess a Member of Congress, and I was kind of—I don't miss that, and, in fact, until this last year, I didn't realize that everybody was second-guessing the Chancellor. And so that happens sometimes, too. You just kind of roll with the flow.

I do—I mentioned last night that I believe at Subsection 8, Part a, that it says that if there's any former Member of the Committee who is in higher education, the Committee is obligated to grant them whatever they request. I just want to tell you that $100 million for Texas Tech for research is certainly high on my list.

And I appreciate that rule. Somebody asked me if I have a copy of it, and I don't. I think that all of those copies have been burned.

But we appreciate you being here. You had a good night at the Overton, saw our football stadium that is being added on to. We've sold the suites and everything for the September 5th game. I was over there looking at the stadium last week with the construction company people, and it was apparent to me that we had sold seats.

And I said, "I've got my doubts that it will be ready."

And they said, "When's the game?"

And I said, "September 5th."

And the old boy said, "Is it a day or night game?" So right there you know it's a day game, in case any of you are wondering about that.

The other thing that—once, when we were having hearings and I was a Member of the Committee, we had hearings in Greenwood, Mississippi, and that one of the witnesses had changed his name, and his name was "none of the above."

And my only question was: "You're not going to move to Lubbock, are you?" I don't want him running against me.

So you've let all—everybody has an opportunity to have an input, and that's the great thing about this Congress. And, Mr. Chairman, I've known you for a long time, and you operate the Committee on a bipartisan basis, and that is so important. I wish everybody else in Congress did the same.

But we're honored that you're here, and we look forward to having you back any time, and I just—I thank you for all you do. People don't realize how hard of a schedule a Member of Congress has, but the people close to the work and the people here, they know that, whether they agree or disagree with you. I always have the utmost respect for every Member of Congress and the Executive offices with them.

Thank you for honoring us by your presence. Thank you.

The CHAIRMAN. Thank you.

[Applause.]

The CHAIRMAN. Thank you for making this facility available and for your hospitality. We appreciate it very much.

And I recognize the gentleman from Texas, Mr. Cuellar, for a brief statement.

OPENING STATEMENT OF HON. HENRY CUELLAR, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Mr. CUELLAR. Thank you, Mr. Chairman, and we also want to thank you for your bipartisan approach to this Committee. And, of course, the Ranking Members and Mr. Neugebauer and Mr. Conaway, also, the rest of the Members, all the way down to Mississippi that are here with us, we want to thank you.

Kent, the Chancellor, and everybody working together, it's always a pleasure being down here. I used to chair the budget for higher ed. So we used to do a lot of the tuition and revenue bonds to get the buildings built here. So it's always a pleasure. And, hopefully, we'll work with the grants and make sure it's a Tier One university, like it should be here, down over here.

I want to thank all of y'all for being here. It's always a pleasure working with our Chairman, and, of course, I know that some of the Texas Cattle Feeders Association and other folks couldn't be part of this. You know, there is a—we couldn't get everybody in, but we want to certainly make sure your testimony becomes a part of the record.

For the folks who are not from Texas, we certainly want to welcome you here to Texas. As you know, Texas is the second largest producer in agriculture, and it is the largest for livestock and cotton. As you know, those two commodities are so important to our nation.

So, Mr. Chairman, as you said, I know next time we work on the farm bill, it's going to be tough. The money is not going to be there in the way it used to be, but I think all of us working together, developing a consensus, it will work, and I know that under your leadership, we will be able to do that.

So, again, it's always a pleasure being here in Lubbock and west Texas, and God bless you. Thank you.

The CHAIRMAN. I thank the gentleman.

Mr. Conaway, if you would like to—since we are close to your home territory, if you want to say a couple of words.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Mr. CONAWAY. Thank you, Mr. Chairman. In the interest of hearing from our witnesses, I will simply say: Thank you for the right to be here. Thanks, Texas Tech. And let's hear from our witnesses.

The CHAIRMAN. You get extra points for that.

Mr. CONAWAY. I know. Thank you.

The CHAIRMAN. All right. We welcome our first panel to the witness stand, if I can find my piece of paper here, which I can't. There we go.

Brad Bouma, dairy producer from Plainview, Texas; Jimbo Grissom, peanut producer from Seminole, Texas; John Lackey, citrus producer from Weslaco, Texas; Ronnie Holt, cotton, corn, sorghum producer, crop insurance agent from Muleshoe, Texas. I've run into three or four people. It must be a big town.

Mr. HOLT. Very big.

The CHAIRMAN. Joe Parker, Jr., cattle producer from Byers, Texas; and Dale Murden, sugarcane, citrus, vegetables, soybean, and sorghum producer from Monte Alto, Texas.

So, gentlemen, welcome to the panel and to the Committee.

And, Mr. Bouma, you're recognized. Your statements will be made a part of the record in fully complete context, and we would like to ask you to try to summarize within the 5 minute rule if you can. We've got a lot of people to try to get in before we head out of here. So the floor is yours. Welcome to the Committee.

STATEMENT OF BRAD BOUMA, DAIRY PRODUCER, PLAINVIEW, TX

Mr. BOUMA. Thank you, Mr. Chairman and Members, for being here in Lubbock, Texas.

The CHAIRMAN. I think you might need to get the microphone a little closer.

Mr. BOUMA. I have to get it a little closer? Is that better?

The CHAIRMAN. Sure.

Mr. BOUMA. I'm Brad Bouma, and I represent Select Milk Producers and the Greater Southwest Agency, which markets all the raw fluid milk in the States of New Mexico and Texas, the best part of Texas, and parts of Oklahoma and Kansas. I represent dairy farmers all through the Southwest.

The 2012 Farm Bill is going to be a critical juncture at the crossroads of the dairy industry, and we firmly believe that we need to take a different approach. We should not go back and try to continue to fix 30, 40, 50 year old farm/dairy program problems. We should take a new light and a new look at dairies from a sustainability and an innovative point of view.

The products that we make in this country are no longer fitting within the world market in which we operate. The products that we produce, we produce to some great means to sell to the CCC and store in this country and balance the world market.

So we firmly believe that through sustainability, which not only includes our environmental side, but a sustainable operation is one that works well within this community, one that also operates profitably within the world to come.

We feel there are very many opportunities in the dairy industry as we look at our environmental side. We're here working with two different large co-ops that have been formed to work on biomass projects and issues. We operate some of those in our Indiana operations, as well, today and generate electricity from biomass and feel the potential to do so is tremendous.

We are one of the few industries that can actually take methane gas and convert it to electricity or to CNG and into natural gas potentially. And we can solve two problems. We can create renewable energy at the same time that we're reducing the carbon footprint of agriculture throughout our region.

The balance of renewables, which we support, and wind and solar are all excellent, but they do one thing. They create renewable energy. We have the potential to create renewable energy and shrink the footprint all at the same time.

We understand that some of those issues are not necessarily in the jurisdiction of your Committee. They lie in Ways and Means and Energy, in places, but support from the USDA, as we work with the Secretary with the MOU, that we have entered into with the Secretary, which is an agreement to attempt to shrink the carbon footprint of the dairy industry 25 percent in the next 10 years, is really, really desirous of the support of your Committee.

We need to be able to have similar access to grant funding, to tax credits and to numerous different options as we—that are similarly used in wind and solar, as we try to develop our biomass industry in west Texas, New Mexico, and also across the United States.

As an industry, we look at the dekatherms of energy that we need in ethanol and biofuel, biodiesel. We, as an industry, along with our cattle feeding counterparts, pay a premium or a higher premium today for corn and soybeans, as these industries develop, and we're all for that.

We're not here to blast at them or stockpile diesel, but we would just like to be put on the same playing field when it comes to tax credits, availability to grants, access to USDA funds, as we try to develop a biomass industry within the dairy business.

We also want to talk about innovation. Innovation is very important. We need to look at new products. We, at Select Milk Producers, have developed some products that are innovative. They reconstitute milk, use 100 percent whole milk, and are making recovery drinks. There's actually some in the cooler out in the hallway, and at the break, please help yourself to one.

We need to get away from making dried milk powder in this country from the CCC, and re-tool our industry or balance our industry in making skim milk powder, which is what the world market wants.

We, in this country, have an antiquated dairy program, and they make products that the world no longer desires, or never has desired. We need to balance this industry, because we always have to have a little bit too much milk in this country in order to have enough milk in this country.

And as we balance the milk in this country, we need to be able to do it with products that potentially can be moved offshore. We think the support program is antiquated, and we need to create transparency in pricing. We need to create transparency in reporting, so that all milk sold is reported, and every load of cattle that is slaughtered in this country is reported. We need to make sure to realign the price discovery mechanisms.

We are not necessarily proponents of supply management. We think supply management is the opposite of innovation and sustainability. And we need your help and your assistance as we look to re-tool our programs and our industry to compete, not only effectively and cleanly here in the U.S., but across the world. Thank you very much.

[The prepared statement of Mr. Bouma follows:]

PREPARED STATEMENT OF BRAD BOUMA, DAIRY PRODUCER, PLAINVIEW, TX

Introduction

Mr. Chairman, on behalf of Select Milk Producers, Inc. and Continental Dairy Products, Inc., I welcome you to Lubbock, Texas. Thank you for giving us this opportunity to discuss with you the opportunities for the dairy industry in the upcoming 2012 Farm Bill.

My name is Brad Bouma. I and my wife Barb live in Plainview, Texas, just a few miles from here, where we operate an integrated dairy farm. With the addition of our sons Brandon and Brent to the management team, we represent five generations of dairy farming that began in The Netherlands. I also partner in a dairy farm in NW Indiana and am the operating partner in a commercial dairy-heifer feedlot in Hale Center, Texas.

I serve as President of Select Milk Producers, Inc., my marketing cooperative and as a member of the Board of Directors of Greater Southwest Agency. I am a member of Continental Dairy Products which markets my Indiana farm milk. I also serve on the Board of Directors of First National Bank, El Paso.

Select Milk is a milk marketing cooperative owned by only dairy farmers who have dairies in New Mexico, Texas, Oklahoma, and Kansas. Continental Dairy Products, Inc. is a milk marketing cooperative whose members operate dairy farms in the states of Michigan, Ohio, and Indiana. The milk of Continental's members supplies customers in the Mideast, Appalachian, and Southeast marketing orders. Due to its high quality feed, abundant fresh water, good dairying climate, and proximity to the major markets of the United States, that region of the country along with the Upper Midwest are poised for further growth.

Though using different legal entities to maximize tax, estate planning, and other business goals, all of Select and Continental member dairies are owned and operated by families just like my family.

The Greater Southwest Agency is a cooperative of four cooperatives—Dairy Farmers of America, Lone Star Milk Producers, Zia Milk Producers, and Select. The annual deliveries by members of GSA would qualify it, if a state, as the third largest milk producing state after California and Wisconsin.

As I am sure you have noticed, the dairy farms in the Southwest are on the average larger than farms elsewhere. But such sized farms can be found in increasing numbers in other states such as Michigan, Wisconsin, Minnesota, Indiana, Illinois, and Ohio. The size of the farm, however, will not define who and who are not the successful dairies of the future. The current depression in dairy farming has adversely affected all farms whether they milk 35 or 3,500 cows. Future policies must not be defined as for the "small" or the "large" but for all. Dairy policy must be for all milk produced not a minority of the milk produced. Rather we must focus on what it takes to compete in today's world market. Expansion of foreign markets for our milk and milk products will benefit all dairy farmers regardless of region or size.

To meet the world market, dairy farmers in the USA can and must produce the highest quality milk possible. We have been the World's leader in high quality, affordable food stuffs and we must enhance this position. The size of the dairy farm does not change that. We must be innovators in milk and milk products that can supply milk's nutrition in more ways than traditional dairy products. That is not a size or regional issue. We must remove the regulatory and pricing systems that penalize innovation, quality, and growth of our markets. Size is not part of this equation.

The farm bill is due to be passed by 2012 with it taking effect late that year and, traditionally, in place for 5 years or late 2017. All of that is well into the future and the industry will see significant changes in the next 2 years and clearly in 7. As a consequence all discussions of dairy policy must be focused on what the dairy industry will be when the programs begin and what we want the dairy industry to be like when it ends. Creating, or modifying older programs designed for prior times, is not only irrelevant to future policy, but will hurt.

In the past we, like most everyone in the industry, discussed dairy policy in terms of milk pricing, Federal orders, and similar programs. Though the underlying concept of profit for dairy farmers remains relevant, those policy choices no longer are the only issues defining the future American dairy industry.

We are part of the world. The reduction in dairy exports from the highs of 2008 to 2009 is often identified as a cause of the drop in milk prices at the farm. Despite that drop, exports of dairy products in terms of pounds for 2009 were the third highest in history. Exports will continue to grow. Just as the role of exports grew from 2007 when the present farm bill was passed, they will be higher in 2012 and even higher in 2017. Prior to 2007, the American dairy farmer was almost entirely in a domestic market and had little impact from the dairy markets of the world. It is no longer a decision of whether or not to be part of the world. American dairy farming and the world are now fully engaged. The question is whether we will adapt and expand to benefit from this great market opportunity, or retreat into a fortress mentality and disintegrate into a smaller, poorer sector in agriculture.

We are a part of this new market. The farm bill can assist us in benefiting from this growing opportunity. To prepare for the growth of the dairy exports, three major policy issues must be addressed—sustainability, product innovation, price intervention programs, and quality. The primary one of these is sustainability.

Dairy Farm Sustainability

To maintain profitability in the domestic market and be able to compete in the world market, dairy farms must be sustainable. The term "sustainable" is one of those words that is often misused and misunderstood. It is not "climate change." We desire to produce and deliver to consumers the greatest and most wholesome food in a way that benefits our animals, protects our environment, and makes us a profit. American farmers have always been first and foremost a steward of their land and animals, always desiring to pass on something better to the next generation. This motivation is now heightened because our customers care about these same things, competition among those who use our products is being used to the advantage of those products that are sustainable, retailers market the benefits of sustainability, and food service providers tout the value of sustainable sources of their ingredients. All of that means more and more markets for our products and more markets means more profit.

The Dairy Innovation Center, a collaboration of dairy producers and processors has provided the following guideline regarding sustainability.

The dairy industry is committed to:

- Recognizing and appreciating all members in the value chain from farm to table.
- Working collaboratively with all stakeholders, consistent with the vision.
- Taking responsibility for our environmental impacts and celebrating our positive contributions to the planet.
- Ensuring economic fairness across the value chain.
- Preserving and enhancing the health and wellness of all people.
- Utilizing both sound science and a transparent process to foster continuous improvement.

Key to these principles is that sustainable dairy farming is ultimately profitable dairy farming. Unless programs and processes yield economic benefits to the dairy farmers who practice them, the program is not sustainable. Profitability is important not only to the dairy farmers but to the employees on the farm. A typical dairy farm has one employee for every 100 cows. A 3,000 cow dairy would have 30 employees. These are direct employees, and several times that number of jobs are created in the local economy to support the farms' many activities.

Sustainable dairy farming results in dairy farmers implementing technologies that capture the waste produced on the farm and turn it into a valuable product—energy—as well as finding other ways to include renewable energy production into existing systems. This adds to the profitability of the farm as well as reducing the environmental impact of the waste. These technologies include systems that capture methane gas and use it to power generators creating electricity and heat for the farm or nearby communities, converting methane to CNG to power farm machinery and transportation of milk, and implementing wind and solar power options in fields and on top of structures that house the cows. Good old American ingenuity will create the most sustainable and competitive dairy industry in the world if we put our ag dollars to work in the right areas.

Dairy producers have entered into a Memorandum of Understanding with USDA to reduce the carbon footprint of dairy farming by 25%. Select and Continental members have committed to implement sustainable practices that will simultaneously reduce the carbon footprint of the dairy farm, substantially reduce the environmental risks of modern dairy farming, and produce a source of energy 24 hours a day 7 days a week 365 days a year.

We are committed to making dairy farming sustainable. Members of our cooperative have invested heavily in and currently are operating numerous methane digesters powering electric generators for use on our farms in Indiana; they are studying a solar alternative in Texas; and are moving ahead in a project to clean and compress the methane gas generated on the farm into compressed natural gas (CNG) that will power our truck fleets. It is estimated that this project, in the investigative stage, could produce as much as 10 mW of electricity all day and year round.

Our members with other dairy farmers in the Pecos Valley region of New Mexico have formed a manure handling cooperative. The goal of the Pecos Valley Biogas Cooperative is the collection of manure from its members' farms and converting by gasification or other processes that manure into usable energy. For them the process is essential. Unless they are able to do this, their continued operation in that region is at risk. This is because the required investment to comply with new environmental demands exceeds the value of their farms. At the same time, the milk they produce is essential to the overall supply of milk in this region. Without it the Southwest would be short of milk.

Continental members in Indiana have formed the Cow Power Bio-Energy Cooperative, Inc. to facilitate the advancement of its members in sustainability. These two manure cooperatives are the first of their kind and identify how dairy farmers of all size can use organizational tools already available to benefit from programs to convert to sustainability.

Among the projects being considered in northwest Indiana is a pilot operation to convert animal waste at the farm into useable gases and environmentally safe land nutrients. This project now, in development stage, will convert farm waste to methane gas. This methane gas will be cleaned and condensed. The resulting compressed natural gas (CNG) will power approximately 47 specially built trucks to move the milk from those farms to the market. At the back end, the remaining material will provide nutrients for the forage crops used to feed the cows. CNG represents a clean replacement of diesel and gasoline powered vehicles. The nutrients replace chemicals and other fertilizers that would be produced from fossil fuel sources.

The benefits to the environment are obvious. For farmers, sustainability can reduce the cost avoidance of environmental management at the farm and receive the income from the sale of the energy and nutrient by-products. Making this sustainable is essential to the long term viability of dairy farming in the United States and places dairy farmers in a position to compete worldwide.

Sustainable dairy farming assists us as we move to the use of less fossil fuel. No other source of renewable energy can provide as many benefits as converting animal waste to energy. Its source is solely renewable, the energy is continuous and thus can reduce the demand of fossil fuel burning plants, and it results in a cleaner environment. It brings jobs from the production of the generation systems and equipment and the dairy, source of energy, contributes to even more jobs.

As much as we want to make our farms more sustainable, in the end they must be profitable. The easy part of converting waste to methane has been accomplished. In some places we have produced electricity and gas. But to truly bring these experimental technologies to full scale commercial use on our dairies, we must overcome a number of economic, regulatory, and other obstacles.

While everyone wants sustainable practices from the consumer to the citizen, no one wants to pay for it. This conversion of waste to energy is not free. There are costs—capital costs for the equipment and costs to maintain the facilities. Further there are numerous limitations on the income. The value of the gas is restricted by a combination of government policies, tax policies, utility regulations, and competition. The wholesale price of electricity is much less than the cost to produce renewable energy. While the dairy can use some of the electricity on the farm, generation from manure produces more energy than a farm can use itself. The excess has to be sold. The result is the difference between what it costs to produce the energy and what it brings in the market, or "the gap." Unless and until this gap can be closed, waste-to-energy programs are unprofitable at the farm and, by definition, non-sustainable.

The obstacles to full adoption of such technology come from many sources. Different types of electricity suppliers (rural cooperatives, municipal utilities, and proprietary utilities) respond with different incentives. Higher renewable energy credits or other incentives that are offered by one type of utility may be unavailable to another. Regulations prohibit in one way, or another, the ability of farms located mostly in cooperative areas to take advantage of those opportunities provided by other utility suppliers. State borders provide additional barriers. Connecting a consumer who is willing to pay a higher price for renewable energy with a producer such as a dairy farm is generally impossible today under regulations as they now exist.

Current tax and other incentives treat methane digested from animal waste unequally. On a million Btu (MMBtu) or dekatherm (DTH) basis other renewable biofuels do not represent the same cost benefits and often consume resources that would be better used for other purposes:

Current Biofuels Effective Tax Incentives ($/MMBtu)

Cellulosic Ethanol	$13.29	Arable Land
Bio-Diesel	$8.43	Soy Beans
Ethanol	$5.92	Corn
Biogas	$1.29	Manure & Organic Waste

Figure 1. Biofuels Effective Tax Incentives ($MMBtu) as prepared by the Gas Technology Institute.

This table of comparison is based upon the conversion of biogas into electricity. Biogas which is used as renewable natural gas, its most efficient and cost effective approach, receives *no production tax credit* and without production tax credit is ineligible for the investment tax credits or alternative grants.

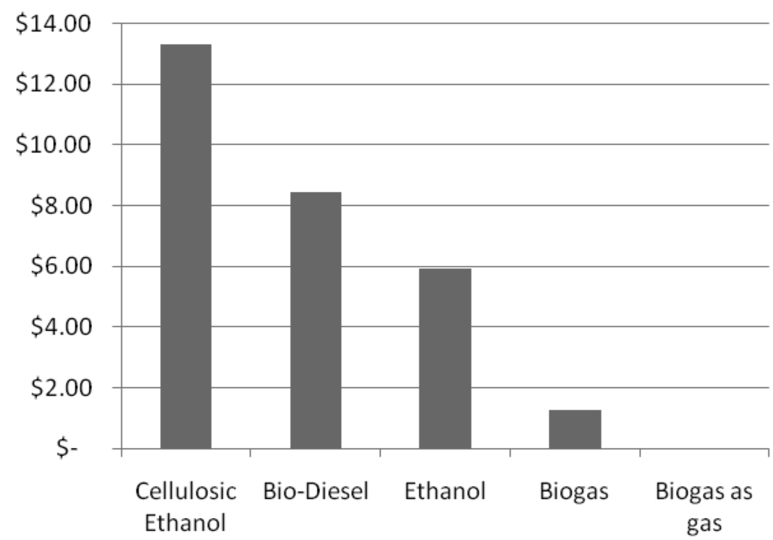

Figure 2. Comparison of Tax Incentives for various renewable biofuels.

Through combination of harvesting energy from the farm and use of the remaining nutrients as fertilizer, we can create a "sustainability model" that is world class. The size of the dairy farm has no effect on the above opportunities if we as a nation put in place the proper incentives and regulations.

Method	Total Plant CapEx $ for 1MW Installation (2010)	30% ITC	Generator Output Time	kWh Generated Per Year for a 1MW capacity facility	Effectiveness of 30% Grant $/KWh
Solar PV (Large Commercial)[1]	$3,164,488	$949,346	17%	1,489,200	$0.64
Wind (On-Shore)[2]	$1,954,198	$586,259	37%	3,267,480	$0.18
Biogas (1600 Dairy Cow Farm)[3]	$3,879,359	$1,163,808	90%	7,884,000	$0.15

Figure 3. 30% ITC Grant Impact.

At this time of budget constraints and efforts to make sure public monies are properly spent, the 30% ITC tax grant would be more effectively spent on biogas *versus* wind, by 3¢ more per kWh (20%). The major reason for this in spite of almost doubling the cost for wind is the higher generator output time for biogas than wind. The net capacity differs from "nameplate capacity" which is the rated capacity of the plant. The net capacity is the ratio of the actual output of a power plant over a period of time such as a year and what it would have produced if it had operated at the full nameplate capacity for the entire time. The periods of time winds do not blow or the sun does not shine significantly reduce the capacity factor of those types of plants. For example, a 1.0 mW biogas plant will in the end deliver 0.9 mW of power. A wind turbine rated the same will deliver 0.37 mW.

The net capacity is important because it determines just how effective an alternative energy source can prove to be. Due to their inconsistent delivery of energy, solar and wind plants must be backed up with those of higher capacity and have the ability to turn on and turn off as needed. The term "net capacity" as we are using it differs from another common use of "capacity factor" which considers the amount of energy available compared to that used. In the case of wind and solar, this number is rated at 100% because by definition the energy created is what is consumed. Other energy conversions yield less energy than in the raw fuel. For example a gas engine not only provides power but some of the energy is converted to heat that is unable to be used. While the capacity of wind and solar have no wasted energy, net capacity is significantly reduced because the source of energy is not always available.

We do not mean to suggest that there should be no development in these other areas of renewable energy, but it is economically mistaken to ignore or underrate the value of manure powered electricity. In fact such electricity can make the use of wind energy much more efficient because electricity generated from manure provided methane is dischargeable and while off line, the gas or the manure or both can be stored for use when needed. Electricity from our farms teamed with the wind turbines of west Texas and the solar arrays can provide large amounts of renewable energy all the time.

By far one of the best uses of tax incentives and other programs to increase the amount of alternative energy produced would be for dairy farms—an investment that would provide clean energy, reduce the carbon footprint of the production and delivery of an important food, and make dairy farming sustainable. But it is not available.

We realize that some of the legislation that addresses these issues is under the jurisdiction of other Committees such as Energy and Ways and Means. At the same time in the upcoming farm bill we request that you continue to support the use of animal waste as a renewable energy source. In doing so, we request several things:

First, there should be parity between a dekatherm of energy regardless of how one produces it. Let the efficiencies and market forces of the production of those sources dictate the long-term winners. For example, CNG from animal waste to methane should have the same MMBtu credit as that produced by biodiesel or ethanol.

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[1] General Electric.
[2] General Electric.
[3] *http://www.epa.gov/agstar/pdf/digester_cost_fs.pdf.*

Second, in issuing competitive grants and other incentives, the Secretary should be required to consider these factors:

- The net capacity of the energy source being considered.
- A multiplier for those processes that also prove to mitigate or eliminate environmental emissions in the production of food such as the conversion of animal waste into energy.
- The inequity of tax and other incentives that improperly favor one alternative energy source over another.

Innovation

To further increase demand, Select has invested millions of dollars over the last decade to develop innovative products which would increase sales of dairy products, not cannibalize other milk sales. Through patented technology, Select has developed the means to create "designer milks." High quality milk fresh from the farm goes through several filtration processes separating the fat from the protein from the sugars from the calcium and other solids from the water. These then are recombined in different ratios to provide a different profile of milk. The double sugar, lactose, is converted to two simple sugars, glucose and galactose. These sugars are sweeter than lactose and thus the carbohydrates in the drinks can be reduced while maintaining the same sweetness of milk.

For 6 years HEB has been marketing one such milk here in Texas. This milk is produced by Select Milk and bottled by HEB at its plants in Texas. This designer milk, called "Mootopia," has more protein and more calcium (all fresh from cow's milk) but with fewer carbohydrates. This lactose free milk still tastes the same sweetness as regular milk.

We have also recently introduced another designer milk called Athletes Honey Milk®. This product delivers more milk protein with natural honey added. The result is a restorative drink with natural carbohydrates and proteins to aid individuals after biking, running, rowing, or other physical activities. The product has been produced in five flavors in single serve bottles and is now being stocked in Wal-Mart stores in selected cities in Texas, Indiana, Illinois and Wisconsin. We expect to roll it out in additional outlets. Negotiations are underway to export the product to China.

Samples of these have been made available to the Committee today. With our food scientist and team of dairy innovators we continue to look for other ways to provide quality food products for consumers using milk.

Milk Labeling

One of the biggest hurdles to marketing innovative milk has been the labeling enforcement by FDA for use of the term "milk." FDA regulations define "milk" in Federal standards of identity as the "Milk is the lacteal secretion, practically free from colostrum, obtained by the complete milking of one or more healthy cows."[4] The standards of identity go on to define various milk beverages and products, all of which require as an ingredient "milk."

Despite very clear standards of identity established by FDA, FDA has refused to enforce them. Dairy farmers and processors have spent literally billions of dollars promoting the nutritious value of milk. Promoters of competitive drinks that have no milk and in fact advertise themselves as alternatives to milk have been openly using the word "milk" to describe their products. In the process they are able to capitalize on the marketing of dairy farmers for milk. These include "soy milk" and "almond milk."

More flagrant has been the use of the name "Muscle Milk" to describe a product that at most contains among its dozens of chemicals some caseinates or whey proteins in minute amounts. These products are now appearing in dairy cases in packaging similar to real milk.

The standards of identity exist to protect consumers from the dangers associated with mislabeling of foods. Allowing products which are not "milk" to use that name as part of their food name or label threatens the integrity of this vital food safety program. None of these products could be used as substitutes for milk in recipes or even deliver the same kind of nutrients as milk.

FDA has done nothing to stop this misappropriation of a distinct food name. Some state milk regulatory programs, such as New Mexico, have asked them to stop, but without the FDA doing its job, the continued theft of the good name of milk will continue.

[4] 21 CFR § 131.110 (April 2009).

We recognize that this Committee does not have direct authority over the FDA, but it does have authority over the milk promotion programs and milk pricing and regulation. The failure of the FDA to do its job threatens those. We urge the Committee as a Committee and its members to demand an accounting from FDA for this error.

While these products have been given a pass on the standards of identity, Select has undergone close scrutiny and obstacles to use "milk" in the products we have produced for you to sample. All of these products use milk from cows and, except for flavorings, only milk from the cows. In other words, dairy farmers producing innovative products that only use their milk have to strictly comply with labeling requirements while products made by non dairy farmers can make up names for their non dairy products using the word "milk" get a free pass. This inequity must end.

In this way, the failure of FDA to enforce regulations against flagrant violators but challenge legitimate users of only milk is one of the many obstacles we face to innovation of new milk products.

Higher Enforceable Standards of Milk Quality Should Be Established

American dairy farmers produce the highest quality, safest, and most wholesome food in the world. Despite that, its standards for products and for quality are inconsistent with international markets.

The current standard for somatic cell count (SCC) under the Pasteurized Milk Ordinance (PMO) is an example. SCC is a critical measurement in the quality of milk. It is the count of white blood cells found in the milk. As pathogenic bacteria increase or decrease in the cow, the SCC responds similarly. More and more dairymen are able to bring their average counts for their entire herd below 100,000 and it is widely agreed that 400,000 should be the outside limit. Under current rules a farmer retains Grade A status and thus can share with the extra value of bottled milk in Class I if that farm does not have more than two tests out of five over 750,000 SCC. A few states, such as Indiana, permit limit on SCC for milk used for manufacturing to be 1,000,000 SCC. In the world, however, EU and other countries have a standard of 400,000. To efficiently supply the market, we must have quality that meets these standards for our domestic and export markets.

Improving somatic cell counts has other benefits. Lower counts bring better animals and more efficiency. Cows with lower counts are healthier animals and produce more milk. Milk with lower SCC produces higher cheese yields.

The challenge is that the standards for SCC are part of the Pasteurized Milk Ordinance (PMO). The PMO is promulgated by the National Conference on Interstate Milk Shipments. NCIMS includes representatives from local and state milk inspection agencies, producer groups, milk transporters, academia, and FDA. Every 2 years this conference considers questions regarding milk safety. Since its first use in 1924 it has met the challenge of making milk safe. The ordinance it adopts at these conferences are adopted throughout the nation providing a uniform milk safety and sanitation code. This allows milk to flow from one region to another without concerns that the milk does not meet local standards.

While this program is very successful, it presents a challenge in that the standards for quality are now surpassing the standards for safe milk. Repeated efforts at the conference to lower the limits on SCC have failed. We do not propose direct interference by Congress into this valuable administrative process but efforts to force the FDA to take a leadership role in this area at the NCIMS would be helpful.

Another area of quality that needs to be addressed is temperature. Current PMO regulations require that milk that is harvested at over 100° from the cow be chilled and stored at no higher than 50° F or less within 4 hours of the the beginning the first milking and no more than 45° F within 2 hours after the milking has ended. In cases where more than two milkings are put into the tank, the temperature cannot exceed 50° F. Higher milk temperatures result in degradation of the milk. For that reason, all of Select and Continental farms immediately cool the milk at harvest to less than 40° F before putting it in the tank. More importantly, we all have time and temperature charts that show the temperature of milk in the tank at all times.

Most farms, however, have the temperature tested only at the time the hauler picks it up. If it tests at that time at less than 45° F the milk is accepted and there is no way to know how long that milk was at that temperature. There is a cost associated with putting time and temperature charts on all bulk tanks. The cost is prohibitive for many farmers, particularly the smaller ones. Expecting them to make this investment would be unfair. As a result this cost barrier has hampered a universal adoption of the practice even though it would benefit the entire industry including the producers.

Providing grants to producers to install the equipment would cost less than $100 million and would be a one-time investment in the program. The result would be even higher quality milk and value to all dairy farmers.

Another example is the use of nonfat dried milk (NFDM) as the mainstay of our powder industry. Essentially NFDM is skim milk that is dried. The protein content varies depending upon the protein in the milk. International markets want skim milk powder (SMP) which is very similar to NFDM but the protein has been standardized. The standards of identity for dairy products permit the use of NFDM in those products, but not SMP even though the use of the latter would make for a better product.

What should Congress do specifically with dairy policy?

As discussions center on "what can Congress do?" we must realize that in the end, very little. We need to recognize that the law of economics will always win and legislation cannot avoid the consequences of violating its rules. After nearly 3 decades of milk diversion programs, whole herd buyouts, the milk assessment with refund, MILC, price supports, and the industry-funded CWT program, we still find ourselves with low-priced milk. In terms of the purchasing power of the dollar, milk is worth less today than it was in the early 1980s. Over time, the laws of supply and demand will always win as markets seek efficient pricing. This is true in free markets and controlled markets. Free markets adjust relatively quickly in finding price equilibrium. History shows that markets which have been controlled, by government for example, eventually self-destruct generally because prices were set too high or low and over-supply or shortages accordingly ensue. And markets, such as dairy in the United States, which are subject to regulation, are not immune from this economic force. With that as our underlying policy we have several proposals.

Drop Price Support

The Dairy Product Support Price Program should end. Its role in providing a safety net for producers has passed. For cheese purchases, it fails to address commercial cheese making of the 21st Century in a way that will attract cheese when prices fall. On more than one occasion, cheese prices fell and remained below the support price.

In the area of NFDM, the price support program is impairing the ability of the industry to provide the dairy ingredients wanted domestically and internationally. Because of the safety net built for powder plant operators with price support and end product pricing, the industry has failed to fully adapt to meet the growing demands for skim milk powder, caseins, milk proteins, and other products dried milk.

Finally, and most important, the price support program has become the world price support program. American taxpayers are not only supporting domestic producers of powder, but foreign ones. While dairy farmers in America suffer from low prices, American taxpayers keep the international price of powder high for our competitors. That must end.

Risk Management

The current crisis has shown the need for better price risk management by dairy farmers. Those dairymen who weather this storm the best will be, for the most part, those who had the foresight to manage their price risk before the markets failed. Though such practices did not "lock in a profit" in every case, each of them certainly were able to fix their losses to a level which could be weathered. As the industry moves forward the need for and use of the price risk management tools will increase.

Many of the tools of risk management come from the industry. The various contracts available on the Chicago Mercantile Exchange are examples of how the private sector is addressing the needs for risk management within the industry.

Congress should coordinate any programs so as to leverage the private sector rather than interfere with it. Proposals for livestock gross margin programs, for example, using existing markets to tailor specific margin risk opportunities for producers. We would support such programs so long as there is no limit based upon size.

Changes to Federal Order Program

The fundamental part of the FMMO program is minimum pricing. Since the late 1990's USDA has relied in part or in whole on product formulas for pricing milk. These end product-to-rice formulas prices use surveyed commodity product prices, make allowances, and yields to determine the milk value. There is a general consensus that such formula pricing is a mistake.

In any event, this end product pricing must end and end soon. The four classes of milk need to be replaced with a much simpler one-price discovery system with two classes of milk—bottled and everything else. The system would allow plants and producers negotiate competitive prices for milk used in manufacturing. These prices would be surveyed and used to establish minimum prices for Class I. Plants in combination with their producer suppliers would be free to price and market dairy products to the world.

We are working with NMPF and IDFA and others to develop a competitive pricing series that lets the marketplace tells us the value of milk. This will bring an end to the product formulas and the contentious hearings that they bring.

These changes will not require legislation but can be handled under current authority in the Agricultural Marketing Agreement Act and the Federal Milk Marketing Order program.

Price Reporting

Greater price transparency of dairy products will enhance the use of existing risk management tools. The Secretary should be required, with necessary funding, to daily report the selling of milk, cream, and dairy products in the same way that beef producers can see the pricing of meat products.

Animal Welfare and Identification

NMPF with its FARM program is providing a research based program to assure the proper handling of animals in a humane and proper way. Such programs can best be handled by the industry as this program shows.

Animal ID is important. The degree of traceability from farm to the store must be transparent to assure our customers that we provide the safest food available. We support animal ID.

Supply Management

We in the United States are sitting on the cusp of a tremendous opportunity to grow our dairies to supply the world. We should not be shutting it down by implementing supply management programs.

We oppose any supply management program for dairy. Such programs of production base and controls have not worked anywhere else in the world. Europe's base plan is in shambles and on farm prices are the lowest in decades, with farmers protesting all over the Continent. Canada's system keeps production volumes matched with domestic usage. This only works if you have in place tight tariff controls on imports. If we attempt to shrink U.S. milk production to equal domestic consumption, imports of MPC, caseinates, and milk fat will pour into our country further eroding our own internal market. We will not only lose our place in the world market, we'll lose more and more of our market at home as well.

The "promise" of these programs is that by managing supply, dairy farmers will always be profitable or, at least, not experience what they have now. Supply management has been in Europe for decades and they have the same low prices we do. Canada's system exists because they can balance off of the United States while protected by extraordinarily high tariff rates on imported dairy products.

Each of the programs propose different means to compute base, determine the amount to be reduced, how much is charged for "over production" and the like. In the end all of them transfer wealth from the vigilant and efficient to the inefficient and less vigilant. They trap the industry into the past rather than let it fly into the future.

The underlying principle of all of the "supply management" programs is that by some means the government imposed tax or other penalty will short the market which in turn will result in higher prices. We urge the Committee to run away from any proposal that imposes milk taxes, causes artificial inflation of food costs, and holds back the industry from fully developing.

The reason expressed for such proposals is to reduce volatility. But, at the same time, we have experienced no volatility since the beginning of 2009 while we received too low of prices. The two go together. You cannot have viable milk prices without some volatility. All commodities share that.

The goal of the supply management programs is to eliminate growth in milk production. But production growth comes from being more efficient, producing higher quality milk, treating cattle better, adopting innovative ideas, and strategic relocation of farms to more economically meet changing demand. Supply management programs penalize those efforts by taxing, and in some proposals completely taking, all of the gains from efficiency, quality, animal welfare, and innovation.

We must not forget that the milk market is different from any other market in the world. Unlike corn, its raw product is perishable. Unlike perishable vegetables which are subject to annual planting decisions, its raw product cannot be "turned on or off" at the individual producer level except by program liquidation. Unlike a domestic oil well, its raw product cannot be immediately sourced overseas under efficient market arbitrage. Unlike gold, its raw product is a solid staple in the diet of over half of the world's population. The fact that the milk market is very unique from other markets implies that it is even more important to understand and respond to milk's supply and demand laws. It goes hand-in-hand, then, that the normal process of supply and demand seeking equilibrium pricing should not be manipulated.

In support of their proposals, some of the proponents have been showing the results of "models" and how they show that if adopted the proposal would provide profitability all the time to dairy farmers. There is a misuse of these models. The models used by FAPRI, USDA and academia all incorporate as many as 500 different variables, the change to any one of which would cause change in the result. By ignoring the hundreds and hundreds of other variables, proponents of supply management focus on only one of them. The only way a supply management program can work is to isolate us from the world both in terms of imports and exports. It is difficult enough to estimate domestic demand; it is impossible to do so for world demand. Besides dozens of different economies, the ever changing value of the dollar, international events and politics, and different weather conditions all pose multiple factors to the equation. Matching supply and demand to domestic market eliminates opportunities in world markets.

The biggest weakness of economic models is they ignore the power of the human spirit. Not a single economic model for dairy would predict that after twelve months of the lowest milk prices and negative margins that milk supply in the U.S. would remain unchanged. If $6 and more discounts on milk price cannot stop milk production, what can the proposals being touted do?

The law of unintended, but clearly predictable, consequences, will play out if supply management is instituted. By decoupling milk prices from market reality, the gaps between dairy prices and the ingredients from imported products or the use of substitute ingredients will over time further reduce the demand for milk. By decoupling the milk prices from the rest of market activity, producers will be exposed to higher risk of unprofitability because prices will not respond to costs of production. Technology for increasing production will stagnate. The value of more milk per cow will decrease.

For example, the institution of supply management will reduce the value of heifers. Limiting farm production means fewer cattle, less cattle means less value. Reduced value of cattle will reduce credit lines, balance sheets, and producer income regardless of size. The excess heifers unwanted in U.S. will be exported to develop and grow competing milk supplies elsewhere in the world. Smaller, retiring farms will be especially hit. Their animals will be worth less than with a dynamic market and opportunities to sell will be reduced.

In the long run, we can't isolate ourselves from market realities. Our current treaties and sanitary rules will not keep out foreign dairy products. We have the most efficient dairy industry in the world and can compete effectively to supply the world with high quality protein, but we have to maintain efficiency and be aggressive competitors. A supply management program would reduce efficiency and competitiveness.

Conclusion

Consider long term reform for the dairy industry that is done in a thoughtful and methodical manner. Decisions should not be made in "crisis mode." It will be better to do nothing now and allow the market to find equilibrium while working toward the goal of transforming the U.S. dairy industry into a consistent global supplier of high quality dairy products.

In summary, we propose:

- Do not adopt any supply management programs.
- Put sustainability of dairy farming at the forefront of policy changes. The Congress can provide assistance through added availability of credit, focusing of grants to dairy and livestock waste to energy programs, regulatory reform to remove obstacles to integration of biogas into our national energy supply, and issue cost effective tax credits for investment and production.
- Eliminate the price support program. It is a burden to the U.S. dairy farmer and taxpayer. The U.S. price support programs should not continue to be the balancer of burdensome global milk supply.
- Replace end product pricing with competitive pricing for milk.
- Institute a mandatory price reporting (analogous to mandatory price reporting in U.S. cattle trade.) We need greater transparency and price discovery in pricing of milk and milk products. Surveys of what all plants are paying for milk,

inventories of dairy products, prices received for milk products. This information helps us understand what the dairy economy is doing.

- We need to maintain the integrity of the markets and those who participate in them.
- We can talk about other insurance or safety net options so long as those options do not hamper the sale and movement of milk and milk products domestically and in world markets.
- We must overhaul our pricing and safety net systems to allow our industry to compete on the world stage.
- We must let market forces work. Less, not more, government involvement is needed to make the dairy industry the best in the world.

Thank you, Mr. Chairman, for this opportunity. We remain willing, able, and even eager to assist you, the Committee, and the staff with information, ideas, and insight as you address dairy in the upcoming farm bill.

The CHAIRMAN. Thank you, Mr. Bouma. You're right on the mark. Good job.

Mr. Grissom, welcome to the Committee.

STATEMENT OF JIMMIE "JIMBO" GRISSOM, PEANUT PRODUCER, SEMINOLE, TX

Mr. GRISSOM. Thank you, Mr. Chairman, and Members of the Committee. I would like to welcome you to Lubbock on behalf of the peanut growers of west Texas.

My name is Jimbo Grissom. I'm a peanut farmer from Seminole, Texas, President of the Western Peanut Growers.

We are in our third year of operation under the 2008 Farm Bill. This has been a particularly difficult time for west Texas peanut growers. During this time, farmers across the country have been dealing with skyrocketing input costs. From 2002 to 2008, fuel prices rose over 200 percent, and while they only dropped 34 percent in 2009, they appear to be on the rise again for this year.

The picture is the same for all of our basic input costs. Producers of some commodities have seen significant increases in their market value. This, perhaps, has allowed them the ability to offset the rise in their production costs and make profits. That has not been the case for peanuts in west Texas due to the various weather conditions, production, and marketing problems.

This is to say current policy is a good base, but it's not perfect for all commodities, nor all regions. We believe that three basic elements of the current commodity program are critical and should be maintained.

The marketing loan remains the foundation for our producers. It is the only element of security that applies to our entire harvested crop, because it provides the absolute floor for which the value of our total crop cannot fall below. The loan is essential for marketing and lending.

The direct payments represent the only guaranteed income in farming. It is absolute security for our lenders, and it is WTO compliant. For land with base acres, the countercyclical payment is basically a guarantee of a higher minimum price. All three of these components, when combined, provide a needed minimum safety net for our growers as well as our lenders.

However, Mr. Chairman, there is a needed component missing from peanuts. Multi-peril insurance is the only semi-viable risk management tool available for our commodity. One problem associated with multi-peril insurance is the pricing mechanism. The problem in the policy is that it does not relate to our costs, or reflect the actual price situation.

We believe that a good CRC insurance policy, similar to the policies which are available for other commodities, would be a more viable risk management tool. We are currently working with RMA to develop a viable CRC policy for peanuts.

We need and seek protection for both price and yield risks. We stand ready to support any reasonable price reporting requirements necessary to make that happen.

Regarding payment limitations, we urge the Committee to avoid further changes in eligibility standards. Constantly changing the limitations makes it very difficult for full-time farmers to make a profit. Major changes which were made in the 2008 Farm Bill have been implemented. Now farmers just need stability in this area for the next several years.

In conclusion, we wish the current program elements were stronger and provided more financial support, but at least they provide a reliable basis upon which the lender can work with the farmer, even in bad times.

Mr. Chairman, this history, the history of the new program, including our recent venture away from the traditional quota system, is a full example of unexpected and often unfortunate consequences. Due to this history and the fragile financial condition of west Texas peanut producers, it is hard for us to support doing away with a farm program that we understand.

We sincerely appreciate the efforts of you and this Committee for exploring ways to build a better safety net for farmers. It is needed, especially in the region for peanuts.

In closing, if we are not successful in getting a satisfactory CRC insurance policy program through the current proceedings with RMA, we will be asking you for legislation to help in this effort.

Thank you for coming to Lubbock, and thank you for the opportunity to testify today.

[The prepared statement of Mr. Grissom follows:]

PREPARED STATEMENT OF JIMMIE "JIMBO" GRISSOM, PEANUT PRODUCER, SEMINOLE, TX

Thank you, Mr. Chairman. My name is Jimbo Grissom. I am a peanut farmer from Seminole, Texas and President of the Western Peanut Growers Association. I would like to welcome you and the Members of the Committee to Lubbock on behalf of the peanut growers of west Texas. We appreciate your willingness to come and hear first-hand from Texas producers our views of the farm programs and their importance to production agriculture in the Southwest.

Mr. Chairman, we appreciate the leadership you demonstrated in getting the 2008 Farm Bill enacted into law. We want to commend you, Mr. Chairman, and the Agriculture Committee for getting an early start on consideration of the 2012 Farm Bill. In this time of budgetary pressure, we know that crafting the next commodity program legislation will be a great challenge for you, and we want to offer our support as the Committee works on putting a new bill together.

The State of Our Peanut Farm Economy

We are now in our third year of operating under the 2008 Farm Bill, and this has been a particularly difficult period for peanut growers in west Texas. Like commodity producers across the country, we have been coping with volatile and rising input costs. From 2002 to 2008, fuel prices rose over 200%, and while they dropped by 34% in 2009, those costs are on the rise again this year. The picture is the same for all of our basic crop inputs. Fertilizer prices rose over 80% in 2008 alone. In that same time-frame pesticides costs rose by almost ⅓. While input prices have risen and fallen over the last 5 years, the trend-line shows overall steep increases in the cost of growing a crop.

Producers of some other field crops have seen significant increases in the market value of their commodities, allowing them to partially or, in some cases, fully offset the rise in production costs. That has not been the case with peanuts in west Texas. The 2007 crop year's shortage of peanuts created an attractive contract offer price of $500 per ton for 2008 crop peanuts. In our production area the crop was subjected to drought, hail, high winds and a pre-harvest freeze that reduced yields from 20 to 40 percent. These weather losses combined with soaring input costs in 2008 turned what might have been a profitable year into losses as high as $200 per acre.

The relatively good contract prices in 2008 led producers nationwide to increase production, resulting in excess production and lower contract prices for 2009. Despite some easing in input cost increases, we had a second very poor year for income. In west Texas, peanut farmers have dramatically reduced planted acres, and there has been some increase in contract offer prices. But input costs are on the rise again, and it looks to be another disappointing income year.

These repeated income shortfalls and production cost increases are taking their toll on our producers. One young farmer I know well was told this year by his banker that he simply couldn't get financing for another year. He now has a job in town and is cash leasing his farm to meet the land payment. Most of the older farmers, like me, are using the equity on their farms to secure operating loans. More and more of our producers are turning to USDA loan guarantees as they use up the last avenues to borrow the money to farm another year. Mr. Chairman, our west Texas peanut producers are under so much continuing economic pressure from the last several years of poor income and high costs that all our attention is focused on making it through another year. However, the Committee has asked for our thoughts on Federal agriculture policy in preparation for the 2012 Farm Bill.

The Peanut Program

Our first comment is in favor of the preservation of the marketing loan. The commodity loan remains the foundation of all program structure for our producers. It is the only program element that applies to all of our harvest; it is essential for the marketing of our crop; and it provides the absolute floor below which the value of the crop cannot fall.

Our next concern is to protect the direct payment, which represents guaranteed income regardless of the price or size of the crop. It is a dependable security for our lenders, and it is the only part of our program that can be reliably protected from World Trade Organization sanctions. Since many Texas peanut producers are also cotton producers, we fully appreciate the importance of that fact.

Finally, the countercyclical payment is a valuable tool to provide at least part of our crop with a somewhat higher price floor. This was helpful in 2009 when we suffered a fairly steep price drop, although its utility is mitigated by fixed yield and acre determinations and the effect of stricter payment limitation requirements.

When all three of these components are combined they make a valuable tool to set a much needed "floor" price for our commodity and our lenders.

Workable Crop Insurance Program for Peanut Growers

Crop insurance has been a growing factor in managing the risks of farming in west Texas. Lenders and farmers agree that insurance risk management tools are a necessity to cope with the variable nature of the weather in this region. Multiperil insurance is the only semi-viable tool available for peanuts. One problem associated with multiperil insurance is the pricing mechanism. Unless farmers' contract their peanuts by the acreage reporting date, the mechanism used to set the coverage price is many times unrealistically low. This results in a policy that does not relate to our costs or reflect the actual price situation.

We believe a good crop revenue coverage (CRC) policy for peanuts would be a more viable option for a risk management tool. We urgently need USDA's Risk Management Agency's assistance to develop an affordable and viable CRC policy for peanuts that would protect farmers against price as well as yield risks. We stand ready to support any reasonable price reporting requirements necessary to make that happen.

Payment Limitations

On the subject of payment limitations, we urge the Committee to avoid further changes in eligibility standards. We are still trying to adjust to the significant changes in this area from the 2008 Farm Bill. Constantly moving the markers on eligibility makes it very difficult for full-time farmers, who are under pressure to grow their operations to make a decent living as costs drive down the per acre profit possibilities. Major changes have been made, and now farmers need stability for at least the next several years.

Conclusions

As you can see, Mr. Chairman, the distressed economic condition of our west Texas growers causes much of our analysis to be viewed through the lens of our lenders. The banking and financial world is experiencing major instability of its own, and lenders are seeking the means to limit their risks in extending credit. Without their credit, many of our peanut producers are simply out of business. We wish the current program elements were stronger and provided more financial support, but at least they provide an understood and reliable basis upon which a lender can work with a farmer, even in bad times.

Mr. Chairman, the financial condition of west Texas peanut producers is too fragile and perilous for us to advocate abandoning that which is known. The history of new programs, including our own venture away from our traditional program in 2002, is full of examples of unexpected and often unfortunate consequences.

We applaud the efforts of the Chairman to explore new options for building a better safety net for farmers. If we are not successful in getting a satisfactory revenue insurance program though the administrative proceedings of the RMA, we will seek legislation that makes a good revenue program a reality for peanut producers.

Thank you for the opportunity to testify today and thank you for coming to Lubbock. I will be happy to answer the Committee's questions at the appropriate time.

The CHAIRMAN. Thank you, Mr. Grissom. We appreciate that.

Mr. Lackey, welcome to the Committee.

STATEMENT OF JOHN LACKEY, CITRUS PRODUCER, WESLACO, TX

Mr. LACKEY. Good morning. Thank you, Mr. Chairman and the Members of the Committee.

My name is John Lackey. I'm a citrus grower and a third generation farmer in Texas. Representing Texas Citrus Mutual and the citrus industry, we admit that 2008 was a milestone for the specialty crop. You know, being a citrus grower in the middle of all the citrus, you don't feel like that there's certainly anything special that you do, right, but vegetables and fruit are considered specialty crops.

And we got a little bit better platform in 2008 than we've had in the past, and we look forward to a better platform in 2012 with the financials in mind. But we have several areas that are of main concern. One is pests and disease, which we are always dealing with.

I assume you may be aware of a very serious disease that has hit Florida. We've noticed citrus greening. That has a longer name, *Huanglongbing*, or something like that. It's a virus from—it was started by the citrus—an agent of citrus it was very serious. There are about over a hundred thousand acres of Florida citrus that has been taken out in the last few years.

It really is to the point where we are not sure, if we don't find an answer to it, that the citrus industry will even survive this. So that is a very serious issue.

We continue to push nutrition education, and we know that our nation has a problem with obesity, and we know that we have the proper diet that will help that, and that's more fruits and vegetables. So we continue to support and push for that nutrition education across the country.

Food safety is a big issue, and more and more of the retailers and the buyers are demanding more thorough inspections, and food safety continues to be a huge issue.

The next thing, of course, is crop insurance, and every specialty crop and main commodity talks about crop insurance, and that's a huge issue. But, for the citrus, without that crop insurance, I think that the acreage would continue to slide. And so we don't very often have a claim on that.

But, in 2008, we had Hurricane Dolly that came through. A lot of growers are still waiting on the tree assistance program to kick in. We understand this month that some of that money is starting to flow finally, but the length of time it took for that to go through is something that needs to be addressed.

Some of the farmers have not only not replanted, but haven't even taken out the dead trees that were killed by the flooding from Hurricane Dolly, simply because the money is not there.

And immigration is another issue that continues to come up before us. Citrus is very labor-intensive. We think that somehow we have to have some sort of a worker program. We need the labor in the fields to harvest the fruit, and so we continue to look for support in that area.

And these things are all similar probably across most of the specialty crops, whether it's the citrus or the vegetables, across the state and across the country. And these are your main issues. I appreciate your time this morning.

[The prepared statement of Mr. Lackey follows:]

PREPARED STATEMENT OF JOHN LACKEY, CITRUS PRODUCER, WESLACO, TX

I am John Lackey, a citrus grower and member of the board of directors of Texas Citrus Mutual. My family and I have been involved in the Texas produce industry for over 77 years.

As Members of this Committee know, specialty crops were historically not a big part of the farm bill until the 2008 legislation. Our industry welcomed the changes in the latest farm bill. For many years the farm bill was able to garner enough support for passage through the collective efforts of commodity interests along with environmental interests and the food stamp program. For the 2008 Farm Bill new allies in the specialty crops, including a broad base of nutrition interests, became an important part of the farm bill legislative process. Nutrition, obesity and other specialty crop interests touch the everyday lives of all Americans. My comments today will focus on the importance of specialty crops in relation to the 2012 Farm Bill and some citrus specific issues. I will also comment on a couple of issues that are not farm bill issues in a strict sense but they are important to the Texas produce industry.

The 2008 Farm Bill was a major milestone for the produce industry. Fruit, vegetable and tree nut production accounts for $34 billion in farmgate value, or 30% of farm cash receipts for crops. If nursery and greenhouse production are added, the percentage of crop farmgate value represented by specialty crops increases to 44%. One hundred and twenty specialty crop groups were part of the Specialty Crop Farm Bill Alliance. We want to thank Congress for including a number of our priorities in the 2008 Farm Bill including important provisions for nutrition, trade assistance, research, conservation and pest and disease prevention.

The focus today is on gathering input for the 2012 Farm Bill but I would also like to share my concerns about length of time it took to implement the Tree Assistance Program in the 2008 Farm Bill. Texas Citrus Mutual was finally notified on May 7 that applications for TAP will begin. I did not personally sustain any serious damage in my citrus grove from Hurricane Dolly in 2008 but some of my fellow growers have been waiting a very long time for the Tree Assistance Program to be implemented. We are glad this program in the 2008 Farm Bill is finally going to be available.

Our Specialty Crop Farm Bill Alliance will once again be active in providing input to the 2012 Farm Bill. The Alliance has not formulated our specific recommendations so my comments will reflect the priorities of Texas Citrus Mutual and not necessarily the overall Alliance.

The Plant Pest and disease title is very important to the citrus industry. The U.S. citrus industry is fighting the biggest disease battle we have ever faced in Huanglongbing or citrus greening. Florida has already lost over 100,000 acres to this disease and unless research develops new tools to fight this disease there is real concern as to whether the industry in that state will survive. Texas has the vector for the disease, the Asian Citrus Psyllid, but so far Texas does not have the disease. Section 10201 was made part of the farm bill to develop a more proactive pest and disease prevention effort by taking steps to prevent such diseases entering the U.S. and then to quickly respond once the disease was found in the U.S. Diseases like citrus greening are a biosecurity threat as well as a huge threat to citrus growers. I would be stating the obvious to say that Congress, USDA and all of us have a long way to go to achieve the objectives of pest and disease prevention. The U.S. citrus industry has already invested some $30 million of its own money in a desperate effort to find a solution to this menace. The clock is ticking and if we do not find a solution soon the very existence of the U.S. citrus industry is at stake. It is hard to image a world without Florida orange juice, California oranges or Texas grapefruit but it could happen.

Our industry is a big advocate and fan of the nutrition programs in the farm bill. Nutrition is an area where the interests of the produce industry and the public interest are closely aligned. It is certainly in the public interest to fight obesity and we still have a long way to go in this area. There is a lot of disagreement about how to solve some of our healthcare issues but there is no argument that eating more fruits and vegetables is good for you. The Fruit and Vegetable Snack Program is increasingly popular in Texas and we certainly want to see that program continued. Congress is in the process, considering reauthorization, of the Child Nutrition Act and while that is not part of the farm bill this is an important piece of legislation for the health of our children.

We all know that with the budget deficit situation that all government programs are going to be scrutinized more than ever. In the last farm bill, the Specialty Crop Block Grant Program was shifted from being subject to annual appropriations to mandatory funding. It is important to our industry to keep funding for this program as one of the components funded as a mandatory program. This program is currently funded at $55 million. The money is allocated to state departments of agriculture. For the Texas fruit and vegetable industry this is one of the most important programs in the farm bill. I would like to share the impact about one of the projects funded under this program here in Texas.

We all know how absolutely critical food safety is to the produce industry and American consumers. We will never be as successful in increasing the consumption of fruits and vegetables as we need to be if consumers do not have confidence in the safety of fruits and vegetables. The project I am speaking of was awarded to Texas AgriLife Extension for hands on help for producers to be trained in relation to food safety audits. Through 2009, 87 food safety standard operating procedure manuals were developed. Participants included vegetable packing houses, a food bank farm, fruit producers, vegetable producers and several greenhouse operations. A new curriculum is also about ready to be launched with these funds. This is an ongoing program because the Texas Commissioner of Agriculture has placed a high priority on food safety. However, without these funds, the state would not have had the funds to conduct this program. We urge you to continue mandatory funding for the Specialty Crop Block Grant Program.

Crop insurance seems to be in the cross hairs as a program that this Administration wants to cut. I will not make specific comments about the current negotiations on the Stand Reinsurance Agreement. The Obama Administration has indicated one of the reasons for proposed cuts is that companies and agents are making too much money on the program. I cannot speak for other parts of the country but in the Rio Grande Valley I simply do not see any evidence of the kind of excesses that we have heard about in other parts of the country. For one thing Texas is a relatively high risk state for crop insurance companies so there is not as much money to be made on the underwriting gains as in other parts of the country. We urge you not to destroy the effectiveness of the crop insurance program. For citrus, it is really the only safety net we have since we do not receive any direct payments.

The new immigration law in Arizona has sparked heated debate about national immigration reform. We understand the need for comprehensive immigration reform and support but we do not see any way that Congress is going to pass a comprehensive bill this year. We urge you and other Members concerned about the future of American agriculture to support AgJOBS as an important step in addressing an important part of this issue. Why does Texas Citrus Mutual support AgJOBS? Very simply the reason is this. An immigration bill is not going to pass Congress, particularly the Senate, unless it has bipartisan support. AgJOBS has that bipartisan support and it is the only sector of the economy that can say that. AgJOBS is not a perfect bill but it is a major improvement over the current situation. Texas is not a big user of the H–2A program but we need a guest worker program in place to meet our future needs or we will continue to see Texas based operations move to Mexico and we will see our domestic produce industry continue to shrink partly because we cannot get domestic workers to take jobs in packing houses and in the fields. Our members are saying that the labor situation in the Texas produce industry is not as bad as it was a few years ago but this current situation will not last and we need a workable path to meet our needs in the future, or the produce businesses will look elsewhere for their opportunities. With the push for locally grown and less food miles, Texas has an opportunity to slow the decline in the production of fruits and vegetables but we need a dependable supply of labor in order to take advantage of this opportunity.

Thank you for the opportunity to submit this testimony. I will be happy to answer your questions at the appropriate time.

The CHAIRMAN. Thank you very much, Mr. Lackey. We appreciate that.

Mr. Holt, welcome to the Committee.

STATEMENT OF RONNIE HOLT, COTTON, CORN, AND SORGHUM PRODUCER AND CROP INSURANCE AGENT, MULESHOE, TX

Mr. HOLT. Thank you. Mr. Chairman and Members of the Committee, thank you for this opportunity.

My name is Ronnie Holt. I have lived and farmed in and around Muleshoe since 1965, and I have been a crop insurance agent for 32 years. It is in this capacity that I chair the Crop Insurance Professionals Association, known as CIPA.

I want to emphasize four points today. My first point is simply to state the importance of the crop insurance. Most farmers and their lenders will tell you that it's vital to their operation, and you are not likely to get credit without it. Beyond that, crop insurance is WTO complaint. Taxpayers understand it. Farmers can tailor it to their specific needs. And it's a contract, so the farmers can depend on it.

My second point relates to the Federal budget. We all know that the Agriculture baseline is under budget pressure. However, the USDA has the unique authority to approve new and better crop insurance products under the 508(a) process. The USDA should use that authority and any other means to get every producer up to the 85 percent level. The USDA has the tools and has the means to get it—the producers up to 85. And the House—Congress should encourage that those tools be used.

There are a host of suggestions and ways to improve crop insurance in my written testimony. I will mention two.

First, the USDA should improve farmers' APH, which has not kept up with technology. Today, a 75 percent policy may only cover 50 percent of what the farmer really expects to produce. The USDA's index should index these yields to keep up with the technology.

Second, we ought to bring the rates down. Advanced varieties dominate planted acreage across the United States, and the reduced risk is only recognized by offering discounts to farmers based on the seed they plant or purchase.

Why not reduce the premiums across the board? The farmer and the government would save money on premiums, and the government would also save on A&O and underwriting gains. This is not a zero sum gain, where some increase while others decrease. I am suggesting rates should generally come down.

My third point concerns what I would hope crop insurance and commodities title will not become. There are some professors pitching a group-like program like ACRE and a whole farm revenue approach like SURE. These approaches do not work in this part of the country, and I suspect other places. Farmers cannot depend on them, and bankers won't lend credit on them.

ACRE is basically government-sanctioned gambling. It provides zero protection on the individual farms. SURE may work on a monoculture producer, but it does not work on a diversified farm. It is a whole house insurance where the adjuster says, "You won't get an indemnity for your kitchen fire, because you've made improvements to your living room. So gain cancels out loss."

On page five of my testimony, I offered the Committee some ways to fix SURE if that is the goal. ACRE and SURE are examples of what is wrong with cookie cutter approaches to a safety net. While it may work for some, it doesn't work for all.

Finally, I hope the Committee urges USDA to cease further SRA renegotiations. Farmers are worried about walking into the next farm bill with $6.9 billion less than the budget. Reasonable people that have looked at the proposed state cuts to A&O say, "Wow, there is no way that can't have an impact on the delivery."

Look at the second paragraph on page seven of my testimony for an example of what USDA is proposing. Hard to claim that that cut is not going to affect delivery and a lot of jobs.

In contrast to this SRA process, I would go back to my first and second points and say, again, we ought to be looking at ways to strengthen crop insurance for all producers.

In closing, please know I appreciate the Committee's support of the American farmer and for a good farm policy. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Holt follows:]

PREPARED STATEMENT OF RONNIE HOLT, COTTON, CORN, AND SORGHUM PRODUCER AND CROP INSURANCE AGENT, MULESHOE, TX

Mr. Chairman, Congressman Lucas, and Members of the Committee, thank you for this opportunity to testify before you today.

I am testifying not only as a cotton, corn, and grain sorghum farmer from Muleshoe, Texas but also as a crop insurance agent of 32 years.

Currently, I serve as the Chairman of the Crop Insurance Professionals Association, or CIPA. CIPA is comprised of veteran crop insurance agents from across the country, from South Carolina to California, from Texas to Minnesota.

For CIPA agents, selling crop insurance is not just a business. It is a way to serve farmers who also happen to be our friends and our neighbors and whose success is important to the whole community.

I understand that the focus of this hearing is to assess where we are with respect to farm policy—what is working and what is not—in hopes that this will light the path forward for the development and passage of a good farm bill in 2012.

I will defer to the other producers who are testifying before you today on what the details of the farm bill's commodity title might look like. As a farmer, I have great faith in their leadership. As I said earlier, they are friends and neighbors who I know care deeply about the future of Texas agriculture and the communities that depend on it.

Instead, I want to focus on the role that Federal crop insurance plays in the farm safety net today and the role I believe that it could and should play in the future.

On the 8th of April, a *Washington Post* story ran concerning a couple of candidates for Congress who happen to be farmers. They were put in the position of having to defend their participation in the farm bill. At the end of that story, one candidate made a statement that I think is very true for our times: he said "I make more off of crop insurance in a bad year than a subsidy will ever pay. But we have to keep a level playing field globally."

I would interpret this statement as saying, Federal crop insurance is a lot more important to my operation than the commodity title today, and given the challenges of doing business and a playing field that is tilted against us in many ways, both the farm bill and crop insurance are justified. Giving further witness to the importance of Federal crop insurance to producers around the country are the numbers reflecting its growth—nearly $9 billion in indemnities paid to farm families in 2008 and the more than $5 billion paid in 2009. Last year alone, crop insurance had policies in force covering $80 billion in liability—up from $50 billion in 2006.

But, if the testimonial of a farmer-turned-politician and these impressive statistics do not persuade a person on the importance of Federal crop insurance to the American farmer, then there is one other tell-tale sign: the fact that critics of U.S. farm policy have turned their guns on crop insurance. To me, that is a strong endorsement of the program.

I can understand why opponents of U.S. farm policy—the likes of the EWG—do not like Federal crop insurance. They do not like it because it is easy for taxpayers to appreciate why farmers need insurance. They do not like it because they cannot demagogue pay limits, or shamelessly advertise a farmer's indemnity on their websites. They do not like it because crop insurance is narrowly tailored to producer risks and WTO-legal. And they also do not like it because Congress rightly made crop insurance a permanent law, recognizing that farmers need that stability and peace of mind.

However, in my mind, and I think in the minds of most farmers, these are all compelling reasons why Congress should not just keep a strong Federal crop insurance in place, but why Congress should encourage USDA to aggressively build upon it.

As agents, CIPA strongly supports efforts to improve and expand the access to quality coverage for producers under Federal Crop Insurance and to build upon its accelerated record of success since passage of the Agricultural Risk Protection Act of 2000, commonly known as ARPA. To this end, *we are persuaded that Congress ought to encourage the Federal Crop Insurance Corporation to set an ambitious goal of ensuring that, within 5 years, all U.S. producers have the same opportunity to buy affordable access to quality coverage as enjoyed by producers who are today best served under Federal Crop Insurance.*

There is no reason why every farmer in this room and every farmer in this country should not be able to buy an 85% revenue policy that is tailored to the risks unique to the crops they grow. There is no legal impediment. There is no shortage of ideas on how to achieve this. All that is lacking right now is the will to make it happen. I would submit to the Members of this Committee that if there was the will to make it happen and the ball was moving in that direction, there would be far less anxiety in this room and around the country concerning what the 2012 Farm Bill might look like.

Toward this end, what are some of the goals that Congress should encourage USDA to set out to achieve?

Well, we know that **improvements to Actual Production History, or APH,** is needed. Producers that have seen rapid technological advances and producers in areas that have experienced multiple year losses need to be able to insure more of the crop they expect to make in any given year rather than be bogged down by an artificially depressed yield for that farm that only exists in some government computer.

Existing APH requirements that often rely on outdated or artificially low yields have left many farmers with what we call a "double-deductible." A double deductible is the difference between what the producer reasonably expects to yield and his or her APH plus the additional minimum 15% deductible required under a policy.

I know that this problem has been around for a long time. But, it is not beyond repair. A CIPA Committee has been working with Professor Art Barnaby of Kansas State on potential solutions to this issue that are both legal and practical. Again, all that is lacking is the will to make it happen. As CIPA agents, *we firmly believe that producers ought to be able to insure 85% of what they can reasonably expect to produce based on actuarially reliable data.*

In addition to the APH issue, **improvements to the rating of certain crops or practices** should be pursued. For instance, advanced varieties now dominate planted acreage in the United States. That being the case, would not lowering rates generally for these crops be a lot more efficient way of recognizing lower risk than the current piecemeal approach of approving endorsements, a process that seems to be more about seed companies competing for advantage than about helping the farmer.

The benefit to reducing rates is that you are not just making policies more affordable to producers, allowing them to buy higher coverage, but you are also reducing company earnings, A&O, commissions to the agent, and the share of premium costs that the government pays and you are doing so in a way that does not injure crop insurance. Would this not make more sense as a way to reduce costs than what we are currently seeing in the SRA process? Importantly, I am not suggesting that any rerating be a zero sum game where rates of some producers go down while rates for others go up. I think there is an argument to be made that *generally rates are just too high and should come down.*

As I noted earlier, **improvements to policies for crops that are relatively underserved must be a priority,** whether in the context of improved access to higher coverage levels, greater access to revenue products, or through new policies that better address the unique nature of the perils faced by these crops. To be clear, when I speak of underserved, I am not necessarily talking about some exotic new crop produced in a garden plot in suburban Boston. I'm speaking of any crop where the vast majority of producers are locked into CAT or some other buy-up coverage that is well below the benchmark set by corn and soybeans. *There is a success story in the case of corn and beans that ought to be replicated for all crops.*

In the past 10 years, there has been a significant increase in the quality of coverage for producers of many crops, most notably corn and beans and, to a lesser extent but still meaningfully, for wheat and even cotton. *In the next 5 years, the goal of the Federal Crop Insurance Corporation should be to ensure a similar increase for crops that are still underserved.*

Expansion of policies that are working should also be a goal. The Pasture Rangeland and Forage policy, for example, has shown tremendous promise for livestock producers. But it is being withheld from certain areas due to obstacles that are not imposed by Congress.

Development of new products to support the growth of advanced fuels under the new RFS2 regulation just released should also be a priority. The EPA projects over 11 billion gallons of biodiesel from corn stover and switchgrass will help meet the 36 billion gallon mandate for renewable fuels by 2022. If Washington is serious about advanced biofuels, then it needs to move forward in providing risk management tools to farmers who are willing to produce the necessary feedstock.

Use of crop and yield monitoring technology to better assess crops and more narrowly tailor coverages should also be pursued. The west Texas area presents a great example. No doubt flying in you saw the vast circles (center-pivot irrigation systems) that have become the predominant technology for growers to irrigate their crops evenly and efficiently. What you may not know is that under current RMA guidelines, the irrigated circles and the dryland corners have to either be averaged and insured together, or in any case insured at the same level. But with the prospect of modern yield monitors combined with GPS systems, we could and should be able to tailor the crop insurance policies by practice and distinguish the yields accordingly—and that will mean more relevant and more valuable insurance for growers and their lenders who want to hedge the unique risks on different parts of a farm.

Finally, the **streamlining of compliance mechanisms so that integrity is ensured without placing undue burdens on the delivery system or producers** is important. There are lots of examples out there where the private and public sector machinery of crop insurance gets bogged down in costly and cumbersome processes focused more on the *means* of protecting program integrity than protecting program integrity itself. The $100,000 loss threshold for automatic review and the 3 years of data required in the case of a review are good examples. Everybody has noticed the new price paradigm for crops except those involved in writing these rules that only add time and cost to delivery and a delay in indemnities to farmers.

Having said what we believe the role of crop insurance is, can, and should be, I also want to say a few words about **what we think it should not be.** There is a big push from the environmental crowd and from some college professors to thrust farmers into whole farm revenue policies and group risk policies, or maybe a combination of the two. These sorts of approaches may work fine in some academic white paper, but they do not work on the farm. I would offer ACRE, SURE, and AGR as exhibits A, B, and C.

Regarding ACRE, it might be that some of us here in the Bible Belt just have a problem with gambling, especially with taxpayer money, but the whole concept seems wrong to me. Farmers I talk to liken ACRE to buying a lottery ticket and then crossing your fingers that Washington calls the right numbers. You could lose your shirt and receive nothing from ACRE, or you could have a good crop and prices and still receive a government payment. There is not a lot of participation in ACRE in these parts because our farmers cannot afford to gamble like that. But, where there is participation, there are both big winners and big losers in the wager, depending on what you grow and the state you farm in. There is talk about "fixing" ACRE so the wager is made at the county or national level rather than the state level. In my view, speaking to the county level scenario anyway, having had experience with GRIP policies, it is still not ideal. There is no safety in numbers when you are trying to get an operating loan or when you have a loss on your farm. There's just you. The only merit I see in this county-based revenue concept is the legislation that Congressman Neugebauer has introduced which essentially allows producers to buy this kind of coverage—basically GRP or GRIP—as a wrap-around policy on top of coverage that is individualized to your farm. This kind of coverage could help producers in the event of a widespread weather event.

The second example is the whole farm revenue disaster program called SURE. From all we have seen (the FSA is just now working losses from 2008), SURE has not worked very well for farmers except those engaged in monoculture. In this area, that tends to be landlords who may have an old family interest in 160 acres, but not the 2000 acre dryland/irrigated corn, sorghum, cotton, black-eyed pea farmer/stockman who has diversified his risks and actually has a lot of skin in the game. It is ironic that the academic community would want to advance a whole farm revenue concept when that concept actually encourages monoculture. Unlike ACRE, however, I do think that SURE can be fixed to address some of its more serious problems. But, the fixes ultimately involve making a whole farm revenue program less of a whole farm revenue program. And, that is my point: whole farm revenue catches on in Washington because it does not cost much, but it does not catch on out in the countryside because you get exactly what you pay for.

Apart from the discussion about whole farm revenue concepts, let me offer a few suggestions on how SURE could be made to work better for producers if lawmakers opt to extend it:

(1) Base the SURE program guarantee calculation on the higher of the crop insurance price election or the target price for the commodity. This would address a major problem that has been unique to cotton and which virtually precludes cotton farmers from getting any assistance under SURE.

(2) Strike the counting of 15% of direct payments received from the calculation of farm revenue. The inclusion of this provision disproportionately affects rice producers.

(3) Change the definition of "eligible producer on a farm" when assessing losses on a farm-by-farm basis as has been done in past *ad hoc* disaster programs. This fix would address the single biggest problem with SURE which is this: by the time you aggregate everything on a "whole farm basis," the likelihood of receiving any assistance is very small. If you think this sounds expensive, bear in mind that the maximum per unit you could possibly get under *ad hoc* assistance was considerably more than the maximum you would get under SURE—about 30% *versus* 10%—though the likelihood of getting something under a unit-by-unit SURE would be greater.

(4) Direct USDA to provide producers more timely payments by either: (1) using an estimated national average market price instead of waiting till the end of the marketing year; or (2) direct the USDA to use the crop insurance price election for determining revenue instead of a national average market price. This would certainly simplify the program but also change it to address yield losses (like historical disaster programs) without inviting the anomalies caused by bringing season average prices into the equation. For example, I know an agent in South Carolina dealing with peach farmers who suffered 85% losses but who received nothing under SURE due primarily to this problem. That is not right.

Finally, regarding the third real-life example, AGR, I know that some defense has been offered to explain why so few want to buy this kind of coverage. But, the simple truth is that farmers have voted with their feet. The thing does not pencil out.

Two final thoughts I would offer to the Committee on the subject of what crop insurance should not look like.

First, recognize that regions are different, crops are different, practices are different. As such, it would be a very serious mistake to try to shoehorn all farmers, regions, and practices into one cookie-cutter policy. It will not work. We have seen this in the case of ACRE and SURE which clearly do not work for all regions and crops. We have seen this in the case of rice and specialty crops where policies for corn and beans just do not work. In fact, I am hard-pressed to think of where that has not been the case.

Second, earlier in my remarks, I went into a whole host of reasons why Federal crop insurance should continue to be delivered by the private sector and written on private paper. I know that one would not expect to hear anything different from an agent who earns part of his living selling crop insurance. But I can tell you that I hold this sentiment as strongly as a producer as I do an agent and I believe the vast majority of producers in this room would share this view. Anybody who has waited on an *ad hoc* disaster or SURE payment; anybody who has had their farm payments posted on a scurrilous website; anyone who has faced arbitrary limits on benefits or constantly changing eligibility rules; anybody who has fought and lost a case in the WTO, despite all the facts and evidence; and anybody who has had to go out and put in a crop with no earthly idea what the devil the farm bill will look like that will govern that crop—anybody who has faced any or all of these circumstances appreciates a private insurance policy. Maybe the only person who appreciates it more than the farmer is his lender.

Are there problems in Federal crop insurance that need fixing? Yes, there are and I have listed just a few. Are the problems frustrating for producers and agents? Give me or any farmer in this room an audience after this hearing and we will be glad to bend your ear on the subject. But, in the end analysis, when all is said and done, none of us would want to—and very few of us could—continue farming without it.

My bottom line for you is this: we have a good foundation. Much of the serious progress we have made has been made in just the last decade. Do not quit now. Certainly do not turn back. Let us keep moving forward.

Of course, you can hardly talk about Federal crop insurance these days without bringing up the Standard Reinsurance Agreement, or the SRA.

I know that there is a great deal of talk about the negotiations going smoothly and that an agreement is nearly at hand. I am here to tell you that that is not the case. A very black and white picture has been painted in this process that would describe the conflict this way: on one side there are those who want cut to company profits and agent commissions and on the other are those who would fight any cuts tooth and nail. That is a misrepresentation.

I do not know of a crop insurance company or an agent who did not enter into this SRA renegotiation expecting and accepting cuts. But nobody in the private sector expected USDA to propose between $6.9 billion and $8.4 billion in cuts when Congress made clear in 2008 that it thought $2 billion in additional cuts was too much.

We went into the discussion believing that there were a couple of reasonable objectives to be met. First, the Congress directed USDA to evaluate the risk sharing involved in crop insurance to make for sure that companies were bearing enough of the risk. Second, USDA was to examine and recommend to Congress some different ways of calculating A&O to avoid peaks and valleys, such as the peak we saw in 2008. What we got was something very different.

On the A&O side, we saw a usurpation of Congressional authority by USDA in its attempt to establish a whole new methodology for calculating A&O. Worse, the new methodology USDA came up with would succeed in eliminating the peaks in A&O by creating a permanent valley, using artificially low and fixed crop reference prices as the ceiling for calculating A&O while providing for no floor. In some cases, the reference price would be as low as 31% below the projected prices for the crop as forecast by USDA and CBO over the next 10 years.

In theory, the new A&O calculations are being pushed to avoid another year like 2008, even though A&O has already dropped by 21% in 2009 and are expected to drop again in 2010, both as a natural consequence of lower crop prices and, thus, lower premiums.

So, the situation of 2008 is already correcting itself. Still, despite our concern that USDA is exceeding its authority under the law and certainly going too far in trying to correct a 1 year anomaly, as agents we offered what we thought was a very logical solution to the problem: an A&O reference price band based on a rolling average, taking out the highs and lows. Whether that fair, common sense solution gains any traction still remains to be seen.

But there is little uncertainty about the impact of the A&O proposal currently on the table. A state-by-state glimpse at what happens to A&O speaks volumes. In Minnesota, for example, in 2008 you had $175 million in A&O. That dropped down to $112 million in 2009 due largely to price election declines, volatility factors and the 12% (2.3 point) cut from the farm bill. In 2010, A&O is down again, this time to $101 million, because of the volatility factors and price moderation. For 2011, our best industry analysts believe that A&O number would be reduced again under USDA's plan to $72 million. Now, unlike Texas, Minnesota is a profitable place for companies to do business and, therefore, it is a higher commission state. So, assume for the moment that all the A&O in Minnesota is paid out in agent commissions. With the 80% commission cap being proposed on top of the proposed capped on A&O, the $72 million statewide A&O would translate into a maximum of $57 million that could be paid in commissions in the state—less than ⅓ of the compensation that was paid to those businesses 3 years ago, and roughly half of what was paid last year. You don't have to be in the crop insurance business to know what happens when your income stream is cut in half.

The same thing would happen throughout the country. A plain look at the numbers reveals that this is not just a smoothing out of A&O to avoid what occurred in 2008, as has been argued. The numbers uncover the obvious: you cannot cut A&O to such an extent and not expect it to have an impact on private sector delivery, on the service to the farmer, including adjustments. And you cannot cut A&O to such an extent and expect that it will not have an impact on jobs in rural communities. I do not know whether this fact is a consideration in this process but this SRA is going to cost people their jobs.

One of the things that has troubled me so much about this SRA renegotiation is that it has taken on the look and feel of how U.S. farm policy has been debated in recent years. The discussion has really degenerated.

For instance, on facts, USDA points to the increased cost of delivery per policy to justify such deep cuts, citing increased A&O costs while the number of policies has slightly declined, while ignoring the nearly doubling of sales, as measured by premium, over the same period of time. There is an expression here in west Texas that coming close to the truth is coming close, but it is still not the truth. With respect, this handling of facts is something I expect to see from the EWG and that ilk but not from the United States Department of Agriculture.

Remarks made by USDA officials to the House Agriculture Appropriations Subcommittee this year and last year are just as troubling. In defending cuts in premium support to farmers last year, one USDA official stated, "When crop insurance was first issued, it was . . . something that had to be marketed. It was something that had to be incented. It was something . . . where producers had to be encouraged to participate. Today, that is not the case. Many banks are now making it a condition of loans." I agree that lenders usually require crop insurance. But I do not believe this requirement somehow eliminates the need to help make premiums affordable to farmers.

This year, in defense of cuts to private sector delivery, a USDA official stated, "And the reality is that most bankers today require crop insurance as a condition of loans, so it's not all that difficult to sell this product." Unfortunately, simply mandating something does not make it easy.

To most of us in the countryside, the magnitude of the cuts proposed to crop insurance and the rough policy used to squeeze out those savings suggest that the motivating factor behind the whole exercise is more about robbing Peter to pay Paul, about using crop insurance dollars to pay for something else. The media reports I have read speculate that the something else is nutrition. If that is the case, then it is misguided and unfortunate. The SRA, at least as it stands, threatens serious injury to Federal crop insurance, to the farmers crop insurance serves, and to the men and women who work hard every day to deliver a product that farmers need and their lenders require. It represents a serious setback for the agriculture budget, for crop insurance, the farmer, and jobs in rural communities. It is a setback that I hope never materializes.

In closing, let me say that CIPA stands proudly with our farmers and ranchers who put food on our tables, cloths on our backs, and fuel in our pumps. They deserve a strong safety net. But Congress need not wait for the 2012 Farm Bill to further the cause. We can begin here and now by strengthening Federal crop insurance for all our nation's producers.

I would be happy to answer any questions this panel may have.

The CHAIRMAN. Thank you very much, Mr. Holt.

Mr. Parker, welcome to the Committee.

STATEMENT OF JOE PARKER, JR., CATTLE PRODUCER, BYERS, TX

Mr. PARKER. Thank you for the opportunity to present the Texas cattle industry's perspective on the 2012 Farm Bill.

My name is Joe Parker. I'm from Byers, Texas, and I'm a cattle producer in this area. I also serve as First Vice President of the Texas and Southwestern Cattle Raisers Association, TSCRA.

TSCRA supports the farm bill that will enhance the individual's right of free choice in land use, soil conservation, water conservation, energy use, and development, in utilizing working lands conservation methods that are based on sound science and economics. State laws and individual rights should be pre-eminent in the use of water and other natural resources.

To accomplish our priorities, we strongly support eliminating overlap and/or redundancy in current programs and improving efficiency of existing programs. And we also support the technical assistance ranchers receive on the ground from the Natural Resources Conservation Service.

Federal agricultural policies should be based on free, private enterprise and a competitive market system. We support a rancher's ability to market cattle however, whenever, and to whomever.

Federal agricultural policies should not be changed to guarantee a profit, restrict the operation of the competitive marketplace, or dictate who can or cannot own cattle.

Private enterprise alternatives in marketing and risk management should be developed and encouraged as the preferred alternative to government programs.

While the long-term goal of Federal agricultural policy should be to promote a free market enterprise and maintain a viable agricultural industry and economy in the United States, it is essential to recognize that U.S. ranchers compete in a global marketplace.

In this global market, U.S. ranchers 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 ranchers are not held to the same standards of regulatory compliance as U.S. ranchers and, thus, enjoy a significant cost advantage.

And any government programs which would have a substantial negative effect on cattlemen need to be opposed and prevented.

It's not in the best interests of U.S. ranchers for government to set prices, underwrite inefficient production, or manipulate domestic supply, demand, cost and/or price.

TSCRA will strongly oppose direct cash payments to any segment of the livestock industry for the purpose of offsetting loan market prices.

Ninety-six percent of the world's consumers reside outside of the U.S. borders, and 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.

Ranchers recognize the value and need for growth of conventional and renewable energy. However, many of these expanded and new energy sources impact the market, land, water, and profitability of ranchers. Ranchers would like the ability to monitor and evaluate any energy source that impacts the cattle industry, or is based on agricultural commodities, waste, or by-products to determine their effects on the industry.

Energy policies should be supported by market demand, and not Federal subsidies. In addition, the cattle industry will continue to oppose putting food and fuel in competition with each other.

Animal agriculture is based on the humane care for cattle, horses, and other livestock. The farm bill should not be a platform for extremist organizations to push their anti-meat or anti-agricultural agendas.

As the U.S. imports and exports more agricultural commodities, the Animal and Plant Health Inspection Service should be more robust in its activities to protect U.S. producers.

Thank you very much for the time that you have spent, and we appreciate working together for a comprehensive farm bill. Please contact us if we can assist you in any way. Thank you.

[The prepared statement of Mr. Parker follows:]

PREPARED STATEMENT OF JOE PARKER, JR., CATTLE PRODUCER, BYERS, TX

Chairman Peterson, Ranking Member Lucas, and Members of the Committee:

Thank you for the opportunity to present the Texas cattle industry's perspective on the 2012 Farm Bill. My name is Joe Parker, Jr. and I am a beef cattle producer from Byers, Texas. I also serve as First Vice President of the Texas and Southwestern Cattle Raisers Association (TSCRA).

TSCRA is the largest and oldest livestock association in Texas. With more than 15,000 beef cattle producers, ranching families and businesses that manage approximately four million head of cattle on 51.5 million acres of range and pasture land, TSCRA members have a vested stake in the outcome of this legislation.

Texas ranchers are dependent upon this nation's agricultural system and infrastructure to raise, feed, transport, and market our cattle in order to provide safe and affordable beef for America's table; and as such, we are interested in seeing the cattle industry remain healthy and viable. It is not in ranchers' best interest for the government to implement policy that sets prices; underwrites inefficient production; or manipulates domestic supply, demand, cost, or price.

Natural Resource and Conservation Policy

TSCRA supports a farm bill that will 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 rights should be preeminent in the use of water and other natural resources.

To accomplish our priorities we strongly support eliminating overlap and/or redundancy in current programs and improving efficiency of existing programs. We also support the technical assistance ranchers receive on the ground from Natural Resources Conservation Service (NRCS).

Marketing Policy

Federal agricultural policy should be based on a free, private enterprise, competitive market system. We support a rancher's ability to market cattle however, whenever, and to whomever.

Federal agricultural policy should not be changed to guarantee a profit, restrict the operation of the competitive marketplace, or dictate who can or cannot own cattle.

Private enterprise alternatives in marketing and risk management should be developed and encouraged as the preferred alternative to government programs.

Commodity Programs Policy

While the long term goal of Federal agricultural policy should be to promote a free market and enterprise and maintain a viable agricultural industry and economy in the United States, it is essential to recognize that U.S. ranchers compete in a global marketplace. In this global market, U.S. ranchers 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 ranchers are not held to the same standards of regulatory compliance as U.S. ranchers and, thus, enjoy a significant cost advantage.

Any government programs which would have a substantial negative effect on cattlemen need to be opposed and prevented.

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, TSCRA will support a transition or phase-out period for programs that may be eliminated.

It is not in the best interest of U.S. ranchers for government to set prices, underwrite inefficient production, or manipulate domestic supply, demand, cost and/or price.

TSCRA will strongly oppose direct cash payments to any segment of the livestock industry for the purpose of offsetting low market prices.

Nutrition Programs

USDA should maintain the role of 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 ranchers at competitive rates in order to maintain a healthy business environment. This will result in the continued viability of U.S. ranching 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 and pests, 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.

Energy Policy

Ranchers recognize the value and need for growth of conventional and renewable energy. However, many of these expanded and new energy sources impact the market, land, water, and profitability of ranchers. Ranchers would like the ability to monitor and evaluate any energy source that impacts the cattle industry and/or is based on agricultural commodities, waste, and/or byproducts to determine their effects on the industry. Energy policies should be supported by market demand, not Federal subsidies. In addition, the cattle industry will continue to oppose putting food and fuel in competition with each other.

Animal Activism

Animal agriculture is based on the humane care for cattle, horses, and other livestock. The farm bill should not be a platform for extremist organizations to push their anti-meat and/or anti-agriculture agendas.

Animal Health

As the U.S. imports and exports more agricultural commodities, the Animal and Plant Health Inspection Service (APHIS) should be more robust in its activities to protect U.S. agricultural producers from foreign animal diseases and pests. All APHIS activities and responsibilities should remain under USDA oversight and not other Federal agencies.

We appreciate the opportunity to work together on a comprehensive farm bill and appreciate your work on these issues. Please contact us if we can assist you.

Sincerely,

JOE PARKER, JR.
First Vice President.

The CHAIRMAN. Thank you. Thank you very much, Mr. Parker. We appreciate that.

Mr. Murden, welcome to the Committee.

STATEMENT OF DALE MURDEN, SUGARCANE, CITRUS, VEGETABLE, SOYBEAN, AND SORGHUM PRODUCER, MONTE ALTO, TX

Mr. MURDEN. Thank you, Mr. Chairman, Members of the Committee.

On behalf of the 126 sugarcane farmers of the Rio Grande Valley Sugar Growers, I want to express my deep appreciation for your leadership and bipartisanship in the successful passage of the 2008 Farm Bill. We look forward to working with you guys on the 2012 Farm Bill as well.

My name is Dale Murden, and I currently grow sugarcane, citrus, grains, cotton, vegetables, and soybeans near my hometown of Monte Alto, Texas. In addition to being Chairman of the Board for the Rio Grande Valley Sugar Mill, I'm Past Chairman of the National Sorghum Producers and a current member of the Board of Directors of the Texas Farm Bureau, Texas Citrus Producers Board, and the Texas Grain Sorghum Association.

RGV Sugar Growers is a member-owned cooperative comprised of growers in a three-county area. Together, our members produce more than 1.5 million tons of sugarcane each year, yielding nearly 160,000 tons of raw sugar and 60,000 tons of molasses. RGV Sugar Growers is one of the top ten producers of raw sugar in the United States.

RGV Sugar Growers employs up to 500 workers in a normal producing year, which culminates with a harvesting period from October to April. Annual payroll of our cooperative exceeds $12 million, with an annual operating budget of more $32 million.

The sugar provisions in the 2008 Farm Bill have given our producers confidence in the stability of a domestic sugar industry. Today, I will commend the sugar program's effectiveness, but I also want to point out a few areas of concerns before we do that.

In January, we had a hard freeze in south Texas, and that proved that the Federal crop insurance program and the new permanent disaster program don't adequately cover our style of farming in the Valley.

I liked Mr. Holt's testimony. Affordable crop insurance at higher levels of coverage isn't available for cane and many of the fruits and vegetables grown in south Texas. The SURE program won't cover losses to one crop if overall on-farm revenues from the other crops grown on that farm are unaffected by a natural disaster.

The Biomass Crop Assistance Program, BCAP, created in the 2008 Farm Bill, and whose intention was to help biomass producers offset specific costs, did not make payments on our cane applications; yet approved $170 million in funds to other biomass producers.

However, I do want to focus on one program that is working and explain why, because our future ultimately depends on good farm and trade policy.

The United States is the world's fifth-largest sugar producer. We're also the fifth largest sugar consumer and the world's second largest net importer. The U.S. is one of the most open sugar markets in the world and provides guaranteed access to 41 countries, as it is required to do under trade laws.

Our sugar farmers are among the lowest cost producers in the world. We are doubly proud of this distinction because we have achieved it while being fair to our workers and responsible stewards of the land.

U.S. sugar producers are globally competitive, but for decades we have been threatened by unfair competition. Roughly, 120 countries produce sugar and all their governments intervene in their sugar markets in some way. Many countries subsidize their producers and dump their surpluses on the world market for whatever price it will bring.

This depressed, so-called world price has averaged below actual costs of producing sugar for many years. American producers are competitive, but cannot be expected to compete against each of these foreign treasuries and unfair predatory trade practices.

Trade agreements such as the WTO and NAFTA force the United States to provide duty-free access for 1.4 million short tons of sugar each year, whether the country needs the sugar or not.

Congress, in its wisdom, designed a sugar policy in the 2008 Farm Bill that is working to the considerable benefit of consumers, and at zero cost to the taxpayers, and is giving sugar farmers a chance to survive, plus it fully complies with the rules of the WTO.

Under this market-balancing approach, the USDA has retained its authority to limit domestic sales of sugar. Producers who exceed their allotment must store the excess at their own cost, not the government's.

If imports exceed the difference between the domestic market allotments and consumption, the USDA will divert surplus sugar into fuel ethanol production and restore the balance to the sugar market for food. This provision has not yet been needed, and the government forecasters expect it will not be, over the course of this farm bill.

The current farm bill benefits the American sugar consumer and the American taxpayer, it's clear. American food manufacturers and consumers can count on reliable supplies of sugar, and it has been produced responsibly and is reasonably priced, high in quality, and safe to consume.

U.S. wholesale and retail prices are below the average of the rest of the world, and in real terms, corrected for inflation, have declined substantially over the past 3 decades. Sugar producers receive no government payments. Sugar is the only major commodity program that operates at no cost to the taxpayers, and government projections through 2020 say it will remain at no cost over all of these years.

American sugar farmers are grateful to the Congress for crafting a sugar policy that balances supply and demand, ensures consumers dependable, high-quality supplies, and is improving market prospects for sugar producers. The policy achieves all of these goals at zero cost to the American taxpayers.

We would strongly urge the continuation of this successful policy in the next farm bill. Thank you again, Mr. Chairman, for holding this important hearing, and for all that you and the Committee do for American agriculture. We look forward to working with y'all in the future.

[The prepared statement of Mr. Murden follows:]

PREPARED STATEMENT OF DALE MURDEN, SUGARCANE, CITRUS, VEGETABLE, SOYBEAN, AND SORGHUM PRODUCER, MONTE ALTO, TX

Thank you, Mr. Chairman and Members of the Committee, for convening this hearing. On behalf of the 126 sugarcane farmers of Rio Grande Valley Sugar Growers (RGVGS), Inc., I want to express my deep appreciation for your leadership and bipartisanship in the successful passage of the 2008 Farm Bill. We look forward to working with you on the 2012 Farm Bill as well.

My name is Dale Murden, and I currently grow sugarcane, citrus, grains, vegetables and soybeans near my hometown of Monte Alto, Texas. In addition to being Chairman of the Board for the Rio Grande Valley Sugar Mill, I am also a member of the Hidalgo County Farm Bureau, Delta Lake Irrigation District, Texas Citrus Producers Board and the Hidalgo County AgriLife Program Committee. I was recently Chairman of the National Sorghum Producers and a trade advisory team member to the U.S. Grains Council.

Rio Grande Valley Sugar Growers, Inc. is a member-owned cooperative comprised of growers in a three-county area. Together, our members produce more than 1.5 million tons of sugarcane each year, yielding nearly 160,000 tons of raw sugar and 60,000 tons of molasses. RGVSG is one of the top ten producers of raw sugar in the United States.

Rio Grande employs up to 500 workers in a normal producing year, which culminates with a harvesting period from October to April. Annual payroll of our cooperative exceeds $12 million, with an annual operating budget of more than $32 million.

In Texas, where more than 8,000 jobs rely on a strong U.S. sweetener industry, RGVSG alone accounts for up to 11 percent of the total gross revenues produced by Valley agriculture every year. Member growers utilize over 40,000 acres of rich South Texas farmland in the cultivation of sugarcane crops.

The sugar provisions in the 2008 Farm Bill have given our producers confidence in the stability of a domestic sugar industry. Today, I will commend the sugar program's effectiveness but I also want to point out areas where we have some problems.

In January, a bad freeze in south Texas proved that the Federal crop insurance program and the new permanent disaster program don't adequately cover our style of farming in the Valley. Affordable crop insurance at higher levels of coverage isn't available for cane and many of the fruits and vegetables grown in south Texas. Also, the SURE program won't cover losses to one crop if overall on farm revenues from the other crops grown on that farm are unaffected by a natural disaster.

Finally, the Biomass Crop Assistance Program (BCAP), created in the 2008 Farm Bill and whose intention was to help biomass producers offset specific costs, did not make payments on our cane applications yet approved $170 million in funds to other biomass producers.

However, I do want to focus on one program that is working and explain why because our future ultimately depends on good farm and trade policy.

Food Security

Sugar is an essential ingredient in our nation's food supply. As an all-natural sweetener, bulking agent and preservative, it plays an important role in about 70% of processed food products and is called for in a multitude of favorite home recipes. Dependence on unreliable and unstable foreign suppliers is a threat to our food security, which is why a strong, diversified and reliable domestic industry has long been recognized as important to the nation.

U.S. sugar producers are globally competitive, but for decades we have been threatened by unfair competition. Roughly 120 countries produce sugar and all their governments intervene in their sugar markets in some way. Many countries subsidize their producers and dump their surpluses on the world market for whatever price it will bring. This depressed, so-called "world price" has averaged below actual global costs of producing sugar for many years. American producers are competitive, but cannot be expected to compete against these foreign treasuries and unfair predatory trade practices.

Importance, Size, Efficiency

In addition to the critical role it plays in local economies, sugar is a significant job producer and revenue-generator nationally. The U.S. sugar producing industry, with sugarbeets and sugarcane grown or processed in 18 states, generates over 146,000 jobs and more than $10 billion per year in economic activity. These jobs range from the cane fields of Hawaii and the beet fields of Wyoming to the cane sugar refineries in New Orleans, New York City, and other cities.

The United States is the world's fifth-largest sugar producer. We are also the fifth-largest sugar consumer and the world's second-largest net importer. And, we are good at what we do. Our sugar farmers are among the lowest cost producers in the world. We are doubly proud of this distinction because we have achieved it while being fair to our workers and responsible stewards of the land. Farmers in the developing world, who dominate the world sugar market, generally operate with little or no enforced requirements for worker safety and benefits, or for air, water, and soil protection. Our standards, and compliance costs, are among the highest in the world.

Restructuring

Despite our efficiency, we are an industry that has been under enormous stress. From 1985 until 2009, we did not receive any increase in our price support level. Over this long period of essentially flat nominal prices, the real price we received for our sugar dropped sharply because of inflation. (*Figures 1–2*)

Only the producers who could match the declining real price with efficiency gains and lower production costs were able to survive. More than half could not. From 1985 to 2009, 54 of America's 102 cane mills, beet factories, and cane sugar refineries shut down, with terrible consequences for the local families and communities. Just since 1996, 35 mills, factories, and refineries have closed. (*Figures 3–4*)

Trade Challenges

The U.S. is one of the most open sugar markets and one of the world's largest sugar importers. The U.S. provides access to its market to 41 countries, as it is required to do under trade laws. Virtually all are developing countries, and most are highly supportive of U.S. sugar policy because it provides an import price at which many can recover their costs of production.

In addition to coping with the problems of rising costs, pests, disease, and natural disasters, American sugar farmers have had to deal with another threat: trade agreements that have ceded more and more of the American sugar market to foreign producers—even if the foreign producers are subsidized and inefficient. And more such concessions are being contemplated.

Trade agreements force the U.S. to provide duty-free access for 1.4 million short tons of sugar each year, whether the country needs the sugar or not. This amounts to about 15% of domestic sugar consumption.

In addition, under the NAFTA, Mexico now enjoys unlimited access to the U.S. sugar market. It is difficult to predict how much sugar Mexico might send north each year. Key variables include Mexican sugar production, government decisions (¼ of the sugar mills are owned and operated by the Mexican Government), and the pace at which corn sweetener, mostly from the U.S., replaces sugar in the massive Mexican beverage industry. Mexican sugar exports to the U.S. have varied widely in the past, and could in the future—over 1.4 million short tons last year, but only about 0.5 million forecast for this year. (*Figure 5*)

Furthermore, the U.S. is negotiating a Doha Round of the WTO that would result in additional market access concessions. The TPP (Trans-Pacific Partnership) trade negotiations, recently launched by the Obama Administration, could also eventually result in substantial market commitments for sugar to the many countries lining the Pacific Rim. Such trade concessions threaten to reduce U.S. sugar producers' access to our own market even further, and reduce prices as well, making it impossible for those of us who are struggling to survive. (*Figure 6*)

Previous Farm Bill

In the 2002 Farm Bill, USDA had only two tools to balance U.S. sugar supplies with consumer demand.

1. It could limit foreign supplies to minimum import levels required by the World Trade Organization (WTO) and other trade agreements.

2. It could limit domestic sugar sales through marketing allotments. Each year, USDA would forecast domestic sugar consumption, subtract required imports, and allow U.S. producers to supply the balance.

- If U.S. production was insufficient to fill demand, USDA could increase imports by expanding the tariff-rate quota (TRQ).
- If U.S. production exceeded the allotment quantity, American producers had to store the excess at their own expense, not the government's.

This market-balancing system worked reasonably well until 2008, although misjudgments in setting the TRQ in 2006 seriously depressed the U.S. sugar market. That's when Mexico gained unlimited access to our market under the NAFTA, and USDA effectively lost control of the market.

The 2008 Farm Bill

Congress, in its wisdom, designed a sugar policy that is working to the considerable benefit of consumers and at zero cost to taxpayers, and is giving the remaining American sugar farmers a chance to survive. And, it fully complies with the rules of the WTO.

While retaining the basic-market-balancing tools described above, Congress made a number of important improvements in 2008. The Farm Bill minimizes the erosion of American sugar farmers' share of their own market by limiting reductions in their marketing allotments to not less than 85% of consumption. It's worth noting that in many years, imports amount to much more than 15% of the U.S. market.

If imports exceed the difference between domestic market allotments and consumption, USDA will divert surplus sugar into fuel ethanol production and restore balance to the sugar market for food. The added ethanol production would be consistent with national goals to reduce American dependence on foreign oil and improve air quality.

In addition to the use of ethanol as a market balancing mechanism, two other farm bill measures are helping to stabilize the market and improve producer prospects:

1. The first increase in the sugar support price since 1985. The raw cane sugar loan rate rose by ¼¢ per pound this year, and will rise the same amount in Fiscal Years 2011 and 2012. Refined beet sugar rates will rise by a commensurate amount. In Fiscal Year 2012, the raw cane loan rate will be 18.75¢ per pound and the refined beet sugar rate will be 24.09¢.

2. USDA may not announce a TRQ above the minimum required by trade agreements until halfway through the crop year (April 1), unless there is a supply emergency. By April, much more is known about actual U.S. sugar production and consumption and the volume of imports from Mexico. This will prevent a recurrence of situations such as that in the summer of 2006, when USDA announced an excessive TRQ for the coming year, the market was badly oversupplied, and producer prices languished for almost 2 years.

Consumer Benefits

American food manufacturers and consumers continue to benefit from reliable supplies of sugar that has been produced responsibly and is reasonably priced, high in quality, and safe to consume. In real terms, corrected for inflation, U.S. wholesale and retail prices have declined substantially over the past 3 decades. Food manufactures and consumers in the rest of the developed world pay about 10% more for sugar than Americans do. Taking per capita income levels into account, sugar is more affordable in America than in virtually every other country in the world—rich or poor. (*Figures 7–12*)

Taxpayer Benefits

Sugar is the only major commodity program that operates at no cost to taxpayers, and government projections through 2020 say it will remain no cost over all these years. Projections prior to the enactment of the 2008 Farm Bill suggested significant costs because of excessive imports from Mexico, low prices, and government loan forfeitures. But thanks to steady consumption growth, stable domestic production, manageable import levels from Mexico, and sound program management by USDA, costly surpluses have not occurred. (*Figures 13–14*)

The 2012 Farm Bill

The U.S. sugar industry has endured a wrenching restructuring over the past 2 decades. American sugar farmers remain are grateful to the Congress for crafting a sugar policy that is balancing supply and demand, ensures consumers of dependable, high-quality supplies, and is improving market prospects for sugar producers. The policy achieves all these goals at zero cost to American taxpayers.

With some prospect of continued market stability, producers should be able to reinvest in their operations, further reduce their costs of production, and survive. We strongly urge the continuation of this successful, no-cost policy in the next farm bill.

Thank you again, Mr. Chairman and Members of the Committee, for holding this important hearing and for all that the Committee does for American agriculture. I look forward to working with you in the future.

FIGURES

Figure 1

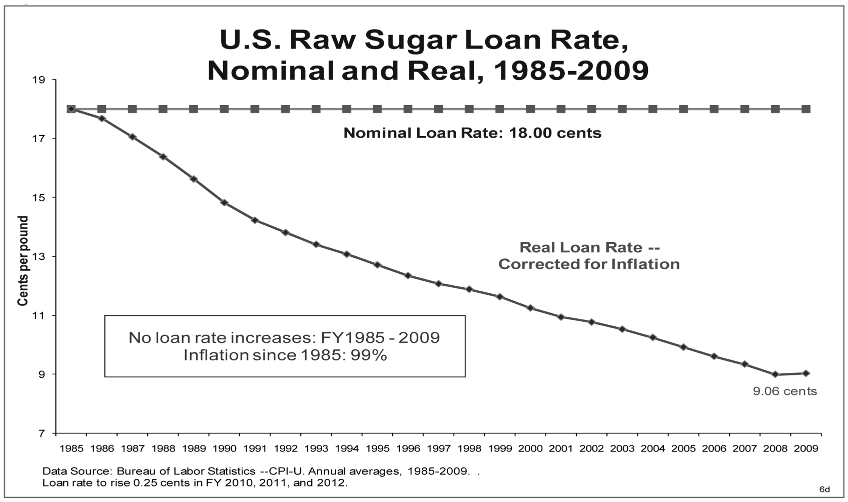


Figure 2

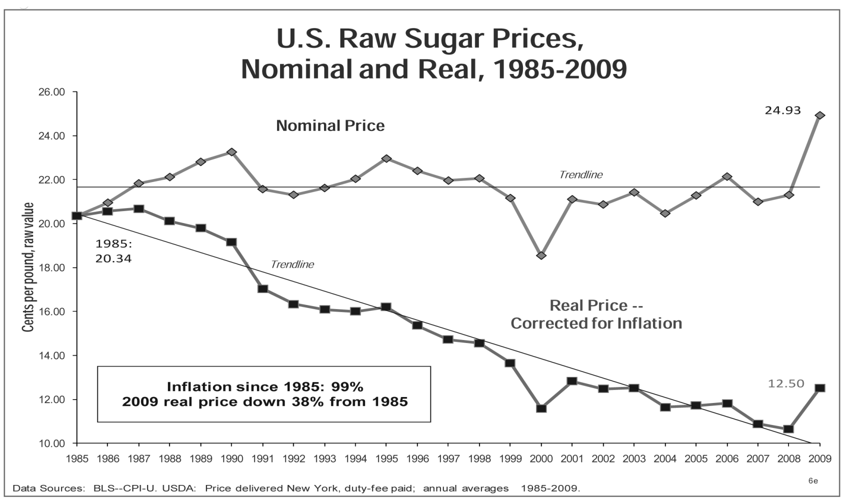


Figure 3

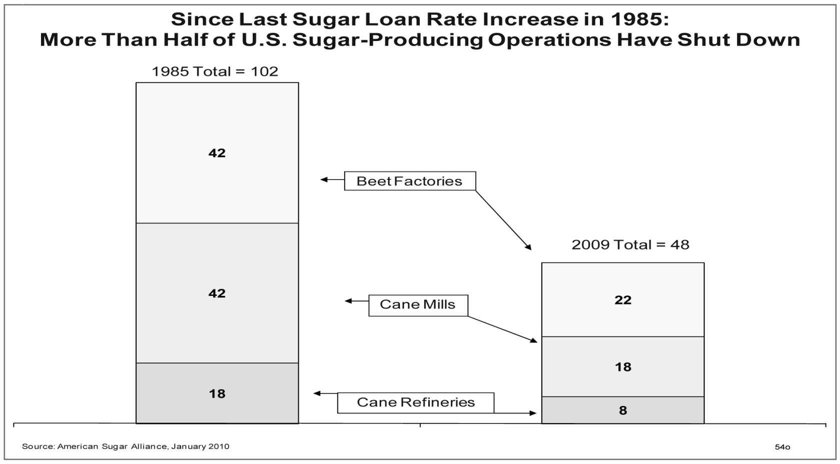


Figure 4

35 Sugar Mill and Refinery Closures, 1996 - 2009

BEET CLOSURES

Spreckels Sugar, Manteca
California, 1996

Holly Sugar, Hamilton City
California, 1996

Western Sugar, Mitchell
Nebraska, 1996

Great Lakes Sugar, Fremont
Ohio, 1996

Holly Sugar, Hereford
Texas, 1998

Holly Sugar, Tracy
California, 2000

Holly Sugar, Woodland
California, 2000

Western Sugar, Bayard
Nebraska, 2002

Pacific Northwest, Moses Lake
Washington, 2003

Western Sugar, Greeley
Colorado, 2003

Amalgamated Sugar, Nyssa
Oregon, 2005

Michigan Sugar, Carrollton
Michigan, 2005

Spreckels Sugar, Mendota
California, 2008

CANE CLOSURES

Ka'u Agribusiness
Hawaii, 1996

Waialua Sugar
Hawaii, 1996

McBryde Sugar
Hawaii, 1996

Breaux Bridge Sugar
Louisiana, 1998

Pioneer Mill Company
Hawaii, 1999

Talisman Sugar Company
Florida, 1999

Amfac Sugar, Kekaha
Hawaii, 2000

Amfac Sugar, Lihue
Hawaii, 2000

Hawaiian Commercial & Sugar, Paia
Hawaii, 2000

Evan Hall Sugar Cooperative
Louisiana, 2001

Caldwell Sugar Cooperative
Louisiana, 2001

Glenwood Sugar Cooperative
Lousiana, 2003

New Iberia Sugar Cooperative
Louisiana, 2005

Jeanerette Sugar Company
Louisiana, 2005

Cinclare Central Facility
Louisiana, 2005

Atlantic Sugar, Belle Glade
Florida, 2005

U.S. Sugar, Bryant
Florida, 2007

South Louisiana Sugar Cooperative
Louisiana, 2007

Gay & Robinson, Kaumakani
Hawaii, 2009

CANE REFINERY CLOSURES

Aiea, C & H
Hawaii, 1996

Everglades, Imperial
Florida, 1999

Sugarland, Imperial
Texas, 2003

Brooklyn, Domino
New York, 2004

Note: In 2010, 22 beet factories, 18 raw cane mills, and 8 cane refineries remain in continuous operation, a 41% drop since 1996. U.S. Sugar, FL, has announced plans to close after 2015.

ASA 2010

54k

Figure 5

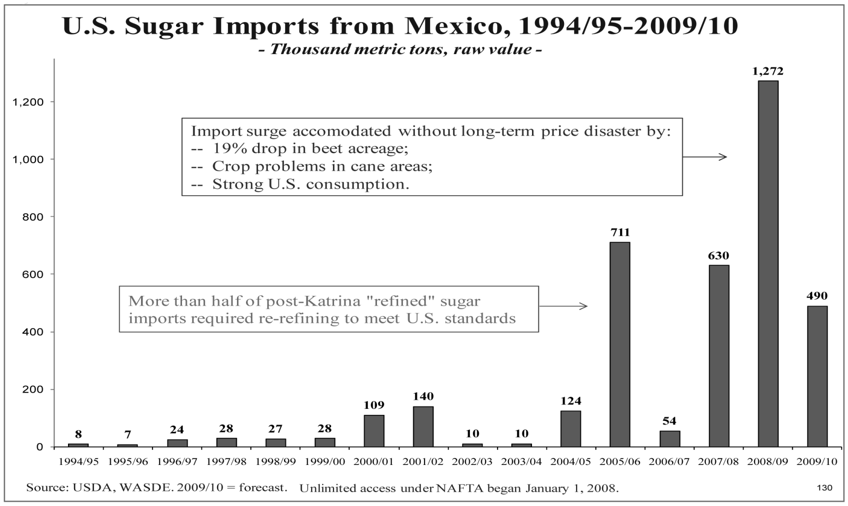


Figure 6

U.S. Sugar Import Concessions:
In Place, Proposed, or Being Negotiated

	Minimum Import Amount			Comment
	WTO	FTAs	Total	
	-Metric tons, raw value-			
In Place				
WTO (40 countries)	1,139,175	--	1,139,175	Uruguay Round commitment
NAFTA - Mexico[1]	10,212	Unlimited	Unlimited	Unlimited access began January 1, 2008
CAFTA/DR[2]	311,700	119,060	430,760	Grows, on average, by 3,153 mt/yr years 2-15; by 2,640 mt/yr thereafter
Peru[3]	43,175	11,000	54,175	Grows by 180 mt/yr forever
Negotiated, not yet approved				
Colombia	25,273	50,000	75,273	Grows by 750 mt/yr forever
Panama	30,538	7,000	37,538	Grows by 60mt/yr for 10 years
Being negotiated				
WTO:	If and when completed by Congress, the Doha Round of WTO trade negotiations would result in a substantially increased TRQ for sugar and a reduced tariff.			
TPP (Trans-Pacific Partnership):	These negotiations could result in substantial, additional concessions to sugar-producing countries throughout the Asia-Pacific region (including Western Hemisphere countries) through renegotiation of existing FTA's or negotiation of new FTA arrangements.			

[1] Canada excluded from the sugar provisions of the NAFTA.

[2] CAFTA/DR access for CY 2009; includes 2,000 tons of specialty sugars for Costa Rica. CAFTA countries' WTO access included in WTO total.

[3] Peru FTA includes 2,000 tons of specialty sugars not subject to net exporter status.

Note: CAFTA/DR and Peru FTA net-exporter provisions (exports to world market minus imports from world market) could limit the access of the Dominican Republic some years and Peru in most years.

73ff

Figure 7

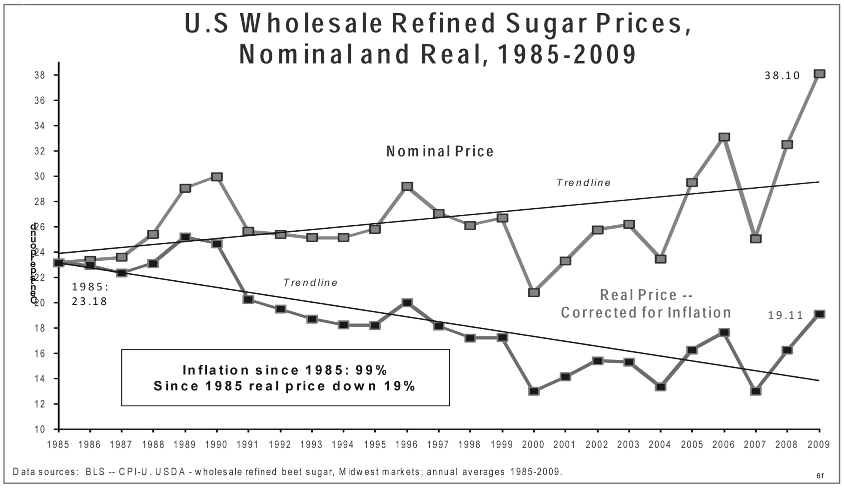


Figure 8

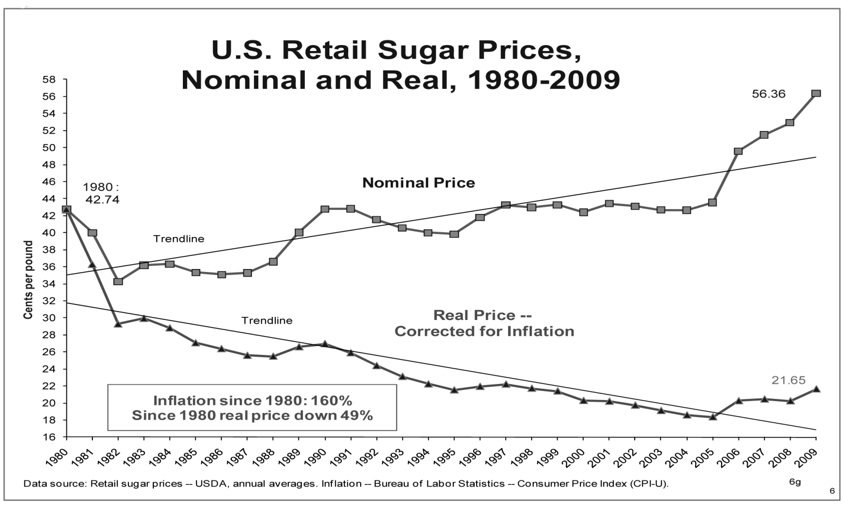


Figure 9

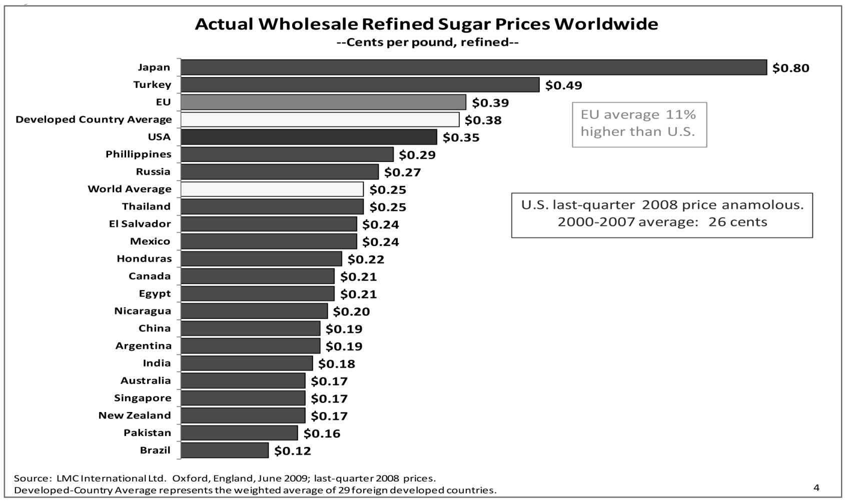


Figure 10

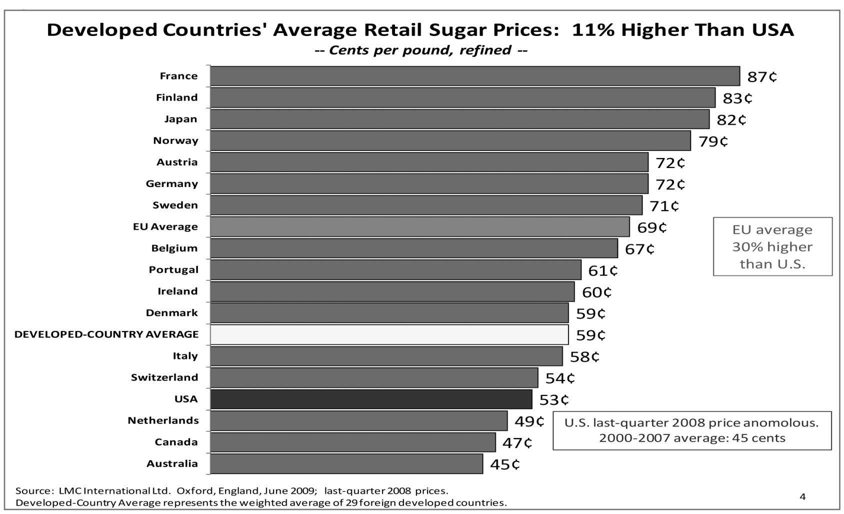


Figure 11

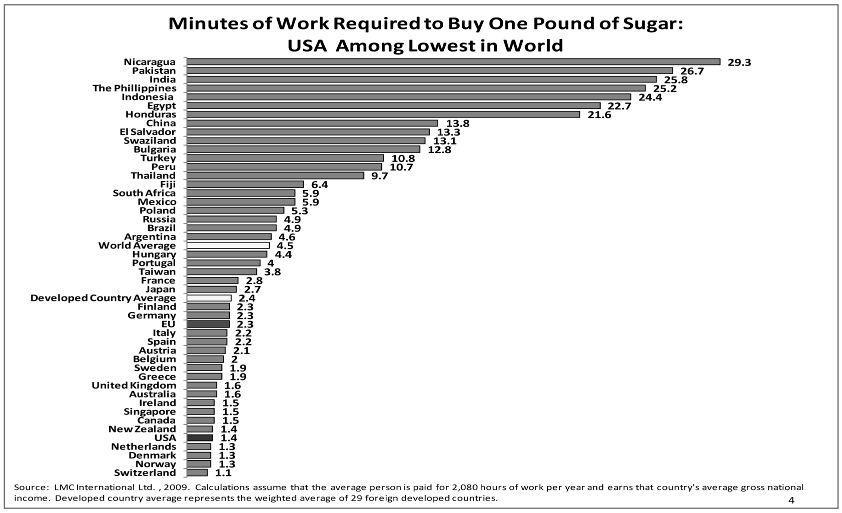


Figure 12

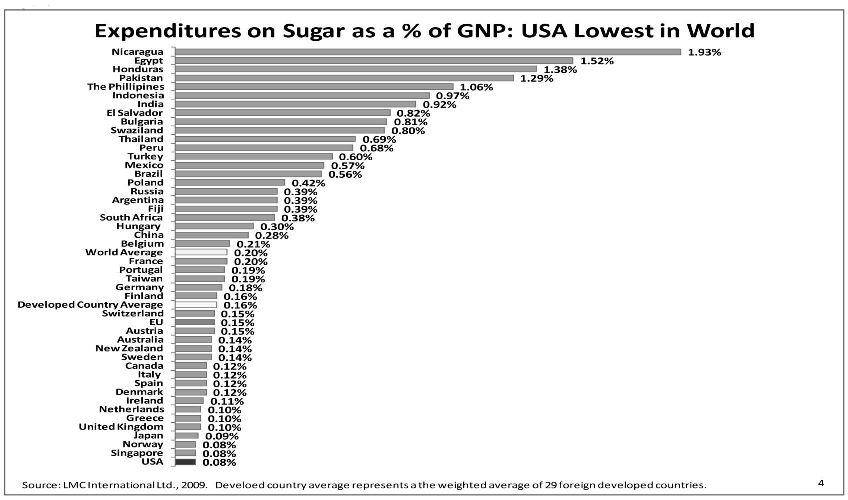


Figure 13

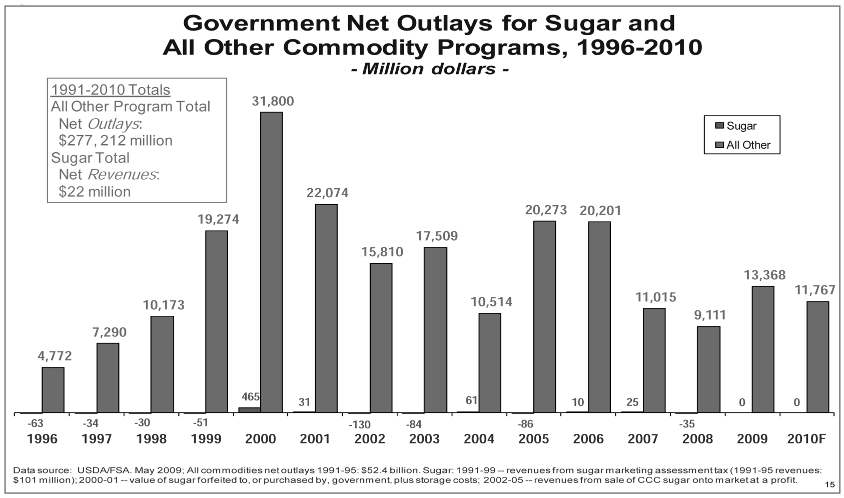
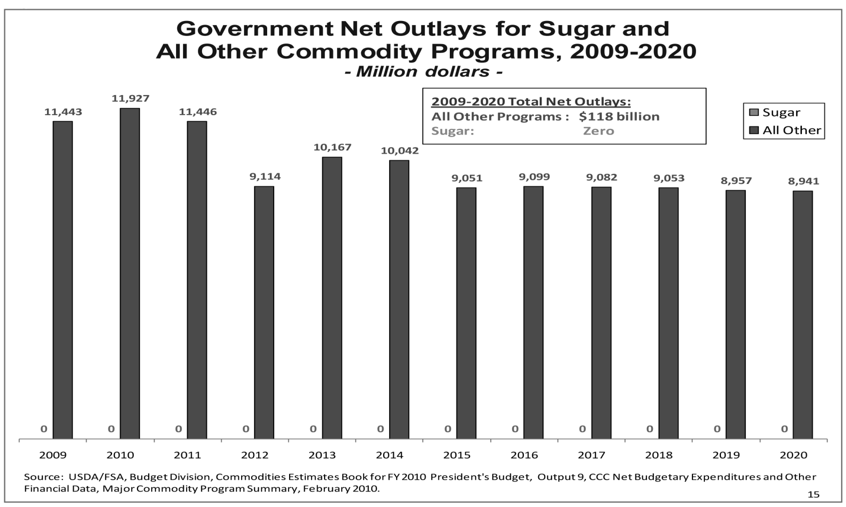


Figure 14



The CHAIRMAN. Thank you very much, Mr. Murden and I thank all of the panelists for that excellent testimony.

I will first recognize our host, Mr. Neugebauer, for any questions.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. And before we get started, I'd just like unanimous consent to enter testimony from Hon. Susan King, State Representative, and, also, David Fisher, CEO, Breedlove Foods, and the Lubbock Chamber of Commerce.

The CHAIRMAN. Without objection, it is so ordered.

Mr. NEUGEBAUER. Well, I want to thank our panelists again. I want to say, too, I've had a chance to read all of your testimony. I really think that we could go here for days, because many of you brought up some very important issues and brought a lot of detail to that.

I am going to focus—and I know my colleagues all have areas of interest, but, obviously, one of the areas that I have a lot of interest in is the crop insurance piece. As I was looking through your testimony last night, one of the things that was consistent—there was two or three things, and one of those is that there is a need for a better crop insurance program.

The other was that the SURE and ACRE program are not the answer that a lot of folks thought that was going to be when we did the 2008 Farm Bill. And so, obviously, when we look at the 2012 Farm Bill, those two areas will have to be something we will address.

I want to go back to the crop insurance, and one of the things that we hear constantly is particularly that—one is that crop insurance—to carry it at the higher levels. As Mr. Holt said, get everybody up to at least a level where there is some sufficient coverage with the high input cost, but, also, the shallow losses, this is a real problem. In many cases, there is no coverage because they don't meet, for example, the deductible.

And what happens, in my district, particularly, and with agriculture all across the country, is that we have folks now that are farming 4,000 and 5,000 and 6,000 acres, because that's what they've had to do to get their farm levels to be competitive. When you start amortizing shallow losses over 4,000, 5,000, 6,000 acres, it turns into real money, even here in Texas.

One of the things that has been brought up in the concept—and there are a lot of ideas out there, and we want to look at all of those, but, incorporating into a crop insurance program that has price and yield protection in the policy, to having both of those. And some have said that possibly if you could incorporate that into the crop insurance, that you could look at some of the other areas of the safety net and shuffle that basket a little bit.

I would like to hear from the panel as to—if you are going to have changes in the crop insurance program, certainly what would be some of those, and with the present yield, what would be something that you would like to see in there? We'll start with Mr. Bouma.

Mr. BOUMA. Well, actually, the dairy industry doesn't participate in the crop insurance program, but is working towards a similar type program as the ultimate safety net if we can set our antiquated support system aside. So, yes, some type of safety net that we can take the dollars that have been used in support in the past and create a safety net that producers can buy into, we feel that's definitely a part of the answer to the new dairy policy.

Mr. NEUGEBAUER. Thank you. Mr. Grissom.

Mr. GRISSOM. On behalf of the peanut industry, there are very few times that the crop insurance is even needed in peanuts, but when you do need it, you really need it. You have a lot of money tied up in an acre, an acre of peanuts, because the cross production is so high, so, like I say, the price and the yields.

I know some of the issue maybe for the peanuts has been coming up with a price, and we are getting closer to that every day, whether it be through a shell good price or whatever, but it would be something that, sure enough, would help us, some kind of safety net, which, really, we don't have right now in peanuts.

Mr. LACKEY. From the point of view of citrus, there are really two insurance policies; one for the tree and one for the fruit. And the tree insurance is very rarely used, the 1983 and 1989 freezes, and then, in 2008, for some flooding, and that's really about it, that I know of, for trees.

Occasionally, there will be a little hailstorm that will get some fruit, where there will be a claim, but, again, really, the freeze is the only major claims. Typically, what a lot of guys are carrying is just the catastrophe insurance, and it usually doesn't measure up to that unless you get a hard freeze, and the last time was 1989.

And so I haven't seen, really, like Mr. Holt was commenting, a balance in the premiums matching up with the claims. I mean, there is a—you would think, after this many years of not really having any claims, the premiums would go way down, and there's bound to be a pot of money somewhere after all of those years. So that's important, I guess.

Mr. NEUGEBAUER. Thank you. Mr. Holt.

Mr. HOLT. I think that as far as the price is concerned on certain commodities, we have the CRC, but, still, when you are not able to cover the higher levels, then you are short on price.

And one thing that would improve on a lot of the commodities is, as I indicated, the technology, bringing your APHs up higher, and then that will also bring up your protection on price.

And, also, one of what you had mentioned earlier, and had introduced a bill of being able to double-stack, and it still is a legit way to go about that, and particularly on disasters.

Mr. NEUGEBAUER. Thank you.

Mr. PARKER. As you know, livestock, in most cases, is not affected, but in related cases, there is quite a bit of farming that goes with cattle raising.

Last year, on April the 7th, there was a freeze in the north Texas area that completely destroyed the biggest part of the wheat there. And to insure wheat on yield and price would be very helpful, because the inputs of the fertilizer and the fuel are so tremendous that the cash and capital outlay is so burdensome that it would be very helpful.

Mr. MURDEN. In regards to sugarcane this year, what really remains to be seen is: We are still working claims, but we have to share that data for it with you once we do.

I would like to point out, too, that one size doesn't fit all, even in commodities. And, Mr. Neugebauer, you are aware of this. You and I are 13 miles apart—or 13 hours apart from one end of the state to the other, and the cost of production and yields and everything are so dramatic that I think we need to be very careful that we don't couch cotton, *per se*, into one area.

But I'll definitely share my sugarcane data with you, once we get through working the claims from the freeze.

Mr. NEUGEBAUER. I look forward to that. Thank you.

The CHAIRMAN. I thank the gentleman. This summer the Committee has to re-authorize the mandatory price reporting law.

And I have, I guess, a question with dairy and peanuts. As I understand it, the dairy industry is interested in expanding the different products that are covered by mandatory price reporting; is that correct, Mr. Bouma?

Mr. BOUMA. Yes, sir. We would look at taking the original price support program and scrapping that, if you will, and then expanding the coverage to products that we can make—that we can market, rather.

The CHAIRMAN. All right. Have you done any work—has the industry done any work, so they would be ready this summer, in terms of what additional products they want covered under the mandatory price reporting end?

Mr. BOUMA. Yes, sir. IDFA and National Milk Producers Federation both have been working hand in hand on that, and I'm sure we will be ready to roll that out this summer.

The CHAIRMAN. Okay. And, one of the issues that we keep running into is this price issue in terms of doing a crop insurance program for peanuts. Some people have suggested the mandatory price reporting law might be a way to help with that.

Do you think that's the case, Mr. Grissom?

Mr. GRISSOM. I think it would be. Of course, as far as the peanut growers, we would have to be in support of any way that it would—whatever it would take to be able to come up with a price support system, or a way to come up with a price for peanuts. That has been an issue, like I touched on a while ago, as far as crop insurance for peanuts, and we are getting closer to that nearly every day.

The CHAIRMAN. Well, when we were in Alabama and Georgia, the message I got from the peanut growers over there was that they didn't think that that would necessarily do them any good. They thought the current NASS system worked. I get a different message out here, I think.

Mr. GRISSOM. Well, of course, we have been working with the Southeast on this issue as far as the peanut growers there, too. As a matter of fact, I think they had a meeting just a couple of days ago on this crop insurance and things that they were all for, trying to get some type of CRC crop insurance.

The CHAIRMAN. Right. Yes, they are. The question is: How do we develop the pricing?

Mr. GRISSOM. Well, I think there may have been one or two ways to come up with it.

One of the ways that they've come up to shell—a shell good price on peanuts is bought and sold nearly every day, and that would be a way to come up and convert that into farmer stock peanuts. So that's one way to do it, and that's the way that it's being looked at right now.

The CHAIRMAN. We recognize the ACRE program and the SURE program have a lot of problems.

Mr. GRISSOM. Yes, sir.

The CHAIRMAN. And, we keep trying to develop a way to avoid these disaster programs. Now we have another disaster program, pending in the Senate, where they're going to give an extra direct payment if you only have a five percent loss, which seems to me it would be a little hard to explain to people. If you only have a five percent loss, why would you need to get a payment?

What is your position on that provision that's in the Senate bill?

Mr. GRISSOM. Me?

The CHAIRMAN. Well, I guess I would like any of you that would dare to venture into that quagmire.

Mr. MURDEN. I'd take it. I'll take it.

The CHAIRMAN. Well, I know you would take it, but my concern is: We have never done anything like this before. We have never paid a disaster payment for that small of a loss.

And I'm worried about the precedent we're setting and the potential of bad publicity we're going to get out of something like that.

So I guess I understand you would take it, but I'm not sure—you know, I'm just wondering what you thought about the policy.

Mr. LACKEY. Well, I'll just say from a vegetable—particularly, looking back, as we have also been producers of onions and other things, we have always thought that the insurance is a double-edged sword; that you need it when you need it.

But it also encourages—in something like that, I think that it would really encourage people that aren't necessarily growers to get into it, just to play the insurance game, and that's certainly a concern.

There has been some abuse across the country of that, and I think we have to be careful about how we construct these insurance programs. If it's done wrong, it certainly can encourage abuse, and then it hurts the markets. Then we have people in the game that just kill a good market, just because they're playing the insurance game.

Mr. HOLT. Legally, I think we all have to be careful how we address that, because we don't want our producers to think that we're against them getting any money, but I think I see your point in that.

Again, this is the reason I feel that we need to work to find a way that it's permanent, and it is not a political game, as you might say.

The CHAIRMAN. Yes. And, one of the problems that I think is that we keep stacking these programs on top of each other. You know, now we've got the ACRE program, and then we have the SURE program, and these things are not coordinated the way they need to be with crop insurance. They are too damn complicated, you know.

We need to simplify the system, and that's part of what I'm trying to do here with this, starting these hearings early, is to try to figure out a way to coordinate this stuff better and simplify it, to make it work better. You know, crop insurance will be a big part of this. And, we'll see what happens with this SRA and where we end up with that.

One other question I had was on the CAT coverage and NAP coverage. If we eliminate those and go to an actuarial product there, we pick up quite a bit of money. I personally think that CAT and NAP have served their usefulness, and that we ought to move away from them. And I would like to know what you guys think about that.

Mr. HOLT. Let me just say: As far as CAT is concerned, I would agree with you on many products, but then, on a lot of products, that's the only thing that is available to them, because we have not provided them with adequate insurance.

The CHAIRMAN. I understand, but what I'm talking about is making them pay the actuarial value of that policy instead of paying $300.

Mr. HOLT. Right.

The CHAIRMAN. Do you think that makes sense?

Mr. HOLT. Well, yes, sir. Again, I think that it would make sense if we give them a valued product.

The CHAIRMAN. Well,——

Mr. HOLT. And I think that before it becomes a valued product—and because, as the CAT is concerned, I mean, that is catastrophic, and so you have a big loss. And I just—it's a Catch 22 answer, because you can't say, "Yes, they can charge full loan for CAT," and yet it not be a good coverage. I think we've got to look at the coverage.

And could I just regress just a minute by saying—what you were saying like a while ago, that we've got so many double-stacking, and we've got so many problems, I think that we have never sat down as an industry, as a commissioned study from the committee, and to work it together. Every time we get one solved, then another one comes up.

And, of course, in some of the organizations I'm in, we work—we're working with rice right now, trying to get there. And so we continue to try to work with these, but we need the support and all of it gathered in.

And I would like to see, possibly, you commission a study, and do it soon, where we can have some reactions to it and get some cost studies on it and try to work together.

The CHAIRMAN. Well, that's exactly what we're trying to do, and we have asked for some people to make some proposals that we're going to, hopefully, be able to roll out here in another month or so, where we can start doing exactly that.

Our Committee can work with the industry and try to figure out some way to simplify this and make it work better, and hopefully make it more efficient, make the money go a little further. That's what we're trying to do this next year. So we look forward to working with all of you on that.

Mr. HOLT. Amen.

The CHAIRMAN. The gentleman from Alabama, Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman, and thank you all for your participation. It's very helpful.

In our hearings in Georgia and Alabama, the dominant concern was crop insurance and the problems that you all deal with every day, but yesterday, here in Texas, I had one of the folks talk about some out-of-the-box thinking with crop insurance. I'm interested if you would agree with this line of thought.

And that is, if you could get a crop insurance product with a premium that was comfortable, that had a much higher rate of payment, would you be willing to give up direct payments and countercyclical payments in exchange for that product? Don't all of you jump up at once.

Mr. GRISSOM. I guess I will be first. I don't mind.

One of the things, as far as peanuts go, is our direct payment, which the countercyclical payment is not a large issue right this minute, because our price of peanuts and the cost of production and everything has gotten so high. But the direct payment is something that we can go to the bank with, even though it's not a large amount, but it's something that we can go and we can say, "Well, you know that we know we are going to get this." So it would be very hard for us to pass that up.

Mr. ROGERS. And that's the concern that I had, and I think Mr. Holt made the point: Without crop insurance, you're going to have a hard time getting the bank to work with you. So that is why I am wondering which of the—if you had, really, like an 80 percent rate of payment at a good premium, would that be better to go to the bank with than direct payments or countercyclical payments? And I guess your silence is saying "no."

Mr. MURDEN. I think we ought to run that by the bankers, and this is where I'm going to leave my sugar hat on, because I don't get a direct payment anyway.

Mr. ROGERS. Okay. Mr. Holt, since you're in the business of selling crop insurance——

Mr. HOLT. Yes. Well, I also farm, and I understand. But I think that, again, once you put the blueprint out and see what it covers and the advantages of it, and I think that the lenders would be interested in—because of some of the added requirements that they have had in trying to secure these loans and so forth.

And I've had—since I have known I was going to testify, I have had three bankers call me and ask to be sure and stress that they need to be able to secure loans and so forth. And so I think that after you would sum it up and look and see what you were able to buy by eliminating it, I think it would be a favorable move for most.

Mr. ROGERS. Well, that's something that I hope, as we're fashioning this farm bill, that we do start comparing the practicalities of it, too. And it may be something that we decide to offer as an option.

Well, in speaking of financing, have y'all found that the tightened credit standards are, in any way, affecting your ability to get the money for your operations? Mr. Murden?

Mr. MURDEN. Definitely.

Mr. ROGERS. Mr. Bouma?

Mr. BOUMA. Without a doubt, in the dairy industry, with the prices in the last 18 months, credit has definitely tightened up across the industry. You know, cow values are 60 percent of what they were 2 years ago.

So the balance sheet and asset base have developed accordingly, and credit is definitely tougher to come by.

Mr. ROGERS. Mr. Grissom?

Mr. GRISSOM. Yes. It has become quite a bit harder to get operating money for our 2010 crop just because of either carryover from the 2008 and 2009 crop. You have a carryover, which I would venture to say, in the peanut industry, probably had 90 to 95 percent of the people had carryover.

So, when you carry that over for 2 years straight in a row, your lenders are really going to look at you. Then they go looking at the assets that you have when you just have peanut equipment, and "What is the value of that peanut equipment, and we know you need to utilize it, but what is the true value of that?" So it makes your asset ratio go kind of haywire.

Mr. PARKER. One comment I would like to make is: The fixed cost of interest and the fixed cost of taxes are going to put more pressure on insurance needs, especially for the younger operator.

And as far as the banking and finance goes, that is something that is a consideration.

Mr. ROGERS. Before my time is up, Mr. Grissom, I wanted to ask you: My Alabama peanut producers—we were down there Saturday—were talking and expressing their concerns about the USDA not taking the world market price into consideration in calculating low end payments. Is that a concern that you share?

Mr. GRISSOM. Yes, it is a concern. It needs to be taken abroad, is the way I would see it, as far as maintaining and getting a price for peanuts.

Mr. ROGERS. Good. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. The gentleman from Mississippi, Mr. Childers.

Mr. CHILDERS. Thank you, Mr. Chairman, and I wanted to say first, before I asked my questions: When I got here yesterday, I felt right at home. The first fellow I met was named Billy Bob Brown, and Billy Bob Brown could live next door to me in Mississippi.

And, second, when I met your Chancellor, I finally met somebody who talked as southern as I do. So I am glad to be in a room full of people who understand me, the way I talk.

I wanted to follow up on something that the Chairman was talking about earlier on the percentage of loss. I think the silence kind of said it all on that five percent. I would be curious to know: What is the acceptable level of loss, percentage of loss, before there should be disaster assistance?

And on the subject of disaster, I think everyone would agree here. We have never really got to the point that we had an acceptable—well, that we had a good program for all different losses.

I would be curious to know: What could we do in this 2012 Farm Bill that would help each one of your industries? And be reasonable; be reasonable with your answers, I mean, because you know that the Chairman has already said, "We're not going to have as much money as we've had in the past."

Mr. MURDEN. You know, Mr. Childers, down in my neck of the woods, along the Mexico border, with us a lot, that five percent is ridiculous. But, honestly, for me, in the last 4 years, it has been all or nothing.

Starting with Hurricane Dolly, I lost all of my cotton, and then I had two consecutive droughts where 75+ percent of the crops were lost. And now I have had a hard freeze on citrus. So, yes, for me, it's just kind of an all-or-nothing deal. It's a sad deal. It's the weather. You know, you can't control the weather.

Mr. PARKER. I think a range—a considered range would be somewhere around the 10 to 20 percent. I think that's what most national programs are.

And, again, I will repeat that fuel pressure, fertilizer pressure, taxes pressure, and I'm afraid one of these days interest pressures are going to be so hard that—where I couldn't survive any longer. And I hope I'm saying that right; that a 15 to 20 percent equity position and then the rest of it is loss that would need to be covered.

Mr. HOLT. I think that that percent—the set percent loss is difficult to arrive at when you look at individuals. I'm particularly talking about some of the lenders that I have talked to, because you take a young farmer, just getting started, he might be that five percent.

And so that's the beauty about having flexible buy-ups and so forth and being able to determine what you can afford. And so I think that you need to put a scale on it all the way up, and if that's—if you need that for your banker to determine that, yes, it has to be reasonable in price. And that is, again, an advantage for trying to go to one level of your operating cost.

And then, when you have a disaster, if the county has a disaster or some measure within your area has a disaster, then the second part can kick in. But, you would have to pay—because if you think about last year, $80 billion of what was taken out in liability.

And that's the reason it's important to have partnerships, like the companies, to get that re-insurance, because there is no way that you could put that kind of liability on your books and meet your budget.

Mr. ROGERS. Mr. Bouma.

Mr. BOUMA. Well, I would just defer to the dairy industry, because we are not involved in the crop insurance programs directly. Five percent does seem to be somewhat tight, from what we look at. We would defer to the folks that grow crops for us, that we purchase the crops from, that are affected by such things.

But in five generations of dairy, out in the western United States, we have never been eligible for disaster payments, and that's fine. And we would just as soon to let y'all kind of stay out of that side of our business as well. So thank you.

Mr. GRISSOM. When you go to looking at the margin of profit that there is in peanuts, the five percent, to me, doesn't seem like a very—I guess it's drastic, because your cost of production, when you go to looking at your cost of production *versus* what you get out of the peanut crop, there is very little room for mistake, very little room.

It's just like Mr. Holt was talking about a while ago, about the young producers. The young producers in our area, south of here, are getting to be very, very few. Some of those guys that, like you say, cannot absorb that five percent loss. They don't have the assets to support anything less than that. And some of the older producers are just using up equity right now.

The CHAIRMAN. All right. I thank the gentleman. The gentlemen from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I want to change the subject just a little bit, and if there's any time left at the end, I want Mr. Holt to talk about the SRA negotiations that are going on.

But in some of the rest of the testimony, you talked about needing labor or workers. How many of you participate in the H–2A programs? Is it flexible enough to be able to work? So it could be expanded, the H–2A. So a number of people could be in the program. Would that work? Be straight-forward.

Mr. MURDEN. Chances are.

Mr. CONAWAY. You need to speak a little louder.

Mr. MURDEN. Chances are. We still have some problems, paperwork—with the paperwork.

Mr. CONAWAY. Okay. Are both of your operations close to the border; is that why it works there?

Mr. MURDEN. Mine is on the border.

Mr. CONAWAY. I understand, Mr. Murden. I don't know where Byers, Texas, is, Mr. Parker.

Mr. PARKER. Well, I mean, our Texas and Southwestern Cattle Raisers Association has a lot of members close to the border, and it's very important for them.

Mr. CONAWAY. What about producers further inland; would that——

Mr. PARKER. Well, not so much, but it's still important statewide. We are around the Wichita Falls area, and we still have some of that need, especially with fruit and vegetable people and some of the ranching, also.

Mr. CONAWAY. Okay. Any comments on the EPA issues, spray drift regulations, permitting or excessive permits required, or what do you see with at least control being a problem; just anybody's thoughts? Jim?

Mr. GRISSOM. Nothing other than just keep good records. That would be the only thing that I would know. There is nothing as far as anything happening in the peanut world, or from my understanding, in the cotton world, but, it's——

Mr. CONAWAY. So you're okay with what the EPA is doing right now——

Mr. GRISSOM. Yes.

Mr. CONAWAY.—in what they have planned?

Mr. GRISSOM. I don't know if there's anything, unless there's something that I don't know, but you never know.

Mr. CONAWAY. Mr. Bouma.

Mr. BOUMA. The EPA is in the process of considering creative rules as far as with the Clean Air Act with the dairy and cattle-raising industries across the country.

And Ms. Murkowski from Alaska has a letter out currently that we are signed on to, as well as most other bovine operators, trying to keep the regulation of the Clean Air Act and things outside of the agency's hands, and in the hands of good solid science, so that we can move forward on this. So it's very concerning with some of the things that are happening there.

Mr. CONAWAY. Okay. Mr. Holt, do you want to give us some thoughts about the SRA? The earlier negotiations assumed a $2 billion cut in the A&O under the SRA. The USDA is talking $6 to $8 billion.

What impact does that have if the USDA winds up with those higher numbers?

Mr. HOLT. Well, I think it would be very difficult, if not impossible, with those kinds of numbers. We've got to realize: We're a partnership in this, and you've got to have room for companies to make a profit and——

Mr. CONAWAY. Well, excuse me. If the USDA would roll out these percentage of profits that the insurance companies have experienced over the last 10 or 15 years and are saying those are excessive, does the A&O come directly out of those profits, or does it come out of the insurance agents' pockets? Where is that impact?

Mr. HOLT. The A&O is separate to the underwriting gains, and so forth, of the other companies. The A&O comes off of the price and so forth that is set every year, and it is separate.

An A&O is to pay for the loss adjusting and an agent. And that is one of, really, the things that is difficult, is that they cut all the A&O down, so small, and it's not going to leave—we're going to suffer from an adjusting standpoint.

Mr. CONAWAY. So the adjusters and the agents participate in the underwriting gains that are being reflected?

Mr. HOLT. No, we do not participate.

Mr. CONAWAY. Well, help me understand.

Mr. HOLT. The A&O——

Mr. CONAWAY. These are apples and oranges that we are talking about. The USDA will roll out a chart that shows pretty dramatic profits for the insurance companies, and yet they are using those charts to get in to support their rationale for cutting the A&O.

Mr. HOLT. Of course, well, the A&O is—underwriting gains is separate. I mean, there are two different—there are two differences.

But the thing about it is: You are talking about the profits from the companies. You know, I'm not here to support and say that they're not making too much or—you understand how insurance works. So they have to make some.

Mr. CONAWAY. Good year *versus* bad year?

Mr. HOLT. Good year *versus* bad year, but if it is that high, that is what I had mentioned earlier. Well, why don't we take that and pile that back in, to lower the rates. If it's too high, then take the money out of it and—because the producer is the one that helps create that over—that gain by their premiums.

So, obviously, if it's consistent, then it ought to come back and lower the premiums and so forth. And then, when you do that, well, then, you can buy higher levels of coverage and so forth.

Mr. CONAWAY. All right. Thank you, Mr. Chairman.

Mr. CUELLAR. The Chairman now recognizes the gentleman from Nebraska, Mr. Smith, for 5 minutes.

Mr. SMITH OF NEBRASKA. Thank you, Mr. Chairman, and thank you to our witnesses for sharing your expertise.

Mr. Parker, legislation, as you know, has been introduced that would really limit the use of antibiotics in food animal production. A little bit of that has been touched on. The FDA testified in favor of the legislation, and apparently without consulting USDA and getting perhaps closer insight on the issue.

But how would this legislation impact your operation or the industry?

Mr. PARKER. Well, the cattle-raising industry is very dependent on a good veterinarian guided antibiotic program for raising cattle. That also goes to the next level for growing stocker cattle with a veterinarian approved program for health reasons.

And then it's very important in the next level above the stocker cattle program, which is the cattle feeding program, to maintain health. And the industry is paying a premium for these cattle that have good health. And the reason that this has improved is because of the good antibiotic program.

We feel like that our ability to choose and select veterinarian prescribed antibiotics would very much hurt the performance, and would also hurt the prices of our products since it is a very big concern for the whole industry.

Mr. SMITH OF NEBRASKA. Okay. Anyone else wish to comment on that?

Mr. BOUMA. Well, the dairy industry uses very little—low level antibiotics on a consistent basis. As Mr. Parker alluded to, veterinarian prescribed antibiotics at therapeutic levels, on cattle that we have to deal with, are critical to the industry and critical to their health, as we go along.

And we would much rather see the antibiotic issue not being dealt with by an agency, but to be dealt with by sound science through sound veterinarian practices.

Mr. SMITH OF NEBRASKA. And, again, as y'all know, there are other food safety bills introduced, and some passed the House. Would any of you wish to weigh in on that piece of legislation and its impact to the industry?

Mr. PARKER. Well, I'd agree that sound science is the most important aspect in the cattle industry, as well as the dairy industry. We invest millions of dollars each year for that sound science.

And the one way that we do that is with our national check-off programs. This is producer-funded, and we feel like that it's very effective and very important.

Mr. SMITH OF NEBRASKA. Okay.

Mr. BOUMA. National Milk Producers Federation is in the process of putting together what we call a farm program, which hopefully will roll out a nationwide program, which will have industry standards as far as animal care, antibiotic issues, vaccination issues, and treatment, as we go. We feel that is much better done on the farm with that science *versus* being legislated.

Also, the dairy industry stands ready to, and has adopted, animal ID to the greatest extent, in probably the high 90th percentile, and we are accountable for our product on a daily basis. We are completely transparent in where our product is produced and how it's handled. So we support them in the initiative as well.

Mr. SMITH OF NEBRASKA. Okay. Thank you. Thank you, Mr. Chairman.

Mr. CUELLAR. At this time, the Chairman recognizes the gentleman from Pennsylvania, Mr. Thompson, for 5 minutes.

Mr. THOMPSON. Thank you, Mr. Chairman, and thank you, gentlemen, for your leadership and your testimony today.

Mr. Bouma, I wanted to come back to some of the comments you had in your testimony. Specifically, you talked about the importance of innovation, in terms of expanding markets for dairy as one of the initiatives, and I certainly would agree wholeheartedly with you.

I wanted to ask: What would you say is the most important action within—that we could take to increase that innovation, to stimulate it?

Mr. BOUMA. As far as the larger scale of how we balance it, but in order to have enough milk in this country, we're always going to have a little bit too much milk. That's the only way. To balance a domestic market within a four or five percentile basis is virtually impossible.

The true cost of the dairy balancing program is in the nonfat dry milk powder and in products the CCC purchased, butter and cheese, which it has not purchased any in this downturn. And the problem is that we create a product and make a product, per standard, a day, that does not market in the world.

We are the world's last resort for a buyer. They cleaned out the EEU. They cleaned out New Zealand, because they told us to make a standardized skim milk powder, which is 32 percent protein, which is what the world desires. We wind up sitting here in the U.S. putting up our nonfat dry milk powder and storing it in the CCC, and the taxpayer and the industry both pay the balance to the entire world's market.

And we firmly feel—this is the first time in my lifetime that there's a milk producer's federation alliance, ISDA and NMPF. The processors and producers are in concert in looking at truly getting rid of the support program, as we know it today. They are working through the process of trying to create products that we can market around the world and balance our products around the world, instead of balancing the world's products here in the U.S.

Mr. THOMPSON. You had also made comments in your testimony about—there's a Senate bill. You've talked about supply management approaches, and I know there's a bill in the Senate side for that, that has been introduced.

What do you see as a—you didn't speak very favorably of it. I wanted to know what do you see as the negative consequences from that type of a policy approach from the dairy industry?

Mr. BOUMA. It's two or three-fold. One is: They have never worked anywhere. Europe has one; Canada has one. And if we create a supply management program here, we will, more than likely, eventually, elevate dairy prices.

But within our trade agreements around the world, we will increase the imports of dairy products into this country from New Zealand and from the EEU, that produce it, and then we will actually lose a portion of our domestic product as we go.

Canada's system works, because Canada has tariffs that don't allow our product into Canada nor anyone else's. So, thereby, they can regulate their domestic supply. If we work to try to regulate our domestic supply, we're going to open ourselves up to losing even more and more of our producers in the marketplace.

Further, the world market continues to grow. March was the largest export month in our history. Again, the market is returning. The Third World markets are going to continue to buy more and more dairy products as they continue to improve, and their economy has improved.

And, today, with New Zealand pretty well tapped out and the EEU full, the United States is going to be able to access those markets. If we can construct our domestic marketplace through the supply management program, our ability to access world markets to balance ourselves, like I was saying, in a profitable manner, will just be unencumbered.

Mr. THOMPSON. Thank you. Mr. Parker, the last farm bill contained language that you said made final technical changes to the mandatory country of origin labor law, which was advocated because of its intended benefits for nationwide livestock producers. We have had a year of implementation, to kind of reflect now on how that has—what has—the outcome of that has been.

Do you believe that law has done anything to improve the profitability of cattle producers?

Mr. PARKER. Our industry has been very disappointed with that law, and we feel that it has not done anything to produce the industry results. We don't feel like that it has helped our price situation, and it has been a big burden with our relationship with Mexico.

Mexico is the largest importer of our product, and they are having trouble exporting their product to us, and it has caused a big problem for them, and it also has caused a big problem for Canada, and we are not able to trade in a free way. Restrictions have caused problems to those two countries and to our industry, also. And we feel like it has been very ineffective, and we wish it would go away.

Mr. THOMPSON. Okay. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. The gentleman from Texas, Mr. Cuellar.

Mr. CUELLAR. Thank you, Mr. Chairman. Mr. Parker, I have questions, two quick questions.

One is fever ticks. I know that has been a big issue in south Texas. And regardless of the work we have been doing, it has been expanded, and we have been adding more funding.

If you can just quickly address that for other Members that might not be familiar with the fever tick issue from other parts of the country, number one.

And number two is: What can we do to modify our export promotion so that we can export more? The more we can export—and it doesn't matter, cattle, whatever—the better it is for us. So do you have any quick recommendations?

But, first, if you don't mind, start off with the fever tick issue.

Mr. PARKER. Okay. One late occurrence is with the border security problem and fever ticks. We are faced with a situation where the personnel are in danger on the border. The fever tick buffer is changing because of the border security, and then border security is a huge factor in the fight against fever ticks.

The history of fever ticks has affected states way beyond the State of Texas, and I hope that you will remember that fever ticks can be a problem for all of the South and the Southeast if we let it get out of control.

And the border security, to help us keep it in control, is so crucial. So I hope my direct answer provides money for the fever tick fight in border security.

Mr. CUELLAR. And the export situation?

Mr. PARKER. On the export situation for the beef industry, we would appreciate very much if the USDA would be proactive in helping with international markets, especially the market of Japan.

And we would appreciate very much that the restrictions that go on with the beef business specifically be fought harder. And that would be my direct suggestion and request there.

Mr. CUELLAR. Thank you. Mr. Chairman, I will yield back the balance of the time so we can move to the second panel.

The CHAIRMAN. All right. Thank you. I thank the gentleman.

I would just say that, in my opinion, the Administration has been as proactive as they could possibly be on Japan and Korea, and Russia with poultry. You know, these are tough problems.

To some extent, the previous Administration caused problems, because they had kind of an all-or-nothing approach, and we had opportunities to fix a lot of this, and then we didn't do it. So, at least, now we are moving ahead and getting what we can and opening things up. So we are making some progress.

But it's very frustrating, we understand that. But I think—and I may have some problems with some of the things that the Administration has been doing, but on that, I think they have been pretty proactive, and they have been pushing about as hard as I think you can.

I want to thank the panel for their testimony and for their answers to the questions, and for being here with us today, and taking your time. It has been very helpful to the Committee, and we appreciate you being with us. So you are excused, and we will get the next panel up at the table.

I think we've got a lot of people here, and why don't we take about a 5 minute break. Give the Members a chance to stretch their legs a little bit, and let the next panel get seated, and we will get back going here in about 5 minutes.

[Recess.]

The CHAIRMAN. We would welcome the next panel: Mr. Billy Bob Brown, irrigated and dryland wheat, sorghum, and beef producer. If you would take it out in the hall. You need to stop talking. We need to have some order here.

Mr. Billy Bob Brown from Panhandle, Texas; Brad Heffington, cotton, corn, and sorghum producer from Littlefield, Texas; Scott McGarraugh—am I close?

Mr. CLEAVINGER. You've got it wrong. It's David Cleavinger. We have switched.

The CHAIRMAN. Okay. I've got the wrong sheet of paper. I'm sorry. I didn't look at your—I apologize.

Mr. L.G. Raun, rice producer from El Campo, Texas; Mr. Doyle Schniers, cotton producer from San Angelo, Texas; Dan Smith, sorghum producer from Lockney, Texas; and Dee Vaughan, corn, soybean, wheat, cotton, and sorghum producer from Dumas, Texas.

So, Mr. Brown, welcome to the Committee. Your full statement will be made a part of the record. Try to stay under 5 minutes, and the floor is yours.

STATEMENT OF BILLY BOB BROWN, IRRIGATED AND DRYLAND WHEAT, SORGHUM, AND BEEF PRODUCER, PANHANDLE, TX

Mr. BROWN. Mr. Chairman and Members of the Committee, I'm here today to represent Texas Farm Bureau.

The CHAIRMAN. Hold that microphone a little closer.

Mr. BROWN. Now, does this work? Okay. Again, Mr. Chairman and Members of the Committee, I'm here today representing Texas Farm Bureau. I am a grain and cattle farmer from Panhandle, Texas, and currently serve on the board of directors for that organization.

We appreciate your willingness to meet us here in Lubbock. Mr. Cuellar, Mr. Neugebauer, and Mr. Conaway, it's good to see you here. Mr. Childers, it's good to visit with someone that doesn't have an accent. I appreciate that, along with Mr. Rogers from Alabama. I enjoyed our visit.

But, as you know, Texas agriculture is the number two economic engine in our state, and it generates more than $100 billion annually. Furthermore, Texas is the number two agriculture producing state in the nation. We are number one in cotton and beef and number two in grain sorghum.

Texas Farm Bureau supports the safety net established in the 2002 Farm Bill and maintained in the 2008 legislation. The circumstances that occurred in 2008 record high commodity prices for a short time, also resulted in high input costs. These high input costs have remained, even though the prices of the commodities have dropped. Market projections for most commodity prices are at levels close to or below the cost of production, making the current farm program questionable in maintaining the safety net.

Risk management, specifically crop insurance, is critical to the Texas producers generally and especially to those in this region of the state. Because of the differences in weather and terrain, Texas is very reliant upon the crop insurance program.

In year 2009, when the state experienced major drought losses, the Texas loss was 133 percent, compared to 56 percent to the U.S. Over a 20 year average, Texas has a loss ratio of 126 percent, while the U.S. experienced an 85 percent loss ratio. These numbers emphasize the fact that any proposed changes in crop insurance must recognize the challenges that producers face in Texas each year.

We understand the Risk Management Agency is now considering restricting availability of crop insurance in drought prone areas. This would be a disastrous change for Texas agriculture, because much of the dryland production in this state would be considered drought prone.

For good reasons, the ACRE program has not been well received. The provisions have been too complicated, and the benefits are—reduction in benefits are really too great for most Texas producers.

The ACRE program would be better received in Texas if the loss trigger was determined at the farm level.

We support the continuation of a permanent disaster program in the next farm bill, but due to the delays in implementation and the inability to determine crop revenues until the end of the marketing year, it's still too early to determine how effective the SURE program will be. Many of the producers are just beginning to receive payments, while still others are waiting for theirs. We urge the Committee to continue to evaluate this program.

The Livestock Risk Protection program, designed to provide price protection, has proven to be cost prohibitive for most producers.

We recognize that any changes in the 2012 Farm Bill will require compliance with the WTO. Agriculture trade and commodity exports are critical to our industry. Texas exports more than $6 billion of agricultural products each year.

We encourage the Committee, then, to support the Market Access Program, the Foreign Markets Development program, and we encourage the Members of the Committee to maintain these programs under current levels.

Mr. Chairman, as we look forward to the next farm bill, we must remind ourselves of the attempt of the original farm bills. America should not be dependent on other countries to produce and export food to the U.S. The American farmer and rancher has proven that the U.S. can feed much of the world, but an effective and efficient Federal foreign policy must be established for our producers to continue to be successful.

I appreciate this opportunity, and we will look forward to the questions.

[The prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF BILLY BOB BROWN, IRRIGATED AND DRYLAND WHEAT, SORGHUM, AND BEEF PRODUCER, PANHANDLE, TX

Mr. Chairman and Members of the Committee, I am here today representing the Texas Farm Bureau. I am a grain and cattle producer from Panhandle, Texas, and currently serve on the Board of Directors for that organization.

Mr. Chairman, we appreciate your willingness to have a hearing in Lubbock, and are particularly glad to have our Texas Delegation Members, Mr. Cuellar, Mr. Neugebauer, and Mr. Conaway with us today. As those Members are aware, agriculture is king in this part of our state, and the farm bill has been and is critical to this area and the rest of Texas' future. Texas agriculture is the #2 economic engine in our state, and generates more than $100 billion annually in economic activity. Furthermore, Texas is the number two agriculture producing state in the nation. We are the number one producing state in cotton and beef and the number two producer of grain sorghum. Hay and forage production is also critical to our livestock industry. Our state is also diversified in that we produce sugar, vegetables, and ornamentals on a large scale.

The Texas Farm Bureau supports the "safety net" established in the 2002 Farm Bill and maintained in the 2008 legislation. The provisions of the 2002 legislation have been very effective, primarily because farm commodity prices have improved over the period. The circumstances that occurred in 2008, record high commodity prices for a short period of time, also resulted in cost increases for farm inputs that have still not returned to the pre-2008 levels and are unlikely to decrease in the foreseeable future.

We recognize the 2008 Farm Bill was the best we could get given the budget limitations at that time. Unfortunately, the budget outlook for 2012 presents even more challenges than in 2008. While our organization supports continuing the direct payments program, counter cyclical program, marketing loan program, and permanent disaster assistance; we recognize that conditions are changing and have changed since 2008. Market projections are for most commodity prices to be at levels close to or below the cost of production, making the current farm program questionable in maintaining the "safety net."

Risk Management, specifically crop insurance, is critical to Texas producers generally and especially those in this region of the state. Because of the vagaries of weather and terrain, Texas is very reliant upon the crop insurance program. In crop year 2009, when the state experienced major drought losses, the Texas loss ratio was 133% compared to the 56% for the U.S. Over a 20 year average, Texas has a loss ratio of 126% while the U.S. experienced an 85% loss ratio. These numbers emphasize the fact that any proposed changes in crop insurance must recognize the challenges that producers face in Texas each year.

We understand the Risk Management Agency is now considering restricting the availability of crop insurance in "drought prone" areas. Unpredictable weather conditions are the major reason for purchasing crop insurance in dryland production. This would be a disastrous change for Texas agriculture because much of the dryland production in the state could be considered "drought prone."

For good reasons, the ACRE program has not been well received in Texas. Program provisions are simply too complicated, and the reduction in program benefits are too great for many Texas producers to participate. The inability to opt out of the program in later years after enrollment has also been criticized in our state. The ACRE program would be better received in Texas if the "loss trigger" was determined at the farm level. Again, we are cognizant of the limitations the Committee faced in developing this program.

We support the continuation of a permanent disaster program in the next farm bill. Due to delays in implementation and the inability to determine crop revenues until the end of the marketing year, it's still too early to determine the effectiveness of the SURE program. Many producers are just beginning to receive payments while others are still awaiting theirs. We urge the Committee to continue to evaluate this program to make it more effective.

We support the current conservation programs. However, these programs are designed to provide an environmental component, and in our view, cannot replace the need for a commodity safety net for producers. Conservation spending for the 2002 Farm Bill was increased 60% and has been maintained at that level. We strongly believe the established balance between commodity and conservation programs should not be altered.

From the livestock perspective, the Pasture, Rangeland and Forage (PRF) program has been very helpful to livestock and forage producers in recent years. This program provides risk protection for forage or pasture production. We would strongly suggest that this program be expanded to cover all states (currently it is available only in a limited number of counties in Texas on a pilot basis). Some complications have developed due to the limitation on measurements of rainfall in certain areas, but overall we believe the program has been a success and offers much promise. The livestock risk protection (LRP) program, designed to provide price protection, has proven to be cost prohibitive for most producers.

We recognize that any changes in the 2012 Farm Bill will require compliance with the WTO obligations of the United States. Agriculture trade and commodity exports in particular are critical to the future of our industry. Texas is a leading state in agricultural exports. We are the largest exporter of cotton and cottonseed, and currently rank number two in feeds and number three in animal fats, hides, and live animals and meats. Texas annually exports more than $6 billion of agricultural products. We encourage the Committee to give careful consideration to trade matters that might result in increased exports of farm commodities, and specifically support the Market Access Program (MAP) and the Foreign Market Development (FMD) programs. We encourage the Members of the Committee to fight to maintain these programs at their current funding levels.

Mr. Chairman, as we look toward the next farm bill, we must remind ourselves of the original intent of farm programs. American producers were provided certain protections and financial support to ensure that their fellow citizens have a safe and plentiful food supply. Our people should not be dependent on other countries to produce and export food to the U.S. That premise is still important today. The American Farmer and rancher has proven that the U.S. can feed much of the world, but an effective and efficient Federal farm policy must be established for our producers to continue to be successful. I appreciate the opportunity to appear before the Committee today, and will respond to any questions.

The CHAIRMAN. Well, thank you very much, Mr. Brown. We appreciate you being with us.

Mr. Heffington, welcome to the Committee.

STATEMENT OF BRAD HEFFINGTON, COTTON, CORN, AND SORGHUM PRODUCER, LITTLEFIELD, TX

Mr. HEFFINGTON. Thank you, Mr. Chairman. I would like to welcome you and your fellow Congressmen here to Lubbock, Texas, and to the great State of Texas. We appreciate you coming to the world's largest cotton patch to take testimony from our industry.

As I say, my name is Brad Heffington, and I farm approximately 6,000 acres of cotton and corn and grain sorghum in Lamb County, which is 40 miles west of here. My comments today are being provided on behalf of the membership of Plains Cotton Growers and the 19,000 cotton producers across the United States. I'm proud to say that this region produces up to 30 percent of the cotton lint and seed production produced in the United States.

The take-home message that I have for you today is that sound farm policy is essential to protect the viability of the cotton industry and the commercial agriculture in every part of the U.S. Specifically, cotton producers believe that the effective farm policy should adhere to a few clearly prescribed principles.

It should be market-oriented with a goal of promoting quality, efficiency, and domestic competition. It should allow for full production to meet market demand. It should provide for an effective financial safety net, which is the goal of the farm bill. It should ensure the availability of competitively-produced and priced U.S. cotton to domestic and international textile mills, as we have lost all of our great customers in the domestic textile industry. And it should encourage maximum participation without regard to farm size or business structure.

The 2008 Farm Bill meets most of these principles and continues to work well with the cotton industry. Each component, the marketing loan, the direct and countercyclical programs, serve a distinct purpose that is beneficial to U.S. farmers.

The centerpiece of the upland cotton program continues to be an effective marketing loan program. It is a program component that makes sense, that works, and that serves many critical purposes.

When it comes to alternative delivery mechanisms, we have yet to see any alternatives that can perform as well as the current bill. At the current time, we do not support any changes in the delivery mechanisms unless circumstances develop that make changes inevitable.

Currently, we have discussed concepts such as shifting delivery of farm support payments, conservation, crop insurance, or any of the like for insurance purposes, in our view, simply are either inappropriate or do not work well for cotton and most of southern agriculture.

One key improvement to the 2008 Farm Bill was the investment Congress made to strengthen USDA conservation programs. Programs like the EQIP program and the WHIP program work well to address locally identified soil, water, and wildlife conservation issues.

Another program that is of particular importance to this area is the Conservation Reserve Program. Recent budget cutbacks have us on the verge of releasing millions of acres of highly erodible land from the CRP that will most likely go back into crop production. The 2012 Farm Bill needs to provide a clear direction for the CRP program and reiterate the importance of keeping these fragile, erodible lands of the Great Plains under permanent cover.

My last comment regarding conservation is directed at the Conservation Stewardship Program, CSP program. It has been hampered by overly restrictive payment limitations contrived by USDA regulators, restrictions that we can't—we do not believe are supported by the statute. If the CSP cannot be improved to a point where it can deliver meaningful benefits to commercial-sized farming and ranching operations, we believe that these funds would be better used to expand successful USDA conservation programs such as CRP and EQIP.

We know that the 2012 Farm Bill debate will occur in a much different environment. Record budget deficits will put intense pressure on funding, and it is important to note that we cannot maintain a reasonable safety net using currently existing delivery mechanisms. Plains Cotton Growers and the U.S. cotton industry will work with you to develop alternatives that provide an equally effective safety net.

An effective farm policy must maximize participation without regard to farm size or income. The 2008 Farm Bill had significant changes to payment limitations and payment eligibility. Unfortunately, in addition to the authorized legislative changes, we believe that the USDA over-stepped Congressional intent when implementing several key payment provisions.

Looking ahead, we continue to fundamentally oppose payment limitations and imposition of further restrictions. Given their existence, we advocate the administration of these provisions be strictly within the intent of Congress. Sound national farm policy is of little value if commercial-sized family farm operations are unreasonably made ineligible for benefits.

We support inclusion of a permanent natural disaster program as a part of the farm bill. So far, unfortunately, the SURE program was unable to provide an effective level of assistance without significant modification. While we do support the continuation and improvement of SURE, we do not support reallocating limited, existing spending authority from the current farm programs to fix its shortcomings.

Finally, crop insurance is an important and essential risk management tool for our producers. Our producers invest in a crop insurance group that is substantial, and our industry continues to work closely with the USDA Risk Management Agency to examine new concepts and seek improvements in current crop insurance products.

Revenue coverage, enterprise policy rates, and group risk plans are some examples of innovative products that can offer more options at affordable rates. Crop insurance is an important complement to the current commodity programs.

Recognizing the vital importance of crop insurance to the cotton farmer, we strongly oppose the deep cuts proposed in the second draft of the SRA, as well as many of the policies underneath these cuts, because we are concerned about the adverse impact on delivery of those policies to our producers. Now is the time for the Administration to be using its authority to expand access to qualify for coverage rather than severely weaken delivery.

In summary, our industry believes that the 2008 Farm Bill is working. If the budget or other pressures make the 2012 policy changes inevitable, the cotton industry remains ready to work with the Agriculture Committee to explore alternatives that provide the safety net producers need in a manner consistent with our international trade obligations and within the budget constraints.

I would like to respond or answer any questions you have for me.

[The prepared statement of Mr. Heffington follows:]

PREPARED STATEMENT OF BRAD HEFFINGTON, COTTON, CORN, AND SORGHUM PRODUCER, LITTLEFIELD, TX

Good morning, my name is Brad Heffington and I operate a family farm of approximately 6,000 acres in Lamb County, Texas. In addition to cotton, which is my primary crop, I also produce both corn and grain sorghum depending on growing conditions and circumstances. I welcome you and the Members of the Committee that are present to Lubbock. My comments today are being provided on behalf of the membership of Plains Cotton Growers, Inc. PCG is the certified cotton producer organization representing the 41 county cotton production region surrounding Lubbock, Texas. I am proud to say that our region produces, on average, ⅔ of the cotton grown in Texas and up to 30 percent of the cotton lint and seed produced in the United States. As we speak, farmers on the Texas High Plains are at work, planting an estimated 3.5 million acres to cotton, roughly 30 percent of all 2010 U.S. cotton acres.

Cotton is the cornerstone of my operation and of the rural economy in our region. In fact, its scope and economic impact extends well beyond the approximately 19,000 farmers who plant between 9 and 12 million acres of cotton each year in the 17 cotton-producing states. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year.

Beyond the farm-gate, the distribution and processing of cotton includes cotton gins, independent merchants and cooperative merchandisers, warehouses, cottonseed distributors and processors, and textile mills. Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home-furnishings are also located in virtually every state.

Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200 thousand workers and produce direct business revenue of more than $27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420 thousand workers with economic activity well in excess of $100 billion. In the three-state region of Texas, Oklahoma and Kansas, the cotton industry's ripple effect is responsible for almost 93 thousand jobs and economic activity surpassing $25 billion annually.

Safety Net Principles

The take home message I have for you today is that sound farm policy is essential to protect the viability of the cotton industry and commercial agriculture in every part of the U.S. In regard to cotton, we believe that effective farm policy should adhere to a few clearly prescribed principles:

(1) It should be market-oriented with a goal of promoting quality, efficiency and domestic competition;

(2) It should allow for full production to meet market demand;

(3) It should provide for an effective financial safety net;

(4) It should ensure the availability of competitively-priced U.S. cotton to domestic and international textile mills; and

(5) It should encourage maximum participation without regard to farm size or business structure.

The 2008 Farm Bill meets most of these principles and continues to work well for the cotton industry. Each component—loan, direct and countercyclical programs—serve a distinct purpose that is beneficial to U.S. farmers. We commend this Committee for its diligent work on this legislation and look forward to working with you to carry its basic principles forward in 2012.

Safety Net Provisions That Work

My next comments are made with respect to the current program and its retention of the marketing loan and several other program components from prior law. First, it is important to note that the cotton industry worked closely with the Committee to institute many reforms in the 2008 bill such as: the revision in the calculation of cotton premiums and discounts used in the cotton loan schedule, placing a ceiling on the payment of storage credits for cotton under loan, the development of an economic adjustment program for the U.S. textile industry; and, the reduction in the target price for cotton which incidentally resulted in savings used to implement several of the reforms previously mentioned.

Fundamentally, we continue to support the 2008 Farm Bill's approach to the cotton program and all of its components, from the marketing loan to direct and countercyclical payments. The centerpiece of the upland cotton program and traditional commodity programs continues to be an effective marketing loan program. It provides a safety net for producers but does not harm the basic competitiveness of U.S. commodities in the international marketplace. It is a program component that makes sense, that works, and that serves many critical purposes. Because it is well understood and a fundamental part of commodity policy, the marketing loan is the foundation that provides rural banks the confidence they need to make farm operating loans available.

Grower participation in the marketing loan program has also helped the cotton industry adopt many important reforms that make U.S. cotton a predictable and reliable product domestically and worldwide. Among these reforms is adoption of: standardized bale sizing and bale packaging for cotton; electronic warehouse receipts; and heightened standards for storage and elevator facilities for cotton and for other commodities.

Budget Challenge

We know that the 2012 Farm Bill debate will take place in an environment much different than any we have ever experienced before. Record budget deficits will put intense pressure on funding. The WTO Brazil Case puts cotton's marketing loan and countercyclical programs under special scrutiny even though the cotton program, as revised by the 2008 bill, has never been evaluated by a WTO Panel. Ongoing negotiations in the Doha Round of trade negotiations could also result in a dramatically altered landscape for domestic commodity support. It is important to note that if circumstances arise which make it impossible to maintain a reasonable safety net using existing delivery mechanisms, Plains Cotton Growers and the U.S. cotton industry will work with you to evaluate alternatives that can provide an ***equally*** effective safety net.

Creating an entirely new program that maintains the broad applicability, reliable delivery and predictable nature of our current safety net would be no easy task given the predicted budget environment. An example of how daunting this would be is evident in the experience recorded by the ACRE program, which was influenced by less severe budget pressure. From available data on the ACRE program it is clear that in its current form the program is not an attractive alternative for cotton farmers and many other crop producers across the nation. For cotton the support mechanisms within ACRE, many of which were constrained by budget pressures far less severe than what we face in the future, simply do not provide an adequate safety net for cotton farmers when compared to the marketing loan and current DCP programs. If ACRE's revenue-based approach were to find support among cotton producers it is clear that a more reasonable revenue target will have to be established. ACRE's shortfalls are not just a cotton problem. Nationwide, producers of other commodities have demonstrated their concerns about the ACRE program in sign-up figures that have been far below expectations.

Mr. Chairman, as an industry cotton is working to evaluate fully our concerns with ACRE so that a constructive dialogue on its future can be held at the appropriate time. Unfortunately, ACRE's experience thus far is clear evidence that a different safety net structure, revenue-based or otherwise, will have to demonstrate clear superiority over the current combination of programs before it could be considered a viable alternative for cotton and other commodities.

Even though we are committed to an in-depth review of the current structure of the cotton program, I must also strongly emphasize that our review, and any recommendations that come from it, will be conducted within the context of our commitment to the principles I outlined earlier in my statement.

Pay Limits and Program Eligibility

One of those principles is that effective farm policy must maximize participation without regard to farm size or income. The 2008 Farm Bill contained significant changes with respect to payment limitations and payment eligibility. In general, the limitations were made more restrictive, and the adjusted gross income test was substantially tightened. Unfortunately, in addition to the legislative changes authorized by Congress, we believe that USDA over-stepped Congressional intent when implementing several key payment eligibility provisions by issuing regulations that are overly complicated and made changes to program eligibility provisions that were not specifically directed by the 2008 Farm Bill.

Also, while I am on the subject of pay limits, I would like to would like to address the issue of corporations, as a business structure, being statutorily limited in the amount of program benefits that can flow through it, regardless of the number of stockholders that would qualify under actively engaged rules in another business structure such as a joint venture or general partnership. Under the new direct attribution rule, there is no reason that corporations should be treated any differently than other business structures. By limiting corporations, comprised of eligible program participants, Congress has unfairly penalized operations that utilize a corporate business structure for legitimate business or estate planning purposes. By unnecessarily limiting a corporation to a single pay limit, Congress's decision detrimentally impacts the ability of many family farming operations to utilize a business structure to quickly and easily bring family members or new farmers into a farming operation through a direct ownership interest. We believe that the corporate structure, in addition to providing important legal protections, can provide an orderly transition of the farm operation from one generation to the next. We believe this situation also prevents the direct attribution rule from working as intended to ensure that every qualified farm program participant receives no more, ***and equally important,*** no less than they are eligible to receive under the law.

Looking ahead, we continue to fundamentally oppose payment limitations and imposition of further restrictions. Given their existence, we advocate the administration of these provisions strictly within the intent of Congress. Sound national farm policy is of little value if commercial-size family farm operations are unreasonably made ineligible for benefits.

Conservation

One key improvement in the 2008 Farm Bill was the investment Congress made to strengthen USDA Conservation programs. USDA conservation programs can lead to improved environmental and conservation practices but should not serve as the primary delivery mechanism for farm program support. Many current USDA conservation programs are working well in our area. The Environmental Quality Incentives Program (EQIP) and the Wildlife Habitat Incentives Program (WHIP) are prime examples of programs that are working by targeting financial resources to locally identified soil, water and wildlife conservation priorities. We believe that Congress can assure the continued effectiveness of programs like EQIP by providing the maximum funding to states where it can be used to deal with conservation issues on working farms and ranches.

Another program that is of particular importance to this area is the Conservation Reserve Program (CRP). There is probably not another program that has done more to improve the quality of life in this area or protect our precious soil resources like the CRP. Recent budget cutbacks have us on the verge of releasing millions of acres of highly erodible land from the CRP that will most likely go back into crop production. This area, like much of the Great Plains, was the center of the Dust Bowl days of the 1930's. The CRP program has prevented a return of that situation even though the region has suffered several multi-year droughts that could have instigated similar situations. The 2012 Farm Bill needs to provide a clear direction for the CRP and reiterate the importance of keeping these fragile, erosive lands of the Great Plains under permanent cover.

My last comment regarding conservation is directed at the Conservation Stewardship Program (CSP). The CSP has been hampered by overly restrictive payment limitations contrived by USDA regulators—restrictions that we do not believe are supported by the statute. From a producer perspective the CSP is overly burdensome administratively in relation to the benefits that can be earned and has not been implemented in a fair manner. In fact, USDA's unilateral decision to exclude commercial-size farming operations dramatically limits the environmental and conservation improvements that are possible with this program. If the CSP can not be improved to a point that it can deliver meaningful benefits to commercial-size farming and ranching operations, we believe that these funds would be better used to enhance successful USDA conservation programs such as the CRP and EQIP that are promoting real environmental benefits for both producers and taxpayers.

Permanent Disaster Assistance Programs

We support inclusion of a permanent natural disaster program as part of the farm bill. Unfortunately, our experience thus far with the SURE program indicates that it cannot provide an effective level of assistance without significant modification. We recognize the challenges facing the Committee in regard to making improvements in SURE. First and foremost, without increased baseline spending authority, there will be no funds to continue any of the permanent disaster assistance programs in the next farm bill, much less make the necessary improvements for SURE to be a reliable and effective disaster relief mechanism. While we do support continuation and improvement of SURE, we ***do not*** support reallocating limited, existing spending authority from current farm programs to fix its shortcomings.

Crop Insurance

Crop insurance is an essential risk management tool for cotton producers in our region. Our industry continues to work closely with the USDA Risk Management Agency to examine new concepts and seek improvements in current cotton crop insurance products. One example of how High Plains cotton producers have led in this regard is the soon to be implemented Cottonseed Pilot Endorsement (CPE) coverage. PCG, with the support of other regional producer groups worked to develop the cottonseed insurance concept and secured final approval from the Federal Crop Insurance Corporation Board of Directors for the new product last July. The CPE will provide cotton producers that purchase 'buy-up' plans of insurance the ability to purchase an additional coverage endorsement insuring the currently uninsurable value of the cottonseed they produce.

The recent removal of the Group Risk Income Protection (GRIP) coverage option for cotton is an unfortunate, but reversible, situation. While we understand the basic premise that the Risk Management Agency used to make their decision—*i.e.,* the perceived unreliability of USDA NASS county production statistics—the GRIP product, like other group risk-based products that rely on NASS county yield data, was designed specifically around this source of data with full knowledge of the limitations of this data product. NASS information is derived from a combination of producer survey data and information reported by gins and other sources. Even though the GRIP product was designed around NASS data, we believe that current problems could be addressed through mandatory yield reporting and the use of actual yield data in place of NASS information or in concert with NASS data to better reflect actual production in a county. Current farm programs do not require yield reporting, primarily because these yields are no longer used to actively update program payment yields. As producers we reported yields to FSA for many, many years and doing so again could be a practical way to get the GRIP product back into the cotton producers risk management arsenal.

Crop insurance is an important and necessary risk management tool for producers. On the High Plains participation rates are high and cotton producers recognize the need to invest in their own protection. That investment is substantial, even with the premium assistance that is currently available. Revenue coverage, enterprise policy rates and group risk products are examples of improved products that can offer a wide array of risk options for growers at affordable levels and we encourage the Committee to seek opportunities to build upon these concepts.

Recognizing the vital importance of crop insurance to the cotton farmer, we strongly oppose the deep cuts proposed in the second draft SRA as well as many of the policies underneath these cuts because we are concerned about their adverse impact on delivery and on the agriculture budget baseline. Now is the time for the Administration to be using its authorities to expand access to quality coverage rather than severely weaken delivery. Crop insurance is an important complement to current commodity programs but is not a suitable replacement system for delivering basic farm program support.

Biofuels and Cotton

While the cotton industry supports a viable biofuels industry, it must be recognized that all commodity producers are not sharing the benefits equally. Renewable fuels mandates and other policies regarding biofuels have changed the competitive balance between commodities. This is placing severe pressure on cotton infrastructure (gins, warehouses, *etc.*) in certain parts of the Cotton Belt. Mandated demand can result in excessive and harmful market distortions. In regard to the 2012 Farm Bill the support given to biofuel crops must be taken into consideration when comparing relative levels of support across commodities, when evaluating payment limitations and before trying to mandate a one-size-fits-all farm program for biofuel and non-biofuel commodities.

In summary, our industry believes the cotton provisions of the 2008 Farm Bill are working well. If budget or other pressure make policy changes inevitable as part of the 2012 Farm Bill, the cotton industry remains ready to work with the Agriculture Committees to explore alternatives that provide the safety net producers need in a manner that is consistent with our international trade obligations and within budget constraints.

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

The CHAIRMAN. Thank you very much, Mr. Heffington. I appreciate your testimony.

And, Mr. Cleavinger, again, I apologize. I had the right sheet. I just picked up the wrong one.

Mr. CLEAVINGER. That's fine.

The CHAIRMAN. So we will give you an extra minute, because we screwed that up.

STATEMENT OF DAVID CLEAVINGER, WHEAT, CORN, COTTON, AND GRAIN SORGHUM PRODUCER, WILDORADO, TX

Mr. CLEAVINGER. That would work. Thank you, Mr. Chairman. Mr. Neugebauer, Mr. Conaway, Mr. Cuellar, we welcome each of the other Members to Texas, the great Lone Star State.

I am here today representing Texas Wheat Producers Association. My name is Dave Cleavinger, and I farm in Deaf Smith County, the second largest ag producing county in the state. And my family has been involved in ag policy for many years.

The first hearing I ever attended was in 1976. My father represented the sugarbeet industry. And since that time, we have lost that industry in Texas, due to a large part of what decisions that—some of the decisions that this Committee made. And we need to be sure that the decisions we make will not affect wheat production in the years to come.

My son is here with me today, and 35 years from now, I hope he can say, "I have the opportunity to grow wheat."

And I have equipment in my equipment yard today that is virtually worthless because we lost that crop. Back then, they said, "We can buy sugar from other countries cheaper, and the consumer will benefit." And we were paying 25¢ for a Coke and 10¢ for a bar of candy. Now look what it's done, and I wonder who benefited. So let's make sure that we have sound policies as we go forward.

Mr. Chairman, you have been quoted from other hearings as saying, "Wheat growers were for direct payments, and you were opposed to that." And as the former President of the National Association of Wheat Growers, I assure you that we are open to any kind of new programs that provide a safety net for producers.

But I have been involved in hearings since 1996, personally, and the same arguments that were held back then still hold true today; that you look at these revenue-based programs, and wheat growers were one of the first ones to look at those in the last farm bill and run the numbers. But every time you go back and look at that, you must go to counting triggers for those programs to be effective.

Because of the budget, we go back to the state triggers, and in Texas, where we have large diversity in farms, large diversity in dryland, irrigated, that's why those programs don't work. They work in the Midwest, where those states are smaller, and you have production that is a little bit more stable, but because of the statewide triggers, that is the problem in these revenue-based programs.

The buzz words last year, in the last farm program, was the *revenue-based programs,* and we just want to assure you that we would love to work with you on that, but we just have to understand how they work and the triggers that go down.

Wheat growers were active in bringing a disaster component program to the last farm bill. Senator Baucus, for the Montana wheat growers, brought forth the SURE program. And that may work in other states, but in Texas, the SURE program has been very difficult, again, going back to the large state that we have, the diversity in agriculture, dryland, irrigated.

And I personally am waiting now for a 2008 payment from SURE, because the seed milo and the seed corn production tables have not been released from the USDA in Washington, D.C.

I talked to my local FSA county office last week, and they are very frustrated with the program, because it has been changed four different times since it has been introduced. They have virtually stopped payments, because they're going back to 2008 on production, and they're wanting—after they have issued the payments. So they don't know what to do. And so I'm waiting for my payment while all of that is being figured out.

And having the—these payments are done on the average cost, the average price for the year, and so we are having to wait a year in order to get those payments for these programs. Having to wait a year for the payments when a disaster strikes is really not acceptable.

A guy can go out there and lose his crop, and he has either got debt at the bank, and he can't wait a year, or he will be out of business before he ever gets that income.

A lot has been talked about today about crop insurance. We think that crop insurance is one of the most effective programs we have. It's timely. It gets payments to producers when it's needed. It's good public perception. The public gets it, and they understand how it works, and it's saleable.

The problem we have goes back to the APH problem, the average production history. In Texas, we have—had droughts, and even though you wouldn't know it right now, with the rain we have had this year and the snow we have had this year, we have a great crop coming on, but we have been through several years of drought.

And those years have lowered our APHs to a point where we have some dryland wheat producers that can only insure 3 to 4 bushels per acre, and it's not effective. We've got to go back and look at those APH numbers to make this crop insurance effective for our producers.

And, also, on the premium side, year before last, when wheat prices went so high, I virtually was paying $20 to $25 per acre for a 70 percent guarantee that didn't cover my costs. So that whole structure of the crop insurance, that is part of the problem. And then you go back and look at costs.

I want to talk about trade real quickly. The Columbia Free Trade Agreement is very important. We export 50 percent of the crop in the U.S., 65 percent of the Texas crop is exported. And so all three trade agreements are important.

H.R. 4645 is extremely important to us, and we have a lot of money that can be made in Texas for that, and we expect full support from this Committee for the Cuban Free Trade Agreement.

Thank you for your time. I look forward to working with you in the coming months, and we will look to craft this new farm bill.

[The prepared statement of Mr. Cleavinger follows:]

PREPARED STATEMENT OF DAVID CLEAVINGER, WHEAT, CORN, COTTON, AND GRAIN SORGHUM PRODUCER, WILDORADO, TX

Mr. Chairman, Rep. Neugebauer, Rep. Conaway, Rep. Cuellar, and other Members of the Committee, welcome to the great Lone Star State of Texas. On behalf of the Texas Wheat Producers Association (TWPA), I would like to first thank you for allowing me the opportunity to appear before you today to discuss the priorities of wheat growers regarding the 2012 Farm Bill and the future of U.S. farm policy.

The Texas Wheat Producers Association was founded in 1950 with the sole purpose of providing a strong unified voice for Texas wheat producers. The TWPA currently represents over 500 farm families across the state and we continue to grow on an annual basis.

Texas has a long history of production agriculture, and while we are not the largest wheat production state in the U.S., we are arguably the most diversified in terms of production, weather, geography and exports. Texas wheat producers harvest nearly 99 million bushels of wheat per year on average, the majority of which is comprised of hard red winter wheat. Although Texas is largely recognized for its beef, cotton and corn production, sixty percent of our 99 million bushels of wheat are exported annually through the Gulf Coast.

As a lifelong farmer and rancher in Deaf Smith County, my operation consists primarily of wheat, but also includes corn, cotton, and grain sorghum, along with stocker and grower cattle.

Federal farm policy and its impacts on American farmers and consumers is the focus of the Committee's field hearing today. Mr. Chairman and Members of the Committee, I hope to leave you here today with a better understanding of where Texas wheat growers are in regard to policy and farm programs.

Farm Support Programs

Budget Baseline

The TWPA is well aware and very concerned with the possibility of a severely constrained budget baseline for future Federal farm programs. U.S. farm policies, along with efficient and innovative farmers, have helped to minimize safety net expenditures which have chipped away at the baseline for these programs. As I am sure you are well aware, the Congressional Budget Office (CBO) projected commodity program spending for the current farm bill will be less than ¼ of 1 percent of the Federal budget. For each American that is about 25¢ out of every $100 dollars paid in taxes. U.S. farm policy as a whole costs Americans just 3¢ per meal or 9¢ a day (*Farm Policy Facts*). These costs are minimal in comparison to other countries' annual income expenditures on food alone. I would attest that the farm safety net must continue to be robust and the farm bill budget baseline must be maintained and preserved in order for consumers to continue to enjoy a safe, abundant and affordable food supply as they do today.

Farm Programs

Texas farmers widely participate in Federal farm support programs and view them as vital to ensuring the continuance of the agriculture industry in light of its inherent risk and increasing volatility. The Direct and Counter-cyclical Payment (DCP) program and marketing loan programs are widely utilized by Texas producers. In the instance of wheat growers, we have served as a cost saving measure within the marketing loan program due to the fact we use the least amount within our industry.

During the 2008 Farm Bill process, farm programs faced pressure to be reformed, reduced or eliminated. The TWPA along with other commodity groups focused very heavily on maintaining the Direct Payment and with help from the House Agriculture Committee we were successful in doing so. While the TWPA is open to looking at possible new ways of maintaining a safety net for producers, we still see the net benefit the agricultural industry receives from direct payments.

Direct Payments have been very essential in ensuring the vital support farmers need to continually meet the demands of the agricultural industry. Over the years, Direct Payments have allowed producers to continue to purchase needed equipment, seed, chemicals, parts, and fuel from dealers and suppliers. In looking at a farm forward reaction, due to farmers being able to utilize direct payments in the aforementioned way, small business owners, coops, tractor supply stores, and many others are able to stay in business and lead to creation of jobs and opportunities in rural communities.

The TWPA is well aware that Direct Payments are constantly under scrutiny and attack, but let me remind the Committee that the reliability of this program cannot be overlooked in meeting the needs of producers that are unable to utilize other Federal safety net programs. As Congress looks toward crafting new farm bill legislation, the TWPA asks that careful consideration be given to the Direct Payment program.

In addition, Texas wheat producers continue to gather knowledge and experience with newer farm programs like ACRE and SURE. According to the FSA, 930 farms were enrolled in ACRE in 2009. Of those 930 farms 897 carried wheat acreage. However, we believe this degree of enrollment was largely influenced by the extenuating wheat cropping conditions in 2009 and the extended deadline to elect and enroll in the program.

Despite the current enrollment levels, the program is still very complex and confusing to producers. It is our recommendation that as the ACRE program goes forward the complexity and paperwork involved with the program be reduced and that payments be made to producers in a more timely manner. There is also concern over the timeliness of both the program sign-up for SURE and the delivery of payments to eligible producers. However, we do recognize the SURE program as an improvement in terms of predictability over an *ad hoc* disaster program.

As seems to be a recurring theme in any farm policy discussion, farmers in Texas and all across the country say they are inundated with the amount of paperwork they complete when signing up for farm programs. There is also frustration with the inconsistency in rules and regulations associated with the programs. In addition, as the process of signing up for farm programs is moving more toward an online process, the lack of education on how to utilize this system and the stiff penalties associated with unintended mistakes are making producers more hesitant to move in that same direction. These programs are meant to assist producers; however, the cumbersome process provides strong disincentives to participate. I would urge this Committee to explore these issues and try to address them.

Last, the TWPA opposes farm program payment limitations. With regards to the Adjusted Gross Income (AGI) eligibility tests for producers to receive payments, farmers today—whether on a small or large operation—can easily accrue expenditures that far outweigh their gross income. The cost of fuel and fertilizer can be extremely volatile, and the cost of equipment today can seem outlandish to someone unfamiliar with the capital-intensive nature of modern farming. Likewise, we may see significant increases in seed costs in the near future as there continues to be progress in developing commercially viable biotech wheat products. In light of this, it is the recommendation of the TWPA that we maintain the current level of AGI of non-farm income at $500,000 and on farm income at $750,000 instead of looking toward a 25 percent cut as has been proposed by the Administration.

Crop Insurance

The Texas Wheat Producers Association supports maintaining a strong crop insurance program as an important risk management tool for farmers. Federal premium cost sharing encourages participation and is critical to a successful program.

According to the Risk Management Agency (RMA), in 2009 nearly 6.4 million acres—or 76 percent of the state's total wheat acres—were covered by one of the various available forms of Federal crop insurance. Texas grain production is very diversified in large part due to climatic weather conditions and also by soil types that vary across the state. Because of this diversification and the inevitability to predict and control acts of Mother Nature, be it drought, hail storm, tornado, or even a freeze, Texas' participation in the Federal crop insurance program is very high.

Because of the high enrollment rates among Texas producers, and the need to have a viable, reliable program, the TWPA has always encouraged RMA to require crop insurance companies to interpret and apply crop insurance rules and regulations in a uniform and timely manner.

That being said, as we look toward the future, the ongoing Standard Reinsurance Agreement (SRA) negotiations are a cause for concern for our growers. We understand and agree with the Administration's desire to find budget savings. However, the USDA's draft SRA proposal seeking $6.9 billion in cuts over 10 years to Federal crop insurance programs could severely affect the scope of the program. A reduction of this magnitude could significantly reduce the accessibility, competitiveness, and quality of crop insurance and thus have a negative impact on the agriculture industry.

The TWPA understands that negotiations between insurance providers and the RMA are ongoing. We certainly support a mutually agreeable and expedient outcome, so long as it does not hinder the competitiveness and the quality of crop insurance coverage to producers. In addition, we believe any savings achieved through these negotiations should be captured in a way to maintain the agriculture budget baseline.

Conservation

Texas and U.S. farmers have consistently worked to be good stewards of the land with which we have been so richly blessed. Texas producers have worked at implementing practices that reduce erosion and maintain water quality and water management. The conservation program that our growers have expressed the most interest in is the Conservation Reserve Program (CRP).

Conservation Reserve Program

The TWPA is very supportive of the use of CRP as a natural resource tool to better preserve soil quality and reduce soil erosion. We also recognize the erodibility index of eight as a guideline for establishing CRP eligibility, but we encourage flexibility to enroll land that does not meet the erodibility index of eight when environmental or economic benefits justify. We also encourage more priority designation and more access to wind and water points in areas where applicable.

In the Panhandle and Northern High Plains Region of Texas where I live, roughly 507,000 CRP acres will be due for re-enrollment, termination, or extension by October 2010. In 2009, 680,000 acres were expired and in 2008, 78,000 acres expired. The TWPA would encourage the Committee to work closely with the USDA–FSA and NRCS with regards to the potential impacts of producer decisions as the October deadline approaches and future CRP acres expire.

Trade

Last, I would like to leave you with some thoughts to consider about trade. The TWPA is very supportive of a robust trade agenda including passage of the current pending free trade agreements and more open trade with Cuba. Trade is essential to our market especially since the U.S. typically exports 50% of the U.S. wheat production and 60% of Texas's wheat crop. Given the large carryover stocks that are currently in play and looking at the current wheat crop conditions nationwide, having viable international markets for our wheat is vital. It is more important now than ever to maintain and grow our markets: if we fail to do this, our competitors will capitalize on the opportunity.

The U.S.-Colombia FTA is a prime example. Where the U.S. once boasted maintaining roughly 85 percent of the Colombian market, estimates now show that our share could fall as low as 30 percent if Canada, one of our leading competitors, approves a free trade agreement before the U.S.. That in itself is simply unacceptable, especially when we continue to hear on a regular basis from our foreign buyers that the U.S. has the highest quality and most readily abundant supply of wheat but we cannot export it because of a lack of competitive trading conditions.

Cuba proves another example of the potential for Congressional action to significantly benefit the Texas economy. According to a study conducted by the Center for North American Studies which was supported by Texas AgriLife Research, implementing a bill like H.R. 4645, the Travel Restriction Reform and Export Enhancement Act of 2010, would increase Texas agricultural exports to Cuba by $18.4 million annually. This would nearly double agricultural exports from Texas to Cuba compared to 2009.

Mr. Chairman and Members of the Committee, there are many other critical areas of interest affecting Texas wheat farmers, including estate tax policy, research funding, rail transportation, and environmental regulation. The TWPA looks forward to engaging further in these discussions with the Texas Congressional Delegation and the House Agriculture Committee as these issues continue to unravel.

In closing, when looking at constructing the 2012 Farm Bill, Texas wheat growers are seeking a robust safety net that reflects the realities of today's production system, that helps them manage against the risk of volatile weather and market conditions, and supports their stewardship efforts on our nation's soil.

Again, the Texas Wheat Producers Association is privileged and honored to represent over 500 family farming operations before this Committee today. We look forward to working with you, your staff, and the rest of Congress to ensure that production agriculture can and will continue to provide a safe, abundant and affordable food supply for the U.S. and for the world.

If Members of the Committee have any questions I would be more than happy to respond to them.
Thank you.

The CHAIRMAN. Thank you very much, Mr. Cleavinger. We appreciate that.

And, Mr. Raun, welcome to the Committee.

STATEMENT OF LOWELL G. RAUN, JR., RICE PRODUCER, EL CAMPO, TX

Mr. RAUN. Thank you, Mr. Chairman, and Members of the Committee.

My name is L.G. Raun. I am from El Campo, Texas. I am a rice producer. El Campo is 70 miles southwest of Houston, about 40 miles off the Coast, and in the center of the Texas rice industry.

I chair the Texas Rice Producers Legislative Group. I am a director of the Southwest Council of Agribusiness. And my wife and partner of 35 years, Linda, serves as Vice Chairman of the USA Rice Producers Group, and she is a director to the USA Rice Federation.

My grandpa, George Raun, moved down from Nebraska in 1913, and after all of his hogs died of cholera, he began growing rice in 1915. And that was our beginning there, three generations, 95 years later. Besides my wife and I, I have my brother and a cousin that all farm in rice in the El Campo area.

Congressman Conaway, the other day, you mentioned something about how you love what you do each and every day as a Congressman. You get up excited about the challenges and opportunities you face each and every day. And that meant a lot to me, because I feel that same way about farming. Actually, I love what I do.

And except for maybe getting up this morning, I enjoy every day of farming. But, seriously, if you don't enjoy what you do in life, you're not going to do a good job of it. Obviously, all of you men up here enjoy what you're doing, and I thank you very much for your service to this Committee and your leadership for our country.

The U.S. rice industry is over 300 years old, beginning in the Colonial Carolinas. We grow rice on three million—over three million acres, currently, in six different states. It's grown substantially. It provides better wildlife habitat than any other major crop grown.

In Texas, we have 185,000 acres of rice this year. That is grown in 20 different counties. The Rice Belt of Texas stretches from the Beaumont area of Texas all the way down to the Victoria area and about three counties up from the Coast.

The U.S. rice industry exports about 50 percent of what we grow. We are at the corners of the past and pending trade agreements, both in Panama and Columbia. Cuba was our largest rice export market prior to Castro. And today its potential is 600,000 tons of market for the rice industry.

Thank you Mr. Chairman, and, also, Congressman Moran for your Cuba bill. That will be a positive step, we feel, in future trade relations with Cuba, a great benefit, we think, for Texas. I'm not so sure, though, about the WTO negotiations.

Trade agreements that phase in market access over a very long and questionable period of time, yet cut our farm bill safety net immediately, are not what I consider or call fair trade. It doesn't make a lot of sense. It doesn't allow cash flow on the farm level. It doesn't allow cash flow at the bank.

On the 2008 Farm Bill from a farm—rice farmer's perspective, the nonrecourse marketing loan provisions, they have not been in play in recent years for rice, but certainly that is because our prices have been a little bit higher. But certainly when—in years that we have low prices, it's a program that helps move stocks. It provides at least some floor for prices for farmers and for lenders, both.

ACRE, SURE, and crop insurance currently do not work for us. The countercyclical payments provide a level of support, but target prices are below production cost, and payments are based on antiquated yields and base acres, not the planted acres that you actually have.

Direct payment is the only component in the 2008 Farm Bill that has provided support for the rice industry. Yields are fixed there, also, at very low levels, and, again, payments are based on the base acres, not on the actual planted acres.

I wanted to mention: The decoupling of direct payments on the 1996 Farm Bill hurt a lot of tenants that are farmers who farm 75 percent of the rice in Texas. Landlords have idled land for the guaranteed direct payment and said goodbye to their tenant farmers.

Ongoing reduction and reductions that we have witnessed in pay limits and program eligibility requirements, such as the AGI means test, has made it difficult to perform at an economical size. The AGI means test doesn't affect a lot of farmers, but it does affect many of our landowners that we share-crop rent with.

Those landowners are not hurt if they will actually convert their share lease, then, to a cash lease and receive at least the same dollar amount of revenue that they were generating before. So the burden of these restrictions, therefore, falls on the active tenant farmer who the proponents of these changes think they are helping.

So, looking forward, I'm not optimistic that the whole farm revenue program will work for rice, but one indication would be the low level participation in crop insurance, ACRE and SURE programs for rice farmers.

Our risk in growing rice is to make sure that the prices are received in our production cost. And although a revenue program would have price as a variable, obviously, the cost variable is usually not covered in these programs. At this point, the rice farmers would be nervous about giving up direct payments for something we don't know will work.

That being said, we are willing and we will explore and analyze any options to improve the farm bill safety net. In conclusion, rice farmers appreciate the opportunity to be a part of this process, and we are proud of what we do.

And although we feel that we are under constant ridicule, we believe that there's something honorable about helping feed the world. Also, I think there's something honorable about being a Congressman, and I want to thank each and every one of you for what you do.

[The prepared statement of Mr. Raun follows:]

PREPARED STATEMENT OF LOWELL G. RAUN, JR., RICE PRODUCER, EL CAMPO, TX

Introduction

Chairman Peterson, Ranking Member Lucas, and Members of the Committee, thank you for holding this hearing to review farm policy in advance of the 2012 Farm Bill.

We appreciate the opportunity to offer testimony before the Committee on Agriculture concerning the view of rice farmers relative to current farm policy and the development of the 2012 Farm Bill.

My name is L.G. Raun. I am a rice farmer from El Campo, Texas. My wife, Linda, and I grow 850 acres of rice in Wharton County. We have been farming since 1976. I serve as Chairman of the Texas Rice Producers Legislative Group and a board member of Southwest Council of Agribusiness. My wife Linda serves as vice Chairman of the USA Rice Producers' Group and on the board of the USA Rice Federation.

U.S. Rice Industry Overview

The U.S. rice industry is a multibillion dollar industry that provides jobs and income for not only producers and processors of rice, but for all involved in the value chain. Much of this economic activity occurs in the rural areas of the Sacramento Valley in California, the Gulf Coast region of Louisiana and Texas, and the Mississippi Delta region where about 3.2 million acres of rice are produced annually.

Rice is planted on about 185,000 acres in Texas, in addition to another 3.0 million acres in the other five rice growing states, including Arkansas, California, Louisiana, Mississippi, and Missouri.

The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain, to aromatic and specialty varieties. Last year, U.S. farmers produced a rice crop of nearly $3.1 billion as measured in farm gate value.

Today, about 85 percent of all the rice that is consumed in the U.S. is produced here at home. And, despite significant trade barriers to exports, the U.S. remains the largest non-Asian exporter of rice and the third largest exporter worldwide.

On average, between 40 to 50 percent of the annual rice crop is exported as either rough or milled rice. The top U.S. export markets for rice include Japan, Mexico, Canada, Haiti, and most of Central America. In 2009 we exported $2.2 billion in rice to markets around the world.

Americans consume 25 pounds of rice per year. Of the rice produced by our farmers that remains in the domestic market, 53% is bound for direct human food use, 16% is dedicated to processed foods, 15% is used to produce beer, 14% is for pet food, and the balance is used for industrial purposes.

The 2005 Dietary Guidelines and MyPyramid recommendation, published jointly by the Departments of Agriculture and Health and Human Services, call for five to ten servings of grains daily, with half the servings coming from whole grains, such as brown rice, and 45 to 65 percent of calories coming from complex carbohydrates, such as rice. Rice is a wholesome source of nutrition, with no sodium, no cholesterol, no glutens, and no trans or saturated fats.

Beyond the substantial economic and nutrition benefits of rice is the environmental dividend from winter-flooded rice fields that provide critical habitat for migratory waterfowl and other wetland-dependant species. Rice fields are typically flooded for at least 5 months a year, during which time they become temporal wetlands with enormous significance to bird populations wintering and breeding in the rice-producing states of Texas, Arkansas, California, Louisiana, Mississippi, and Missouri.

Rice production areas in Texas correspond with the bird migration corridor known as the Central Flyway, providing important habitat to hundreds of bird species that rely on these artificial wetlands during their migratory journey. According to the Texas Ornithological Society, Texas is home to nearly 650 different bird species, more than half of which can be found in the Texas Rice Belt.

Taking rice acreage out of production in favor of other crops would eliminate the environmental benefits of wetland creation and habitat protection. Farmers are good stewards of the land and operate in an environmentally sensitive manner. With regard to rice production, the clear and undisputed benefits of it rank the commodity among the top of all agricultural systems in terms of a positive environmental impact.

2008 Farm Bill Review

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) continued the traditional mix of safety net features consisting of the non-recourse marketing loan and loan deficiency payment program and the direct and countercyclical payment program.

The farm bill also includes the addition of Average Crop Revenue Election (ACRE) as an alternative to countercyclical payments for producers who agree to a reduction in direct payments and marketing loan benefits. The bill also added Supplemental Revenue Assurance (SURE) as a standing disaster assistance supplement to Federal crop insurance.

The 2008 Farm Bill made very substantial changes to the payment eligibility provisions of the safety net, establishing an adjusted gross income (AGI) means test and, *albeit* unintended by Congress, resulting in the very significant tightening of "actively engaged" requirements for eligibility.

USDA is still in the process of implementing many of the provisions of the 2008 Farm Bill, and the final payment eligibility rules were only announced in January of this year. As a consequence, we are still adjusting to the many changes contained in the current farm bill, even as we begin the process of developing policy recommendations for the 2012 Farm Bill.

Regarding ACRE and SURE, frankly, neither policy has proved much value to the rice farmer in any of the major growing regions. Specifically, in the first year of ACRE sign-up, only eight rice farms representing less than 900 acres were enrolled in the program nationwide. And SURE has provided little, if any, assistance to rice producers, including those producers in the Mid South who last year suffered significant monetary losses due to heavy rains and flooding occurring prior to and during harvest.

Regarding the traditional mix of safety net features, the nonrecourse marketing loan and loan deficiency payment program and countercyclical payment program have not yet provided payments to rice farmers. In fact, if the protections provided were ever to trigger for rice farmers, the protections would help stem some of the economic losses but, frankly, not enough to keep most rice farms in business even through 1 year of severely low market prices.

As such, whatever its imperfections, the Direct Payment alone has assisted rice producers in meeting the ongoing and serious price and production perils of farming today.

For rice producers the existing safety net protection levels have simply not kept pace with the significant increases in production costs. It is for this reason that rice farmers believe strengthening the safety net would be helpful in ensuring that producers have the ability to adequately manage their risks and access needed credit.

In Texas, rice producers face other unique challenges. We have seen our rice acreage decrease to 185,000 acres. At one time, Texas produced as much as 600,000 acres of rice annually. Almost 350,000 acres of rice were produced as recently as 1994. Part of this acreage reduction has been due to the unintended consequences of decoupling farm program payments from production. In effect, this has resulted in significant rice acreage in Texas being idled while landowners collect the direct payment and potentially the countercyclical payment.

In sum, despite what one may read in the newspaper or hear on the radio or television about Uncle Sam lavishly spending money on the farm safety net, rice farmers are certainly not seeing any windfalls and, I would respectfully submit, neither are our brethren who produce other crops. The public perception about government largess in farm policy, so carefully and diligently created and nurtured by critics, is quite divorced from reality on the ground. Spending on the rice safety net in the farm bill has declined from $1.2 billion to about $400 million annually, which is largely made up of only the direct payments.

Crop Insurance

Even risk management products offered under Federal Crop Insurance have been of minimal value to rice farmers to date due to a number of factors, including artificially depressed actual production history (APH) guarantees, high premium costs for a relatively small insurance guarantee; and the fact that the risks associated with rice production are unique from the risks of producing many other major crops.

For instance, since rice is a flood-irrigated crop, drought conditions rarely result in significant yield losses as growers simply pump additional irrigation water to maintain moisture levels to achieve relatively stable yields. However, drought conditions do result in very substantial production cost increases connected to the pumping of additional water.

As such, what rice farmers need from Federal crop insurance are products that will help protect price risk and increased production and input costs, particularly for energy and energy-related inputs. For example, fuel, fertilizer, and other energy related inputs represent about 70 percent of total variable costs.

In this vein, the USA Rice Federation has been working for over a year now to develop a new generation of crop insurance products that we hope will provide meaningful risk management tools for rice producers in protecting against sharp, upward spikes in input costs. Our objective is to gain approval from the Risk Management Agency (RMA) of at least two new products that could be available to growers in time for the 2012 crop year. Without these products in place, rice producers enter the 2012 Farm Bill debate at a serious disadvantage, having just one safety net feature to which they have effective access. We believe that there is the authority within the current Federal crop insurance statute to greatly expand access to higher quality coverage and we hope that USDA will aggressively use that authority given the constraints Congress faces in pursuing this end.

Conservation Policies

Rice producers are excellent conservation stewards and, as such, we strongly support and participate in voluntary, incentive-based USDA conservation programs.

Rice producers contribute to beneficial conservation efforts through a number of initiatives including the Environmental Quality Incentives Program (EQIP), the Conservation Security Program (CSP), and the Wetlands Reserve Program (WRP), among others. Through our participation, rice producers are maintaining and enhancing the natural resources of not just our family farms, but that of our communities, states, and our nation as well.

Rice producers support administration of conservation programs primarily at the local level. We appreciate the emphasis Congress has placed on technical assistance to producers and we value these services from NRCS officials and NRCS-certified third-party providers.

In regard to the current farm bill, we believe that release of final conservation program rules is extremely important, as is their consistent implementation and application nationwide. In particular, with the strong interest in the 2008 Farm Bill's expanded national-level Conservation Stewardship Program (CSP) and in the absence of a final CSP rule to date, we are hopeful that the Administration will quickly complete and release the CSP final rule.

When the 2002 Farm Bill's Conservation Security Program was being implemented, rice producers played a proactive role in working with NRCS. More recently, in 2009, the USA Rice Federation filed CSP comments with NRCS, including some concerns about provisions in the interim final rule. Of specific concern to rice farmers are provisions that would administratively impose a payment limit of $40,000 per year and a $200,000 contract limit despite the fact that the farm bill does not impose either.

Also, of specific concern are restrictions on the number of individuals who may apply or contract for CSP. Earlier this year, only one entity per contract was allowed, regardless of whether an operation was signed up at the Farm Service Agency (FSA) as a multi-entity operation. Moreover, only those listed on the FSA's documents as farm operators were eligible to apply and, if deemed eligible, enter into a CSP contract. Finally, the rule states that, to be eligible, a CSP applicant must have documented control of the land for the proposed contract term unless an exception is made by NRCS. However, a CSP applicant may not have a 5 year lease on every acre he or she farms. Landowner-tenant relationships include many types of arrangements. Requiring a 5 year or longer lease is unrealistic in most circumstances, both from the perspective of the landowner and the tenant.

In short, rice farmers take very seriously our responsibility to care for our land and our natural resources. They are our economic lifeblood and an integral part of the legacy that we will leave behind to our children and grandchildren.

But there is also very substantial benefit accruing to the general public as a result of the conservation efforts we undertake on the farm, including cleaner air and water, wildlife and wildlife habitat, reduced soil erosion, and wetlands protection. Accordingly, we believe these highly successful, voluntary conservation cost-share efforts are properly a shared responsibility.

Finally, given the fiscal constraints expected in the context of the 2012 Farm Bill, I would be remiss not to mention that conservation funding is an essential part of any successful farm policy, but it should not come at the expense of the farm safety net. A farmer and rancher must still be profitable in order to properly care for his or her land. The safety net doesn't translate into profitability but it does take out some of the deep economic valleys producers would otherwise face.

Environmental Policy Challenges

Unlike conservation efforts under the farm bill, Federal and state environmental regulations, which are growing in number, frequently appear to put more focus on the means of achieving a desired outcome than the outcome itself, thus creating unnecessary inefficiencies and added costs to conservation.

Policy makers should consider working to avoid these less efficient regulatory frameworks where effective cost-share conservation efforts are proven more effective, while making the cost-share dollars available to assist in meeting Federal and state regulatory regimes when they are nevertheless imposed on producers.

Of serious and ongoing concern to rice producers is the economic impact of climate change legislation on the U.S. rice industry and American agriculture in general. From our vantage point, the cost of pending legislation heavily outweighs any potential benefits.

One of the key areas of focus in our analysis of pending legislation is the impact on rice production costs as a result of higher costs for major inputs such as fuel, electricity, fertilizer, natural gas, and propane. As noted earlier, rice is a flood-irrigated crop, requiring energy to pump either ground or surface water. In addition, rice is a high yielding crop, utilizing nitrogen fertilizer which, in turn, is made using natural gas. Rice must also be dried before it can be stored. And, finally, beyond the increased costs of field production, rice must be milled before it can be consumed or utilized in products, an expense which is also borne by producers if they are part of a cooperative. All of these already significant costs are expected to substantially increase under pending climate change legislation, both in the short and long term, and this does not even take into account increased transportation and other costs expected to rise as a result.

We fear that these increased input costs will make us less competitive *vis-à-vis* our major global competitors, such as Vietnam, Thailand, Pakistan, and India, whose producers already benefit from heavy government protections and which will not likely bind their economies to the same level of commitments to reduce greenhouse gas emissions, if they will bind themselves to any at all.

In sum, we are confronted with no economic upside under pending climate change legislation but plenty of economic downside. For instance, an analysis by the Agricultural and Food Policy Center at Texas A&M University estimates that due to the increase in input costs for rice and the likelihood of no opportunity to meaningfully participate in an offset program, at least at this time, all fourteen (14) representative rice farms analyzed would experience lower average annual net cash farm income. Moreover, the American Farm Bureau Federation estimates that the ***increase*** in rice production costs per acre could reach as high as $153.00.

Beyond climate change legislation, our industry is also facing numerous additional rules and regulations from the Environmental Protection Agency (EPA), including new spray drift guidance, potential National Pollutant Discharge Elimination System (NPDES) permits for the application of pesticides, Endangered Species Act (ESA) and pesticide re-registrations concerns, and additional air quality regulations at both the farm and processing stages. Clean Water Act legislation currently pending in Congress is also troubling because of the legal uncertainty that it would create on the farm. Food Safety and Chemical Security legislation also needlessly create anxiety for producers by failing to address basic concerns over fairness, including, in the case of Food Safety, the failure to provide for a simple indemnification program for producers in the case of an FDA-error.

Trade Policy Challenges

Another key policy focus for our industry is trade since we are greatly dependent on export channels to market nearly half of our annual production. While many previously negotiated trade agreements have promised market access gains for agriculture, much of what was promised has yet to materialize or is continually threatened by artificial sanitary, phytosanitary (SPS) and other non-tariff barriers.

In terms of new agreements, rice was completely excluded from the free trade agreement negotiated with South Korea, foreclosing any new markets for U.S. rice producers in that country. And, the Colombian Free Trade Agreement (FTA), which would provide significant new market access for the Mid-South rice industry, is stalled.

Moreover, one market that has the potential to become a top five export market almost immediately is Cuba. Unfortunately, the U.S. Government maintains restrictions on our agricultural exports to this country. Cuba was once the number one export market for U.S. rice prior to the embargo and we believe it is potentially a 400,000 to 600,000 ton market if normal commercial relations are established. In this regard we wish to commend Chairman Peterson and Congressman Moran for your leadership in introducing legislation to open agricultural trade as well as remove travel restrictions to Cuba. We look forward to working with you to see this legislation enacted into law.

I would be remiss if I did not at least touch on the Doha Round negotiations of the World Trade Organization (WTO). It suffices to say that we are greatly outgunned by high foreign subsidies and tariffs and, at least so far, we have seen nothing in the Doha Round negotiations that would change any of this. In fact, instead, in many ways Doha would make matters worse. Yet, enshrining in our trade agreements decisive advantages for our trading partners, including such countries as China, India, and Brazil, may be marketed as trade liberalization or free trade in Washington or Geneva but we in the countryside see it for what it really is: picking winners and losers in the global economy based on politics.

Trade agreements that phase in market access gains over a long extended number of years, but reduce farm safety net levels immediately, do not constitute fair trade, make economic sense or cash flow at the bank.

Given rising future global demand for food, the U.S. should exercise caution in negotiations so as not to arbitrarily forfeit America's domestic production to less efficient competitors.

It is also in light of our highly protected and subsidized competition and the importance of trade to our industry that we believe it is critical that the U.S. maintain adequate funding and resources for our export promotion and market development activities, particularly the Market Access Program, Foreign Market Development program, and the General Sales Manager (GSM) 102 export credit guarantee programs.

Budget Challenges

As we look ahead to the development of the 2012 Farm Bill, we are deeply concerned about the deteriorating budget baseline for agriculture.

As you know, today, less than ¼ of 1 percent of the Federal budget and less than 17% percent of the USDA budget is dedicated to the farm safety net.

Yet, the re-negotiation of the Standard Reinsurance Agreement (SRA) by USDA and the crop insurance companies could result in another baseline reduction of nearly $7 billion. Clearly, agriculture cannot afford this kind of hemorrhaging in advance of what we understand may be a baseline farm bill and at least the potential of another budget reconciliation effort. Of equal concern is the adverse impact of such cuts on a safety net component that producers are told by lawmakers and lenders alike that they will have to rely on more and more.

As you know, the farm safety net sustained cuts in 2005 during budget reconciliation and, again, in 2008 in the context of the farm bill even as other policies administered by USDA received funding increases, some very substantial. The success of farm legislation has always depended upon carefully balanced legislation and coalition-building. We are deeply concerned that singling out the farm safety net for additional cuts may upset this fragile balance.

2012 Farm Bill Development

The rice industry is working internally to analyze all the existing safety net policies and to evaluate their effectiveness in providing a measure of protection in the most efficient manner.

We believe that a strengthening of the farm safety net is important. But we also believe that any improvements should be accomplished in a manner that does not cause disruption and upheaval in the U.S. agriculture production system which continues to provide our country and millions around the world with a safe, abundant, and affordable supply of food, fiber, and fuel.

With regard to a whole farm revenue concept, we have serious concerns about how such a program would perform for rice producers, especially if it has some of the same components as the existing SURE program, which is not working for our industry. In general, whole farm approaches don't work well for rice farmers, particularly those that are diversified with several crops.

At this time, we would like to share with you the key principles that are guiding our work in analyzing the current farm bill policies.

1. The farm safety net should be strengthened for rice producers by the 2012 Farm Bill.
2. The Direct Payment Program, or any variant, should confer a stronger safety net for rice producers.
3. The Marketing Assistance Loan/Loan Deficiency Payment Program should be extended with at least current loan rate levels as a base level safety net for producers and lenders.
4. The Countercyclical Payment Program, or any variant, should better reflect current market conditions for rice.
5. ACRE, or any variant, needs to effectively serve all eligible commodities.

6. SURE, or any variant, needs to effectively serve all eligible commodities and regions.

7. Crop insurance needs to effectively serve all eligible commodities and regions.

8. The 2012 Farm Bill should create long-term certainty regarding payment limitations, adjusted gross income requirements, and other eligibility criteria.

9. There should be no further reduction in pay limits or adjusted gross income requirements or further restrictions on eligibility relative to the current mix of safety net components or the equivalents under any variant.

10. There should be no further reduction in funding levels for the farm safety net nor any reduction in that safety net funding specific to rice producers.

Conclusion

In closing, we would like to thank you once again for this opportunity to share our views on the current state of the rice industry, the diverse challenges we face, and our initial thoughts on the development of a 2012 Farm Bill that can help meet the needs of producers.

We look forward to working with you in this regard and I would be happy to respond to any questions the Committee may have.

The CHAIRMAN. Thank you very much, Mr. Raun, for your testimony.

Mr. Schniers, welcome to the Committee.

STATEMENT OF DOYLE SCHNIERS, COTTON PRODUCER, SAN ANGELO, TX

Mr. SCHNIERS. I want to thank the Chairman, the Ranking Member, and Members of the Committee for allowing me to address you today.

I am Doyle Schniers, a cotton and grain farmer from San Angelo, Texas. I operate a family farm in Tom Green and adjoining counties in partnership with my brother, son, and nephew.

My primary crop is cotton, and my comments today are given on behalf of the Southern Rolling Plains Cotton Growers Association. The Southern Rolling Plains Cotton Growers Association is the certified producer organization which represents cotton producers in a 12 county area known as the Concho Valley of Texas.

Cotton is a vital industry in my area, as well as in many parts of Texas. The economies of many rural communities are dependent on a strong agricultural component. When agriculture is prospering, it provides many jobs in rural areas from production, to cotton ginning, to warehousing and shipping, to agribusinesses, suppliers, to the local hardware stores, to the fuel dealer, to restaurants, to schools and hospitals.

The Southern Rolling Plains Cotton Growers Association feels a sound farm policy is critical to maintaining the cotton industry in this region and across the Cotton Belt. A strong safety net is necessary for us as producers to survive in today's economy.

Our region is a very productive agricultural area. However, we are mostly dependent on rainfall in order to make a crop. From time to time, the rains do not come at the right times, and droughts are a reality.

With the enormous input costs in production of crops today, the loss of a single crop can be devastating to producers. The heavy investment in land, equipment, and production expenses just does not allow the farmer to have adequate reserves to sustain himself during losses from natural disasters.

Since most of our crops—most of our cotton and most of our grain is exported, we are a part of the global economy. The 21st century world markets and world situations are unpredictable and uncertain. We face fluctuating market prices that make farm decisions difficult and challenging.

The core principle of farm programs in the U.S. since the Great Depression has been stability; stability that has limited the boom and the bust for agricultural producers; stability that has provided the consumer with the cheapest, most abundant, and the safest food and fiber in the world; stability for agricultural lenders to provide the much needed credit for agriculture; and stability for manufacturers and developers to provide research for the most advanced technology and equipment to assist agricultural production.

In order for us to maintain this level of agricultural production in the United States, we must have a sound farm policy that will protect the viability of the cotton industry and American agriculture.

There are some key elements to maintaining an effective program for cotton: a market-oriented policy that promotes quality, efficiency, and competition; allows full production to meet market demands; provides an effective financial safety net; ensures the availability of competitively-priced U.S. cotton to both domestic and international textile mills; encourages maximum participation without regard to farm size or structure.

The current farm bill meets most of these principles and has worked well for the cotton industry. The past Agriculture Committees have fine-tuned the farm program several times, and the current program has contributed greatly to the current stability in agriculture. To deviate much from this could have far-reaching effects on the future of American agriculture.

A key component of the farm program for cotton is marketing loans. This is the safety net most important to cotton producers, and allows the producer to secure adequate financing and to market his products in an orderly manner. Rural financial lenders rely on this program, and it gives them the confidence they need to provide credit to farmers. With the marketing loan, farmers can sell their products throughout the year and take advantage of better market prices.

We understand that the 2012 Farm Bill debates will include new elements and that—new elements that must be considered—budget pressure and the WTO Brazil case rulings. Agriculture is vital—is vital to America, and we must find ways to maintain a reasonable safety net for America's farmers.

The main cotton provisions in the 2008 Farm Bill are working well for the cotton industry. While changes will be a part of the new farm bill, the safety net for farmers and the stability of the industry are critical—critically important. We, as a part of the cotton industry, are ready and willing to meet the challenges and to consider alternative programs that provide an adequate safety net and agricultural stability.

You have heard me mention *stability* a lot in this, in this talk, and that goes a long way. That's the end. That's the final word, is stability in agriculture.

I would like to thank you for allowing me the opportunity to speak to you today.

[The prepared statement of Mr. Schniers follows:]

PREPARED STATEMENT OF DOYLE SCHNIERS, COTTON PRODUCER, SAN ANGELO, TX

I want to thank the Chairman, Ranking Member, and other Members of the Committee for allowing me to address you today.

I am Doyle Schniers, a cotton and grain farmer from San Angelo, Texas. I operate a family farm in Tom Green and adjoining counties in partnership with my brother, son, and nephew. My primary crop is cotton and my comments today are given on behalf of the Southern Rolling Plains Cotton Growers Association. The SRPCGA is the certified producer organization which represents cotton producers in the 12 county area known as the Concho Valley of Texas.

Cotton is a vital industry in my area, as well as many parts of Texas. The economies of many rural communities are dependent on a strong agricultural component. When agriculture is prospering, it provides many jobs in rural areas—from production, to cotton ginning, to warehousing and shipping, to agribusiness suppliers, to the local hardware store, to the fuel dealer, to restaurants, to schools and hospitals.

The Southern Rolling Plains Cotton Growers Association feels that a sound farm policy is critical to maintaining the cotton industry in this region and across the Cotton Belt. A strong safety net is necessary for us as producers to survive in today's economy.

Our region is a very productive agricultural area. However, we are mostly dependent on rainfall in order to make a crop. From time to time, the rains do not come at the right times and droughts are a reality. With the enormous input costs in producing crops today, the loss of a single crop can be devastating to producers. The heavy investment in land, equipment, and production expenses just does not allow the farmer to have adequate reserves to sustain himself during losses from natural disasters.

Since most of our cotton and much of our grain is exported, we are a part of the global economy. The 21st century world markets and world situations are unpredictable and uncertain. We face fluctuating market prices that make farm decisions difficult and challenging.

The core principal of farm programs in the U. S. since the Great Depression has been stability—stability that has limited the boom and bust for agricultural producers; stability that has provided the consumer with the cheapest, most abundant, and safest food and fiber in the world; stability for agricultural lenders to provide the much needed credit for agriculture; and stability for manufacturers and developers to provide research for the most advanced technology and equipment to assist agricultural production.

In order for us to maintain this level of agricultural production in the United States, we must have a sound farm policy that will protect the viability of the cotton industry and American agriculture. There are some key elements to maintaining an effective program for cotton:

1. A market-oriented policy that promotes quality, efficiency, and competition.
2. Allows full production to meet market demands.
3. Provides an effective financial safety net.
4. Ensures the availability of competitively-priced U.S. cotton to both domestic and international textile mills.
5. Encourages maximum participation without regard to farm size or structure.

The current farm bill meets most of these principles and has worked well for the cotton industry. The past Agriculture Committees have fine-tuned the farm program several times and the current program has contributed greatly to the current stability in agriculture. To deviate much from this could have far-reaching effects on the future of American agriculture.

The key component of the farm program for cotton is the marketing loan program. This is the safety net most important to cotton producers and allows the producer to secure adequate financing and to market his products in an orderly manner. Rural financial lenders rely on this program and it gives them the confidence they need to provide credit to farmers. With the marketing loan, farmers can sell their products throughout the year and take advantage of better market prices.

We understand that the 2012 Farm Bill debates will include new elements that must be considered—budget pressures and the WTO Brazil Case rulings. Agriculture is vital to America and we must find ways to maintain a reasonable safety net for America's farmers.

The ACRE program has not been very attractive for cotton producers, as evidenced by the sign-up. If a revenue-based approach is to gain support from cotton producers, it will need a more realistic revenue target.

In order for a farm program to be effective, it needs maximum participation without regard to farm size or income. The changes in the 2008 Farm Bill significantly reduced payment limitations and the adjusted gross income test was tightened. Any additional changes will begin to erode away at the effectiveness of the program and commercial-size operations will not be able to fully participate.

Today's farmer is the most conservation minded that U.S. agriculture has seen. Programs such as the Conservation Stewardship Program encourage improved environmental and conservation practices, but should not be used as the primary method of delivering farm support. Restrictions and payment limitations in the CSP program have limited its effectiveness in our area.

The Conservation Reserve Program may be affected by budget cutbacks. This would release millions of acres of highly erodible land from CRP back into crop production. The 2012 Farm Bill needs to address this so that fragile, highly-erodible lands remain with permanent cover.

We support a permanent natural disaster program as a part of the farm bill, but indications are that the SURE program cannot deliver an effective level of disaster assistance.

Crop insurance is an important risk management tool for farmers in our area. Some new insurance products, such as revenue coverage, enterprise policies, and group risk coverage, have given a variety of options for risk management. These should complement the traditional commodity programs, but not be used to replace the current system of delivering farm support.

The cotton industry supports a viable biofuels industry. However, the renewable fuels policy changes the competitive balance between commodities. This has placed pressure on the cotton infrastructure, such as gins and warehouses, in parts of the Cotton Belt. These mandates have created market distortions. The support for biofuel crops needs to be considered when looking at support for all commodities, when evaluating payment limitations, and when developing a one-plan-for-all program for all commodities.

The main cotton provisions in the 2008 Farm Bill are working well for the cotton industry. While changes will be a part of the new farm bill, the safety net for farmers and the stability of the industry are critically important. We, as a part of the cotton industry, are ready and willing to meet the challenges and to consider alternative programs that provide an adequate safety net and agricultural stability.

Thank you for allowing me the opportunity to speak to you today.

The CHAIRMAN. Thank you very much, Mr. Schniers. We appreciate that.

Mr. Smith, welcome to the Committee.

STATEMENT OF DAN SMITH, SORGHUM PRODUCER, LOCKNEY, TX

Mr. Dan SMITH. Good morning. On behalf of the National Sorghum Producers, I would like to thank you for the opportunity to address this Committee and discuss the impact of the U.S. farm bill on my operation, the bottom line, of sorghum producers nationwide.

My name is Dan Smith, and I farm near Lockney, Texas, about an hour's drive northeast of Lubbock. I farm sorghum, cotton, corn, and wheat on a farm homesteaded by my great-grandparents 100 years ago.

The National Sorghum Producers realize that it's early in the farm bill process, but are interested in fostering an open discussion with the Committee. As a farmer, I realize the huge impact this one piece of legislation has on my day-to-day operation, and I am interested in ensuring farm benefits in the next farm bill.

Regarding the 2008 Farm Bill, I would like to mention that the sorghum industry has suffered significant losses 2 years in a row because of drought. We'd ask the Committee to urge USDA to make Supplemental Revenue Assurance, SURE payments, available to eligible producers. We also encourage the Committee to authorize payments, based on some percentage, to give money back to the farmers and the country.

Next, I would like to thank the Committee for its work on sorghum price elections in the 2008 Farm Bill. This continues to work, and they need to increase the crop insurance from 88 percent of the price of corn, to 97.8 percent of the price of corn. For my farm, that translates into $7.33 per acre or more for dryland crop insurance coverage, and $41.94 per acre more for irrigated crop insurance coverage. Thank you for leveling the playing field.

I also would like to thank the Committee for increasing the subsidy on enterprise yields to allow sorghum producers to increase coverage on their crop while paying a lower premium. I would suggest a change only for enterprise units, which would allow the separation of irrigated and non-irrigated practices into separate enterprises.

At the same time, I would ask this Committee to maintain a strong crop insurance program in the next farm bill. Crop insurance has saved my own operation several times in situations where I would have gone out of business if it was not for this vital risk management tool. I believe that it is vitally important to remind this Committee that farmers across the nation provide a safe, reliable, and reasonably priced supply of food, fuel, and fiber to the world.

The current Administration's focus on rural development should be more on farm development, because it is the farmer that brings money to the rural economy, supports the local businesses, and educates our youth.

As the Committee prepares to develop the farm policy for 2012 and beyond, remember that the Agriculture Committee has done a very good job of making sure increases in farm bill spending have been paid for. And we would like to be recognized for that fiscal responsibility by maintaining a strong safety net for sorghum producers.

We believe that the Committee should continue to invest in the energy title of the farm bill. Currently, more than ¼ of the United States grain sorghum crop is processed through an ethanol plant. The renewable fuels industry is the fastest growing value-added market for the sorghum industry.

Sorghum can be involved in many aspects of the renewable fuels industry, including the use of sweet sorghum for sugar-based ethanol production, high biomass fuels production, and ethanol production.

We encourage the Committee to continue strong support for programs like the bio programs for advanced—bioenergy program for advanced biofuels, Section 9005, the Biomass Crop Assistance Program. Those programs, if implemented correctly, will help build cellulosic and sweet sorghum as feedstocks for companies looking to make ethanol out of its biomass and sugars.

Finally, we encourage the Committee to support programs that reward the use of water sipping crops like sorghum. We encourage the Committee to consider the demand on water in the area of the Sorghum Belt in developing a conservation program and practices.

Thank you for your time and for your attention, and thank you for coming to Lubbock, Texas. And I would be happy to answer your questions later on.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF DAN SMITH, SORGHUM PRODUCER, LOCKNEY, TX

Introduction

On behalf of the National Sorghum Producers, I would like to thank the House Committee on Agriculture for the opportunity to discuss the next U.S. farm bill and its impact on my operation.

My name is Dan Smith, and I farm near Lockney, Texas in Floyd, Hale and Briscoe Counties. I raise sorghum, cotton, wheat and corn on a fourth-generation family farm that was started by my great-grandfather.

NSP represents U.S. sorghum producers nationwide and our mission is to increase the profitability of sorghum producers through legislative and regulatory representation. I serve on the NSP legislative committee because I understand that the actions of this Committee and the U.S. Congress have a great impact on my farming operation.

NSP supports the work put forth by this Subcommittee in passing the 2008 Farm Bill and looks forward to working with the Committee to craft the next set of vital farm policy. This testimony will focus on various areas of farm policy as they relate to sorghum: crop insurance, budgets, the importance of the Energy Title to sorghum producers, and the sustainability of sorghum.

Industry Overview

The Great Plains states produce the largest volume of grain sorghum, but the crop is grown from Georgia to California and South Texas to South Dakota. According to the National Agricultural Statistics Service, last year sorghum was produced in many of the states that you represent. This includes Kansas, Georgia, Mississippi, Colorado, Nebraska, South Dakota, Missouri, Texas, Iowa, Indiana, Oregon, North Carolina, Illinois, Maryland, Pennsylvania, Oklahoma, North Dakota and Ohio.

Over the past 15 years, grain sorghum acreage has ranged from a high of 13.1 million acres in 1996 to a low of 6.5 million acres planted in 2005. Annual production from the last 15 years has ranged from 795 million bushels to 277 million bushels, with an approximate value of $1.2 billion annually.

The creation of the Conservation Reserve Program in the 1985 Farm Bill had a significant impact on the sorghum industry as producers enrolled thousands of sorghum acres in the program. In addition, poor crop insurance coverage has played a role in declining acreage.

Today's sorghum acreage is ⅓ of its levels prior to the 1985 Farm Bill. It is a goal of the industry to increase producers' profitability and to bring acres back toward the pre-1985 Farm Bill level. NSP expects that returning acreage to that level will help ensure necessary infrastructure to supply the needs of the ethanol industry, livestock industry and export markets.

In addition, forage sorghum utilized as silage, hay and direct grazing represents approximately an additional 5 million acres of production. The USDA reported that in 2009, 254,000 acres of sorghum were harvested for silage, producing approximately 3.7 million tons of silage.

The U.S. is the world's chief exporter of grain sorghum, and the crop ranks fifth in size as a U.S. crop behind corn, soybeans, wheat and cotton.

Grain sorghum is typically exported to three main markets: Mexico, Japan and the European Union (EU). Sorghum is a non-transgenic crop. According to the April 9, 2010 World Agricultural Supply and Demand Estimate (WASDE), U.S. exports will account for 38 percent of this year's sorghum use.

The most important new market for grain sorghum is the ethanol industry. According to the latest WASDE report, ethanol production will account for 26 percent of domestic grain sorghum usage. This is more than triple the amount of the 2007–2008 crop year. This market has even more potential with the classification of grain sorghum as an advanced biofuels feedstock in the 2008 Farm Bill.

In addition, the U.S. dominates world sorghum seed production with a $200 million seed industry focused on 200,000 acres primarily in the Texas Panhandle.

Sorghum is a unique, drought tolerant crop that is a vital component in cropping rotations for many U.S. farmers.

2008 Farm Bill

USDA has struggled implementing the Supplemental Revenue Assurance Program (SURE) that was created in the 2008 Farm Bill. Some sorghum producers have suffered through 2 years of drought and are still waiting for payments. The program is complicated and FSA is having a very difficult time in distributing dollars to producers who need it the most. We encourage the Committee to allow for immediate payments based on producers' direct payments at some percentage to get money into the country. FSA can "square up" when SURE is fully implemented.

Crop Insurance

In the 2008 Farm Bill, Congress instructed RMA to work with five independent reviewers to establish a new methodology for implementing price elections for the 2010 crop year. This methodology was required to be transparent and replicable. As part of the farm bill language, RMA was required to supply the data used to compute price elections.

After extensive work with RMA, I am pleased to report that crop insurance price elections for this crop season increased from 88 percent the price of corn to 97.8 percent the price of corn. For the average producer, this increase translates to $20 to $60 more coverage per acre depending on location and irrigation strategy. This change in price elections will make a huge difference in the insurability of sorghum because farmers will have a competitive insurance product. We do not expect to hear any longer that a banker will not finance a farmer to plant sorghum because it has inadequate insurance coverage.

I would like to personally thank this Committee on behalf of myself and the rest of the nation's sorghum farmers for changing how sorghum crop insurance price elections are calculated. While crop insurance is a tool I never want to have to use, the reality of weather and the nature of farming guarantee that crop insurance will be necessary some years.

At the same time, I ask this Committee to maintain a strong crop insurance program in the next farm bill. Crop insurance has saved my operation several times in situations where I would have gone out of business without this vital risk management tool. Crop insurance is extremely important across all crops on my farm and I want to underscore that good sorghum crop insurance is indispensable for me.

I would also like to thank the Committee for increasing the subsidy on enterprise units. This has allowed sorghum producers to increase coverage on their crop while paying a lower premium. Many sorghum producers have taken advantage of this opportunity to increase their risk management coverage. I would suggest a change, only for enterprise units that would allow the separation of irrigated and non-irrigated practices into separate enterprises.

The action of this Committee and Congress in the 2008 Farm Bill will give me more planting options and ability to choose a crop that is an agronomic fit for my land. Thank you for working diligently to help correct these crop insurance issues in the 2008 Farm Bill.

Balancing the Budget

As the Committee prepares to develop farm policy for 2012 and beyond, I would like to remind you that the agriculture sector has been contributing to positive economic growth of our economy. We encourage the Committee to recognize the success of investing in rural America. We believe the Agriculture Committee has done a very good job of making sure increases in farm bill spending have been paid for and we would like to be recognized for that fiscal responsibility by maintaining a strong safety net for sorghum producers. America's farmers provide a safe, efficient and abundant supply of reasonably-priced food, fuel and fiber to people around the world. Maintaining a strong farm safety net is one key to that success and we urge the Committee to fight for the interests of farmers. Cutting commodity programs that viable farm businesses rely on will only weaken our national infrastructure for these products.

The current Administration's focus on "rural development" should be on "farmer development" because it is the farmer that truly brings money into the rural economy, supports local businesses, and educates our youth. Off-farm jobs do not keep my local school district's tax base healthy. The school district is heavily dependent on property taxes, which are driven by land values, which are driven by farm economics.

Trade

Trade is vital to our marketplace since 38 percent of U.S. grain sorghum is exported to Mexico, Japan, the E.U. and numerous other markets. We support a robust trade agenda. This includes full funding for both the Market Access Program (MAP) and Foreign Market Development (FMD) program.

Energy Title

As previously mentioned, investment in rural America has shown good returns for the U.S. Government. We believe that the Committee should continue to investment in the Energy Title of the farm bill. Currently, more than ¼ of the U.S. grain sorghum crop is processed through an ethanol plant. The renewable fuels industry is the fastest growing value-added market for the sorghum industry.

We believe that sorghum can be involved in many aspects of the renewable fuels industry. For example, the versatility of sorghum is attracting attention from the seed industry as it looks at sweet sorghum for its potential ethanol production. Biotech companies are recognizing the diversity of the sorghum crop and private industry is exploring the production of biodiesel out of sorghum.

We encourage the Committee to continue programs of the Energy Title of the 2008 Farm Bill. For example, the Bioenergy Program for Advanced Biofuels (Section 9005) has been very positive for the sorghum industry. The Biomass Crop Assistance Program (BCAP) assists with the establishment, collection, harvest, transportation and storage of biomass crops for bioenergy production. If implemented correctly, it will help build cellulosic and sweet sorghum as feedstocks for companies looking to make ethanol out of its biomass and sugars. Neither program has run its course or completed its work. Both programs should be maintained in the next farm bill to continue to develop existing and emerging markets for farmers who are involved in energy crop production.

At the same time, we encourage the Committee to look at new proposals for energy programs in the farm bill that will continue to involve the agriculture industry in the business of providing America's energy.

Sorghum: Rewarding Sustainability

Finally, sorghum is a water sipping, highly sustainable cropping option for many producers across the U.S. Especially in the semi-arid Sorghum Belt, sorghum is an excellent fit for farmers with limited irrigation capacity or dryland farmers without predictable rainfall. In addition, sorghum tends to use less fertilizer than other crops but produces high yield with proper management. As the Committee works to reauthorize its conservation programs, we encourage you to consider programs that reward decreased use of water in the semi-arid Sorghum Belt.

NSP is prepared to support farm bill language that recognizes the sustainability and environmental benefits of crops like sorghum while maintaining the profitability of sorghum producers.

The CHAIRMAN. Thank you very much, Mr. Smith, for that testimony.

Mr. Vaughan, welcome to the Committee.

STATEMENT OF DEE VAUGHAN, CORN, SOYBEAN, WHEAT, COTTON, AND SORGHUM PRODUCER, DUMAS, TX

Mr. VAUGHAN. Good morning, Mr. Chairman, and the Members of the Committee. I appreciate the opportunity to offer comments on the U.S. farm policy.

I am Dee Vaughan. I farm in the northern Panhandle. I grow corn, wheat, sorghum, soybeans, cotton, and sorghum seed production. I serve as a director for both the Corn Producers Association of Texas and am Vice President of the Southwest Council of Agribusiness.

The written testimony I submitted contains a lot more topics and a lot more detail than I would certainly be able to present here this morning.

Texas farmers are very concerned about the viability of the current economic safety net. We are concerned about—I think we have established that already, so I'm not going to go through all of it—that ACRE is not working as it was intended. SURE is not working as it was intended. Crop insurance sometimes fails us as well. A lot of these programs need a little work.

The current program, the current countercyclical and marketing loan programs, of course, don't work for grains right now. The cost of production has just totally overwhelmed the target price and the market low rate. By the time corn gets down to $2.42, which is a low rate in my county, I will be broke, and all of my neighbors will be as well; the same way with the target price of $2.63 for the countercyclical. It just doesn't work for us.

One issue I would like to bring up is the payment limit issue. We don't think that the payment limit should be reduced any further. You know, we did make a lot of changes to the last farm bill. The Committee worked with us as producers. We gave a lot. We think that now we need consistency in the way those rules are implemented. They shouldn't be changed again.

One rule in particular, though, that I would say needs to be changed is the rule that bans corporations from having multiple Social Security Numbers. If two people can form a general partnership and draw according to their Social Security Nmber, then why can't they form a corporation?

There are very valid reasons for having corporations. They have a business structure. They are very viable. And it's also the best way to bring new farmers into an operation, a lot of times, is to bring them into a corporation. So why do we discriminate against corporations?

One additional comment I would like to make on crop insurance: It is obviously very important to Texas farmers. To the extent the USDA is concerned companies are making too much money through underwriting gains, then the USDA should use its authority to lower the rates. Lower rates would reduce underwriting gains, and it would reduce the premiums that producers like myself have to pay, and it would reduce the government outlay.

For example, we believe some of the premiums we're paying here in Texas are higher than are needed to maintain the program. We have had a comparison of premiums for corn, using counties in Minnesota, Iowa, Illinois, and Texas, and it shows that insurance for irrigated corn in the Texas Panhandle is three to five times more expensive than comparable or less coverage in the Midwest, despite the fact that our loss ratios are virtually the same.

So we are in the process of going to our RMA. We have already talked to people in Washington about this issue, and they can't answer why this kind of discrepancy is there. And so, where is the process going? And RMA actually is discussing the bill, and, hopefully, we will see some response and be able to reduce those rates, so that our growers here in Texas can buy higher or lower coverage with the savings.

I want to leave my prepared text at this point and kind of delve off and talk about—well, I was going to talk about revenue products in my text, but I'm having a lot of concern about the direction that the possible revenue plan might go to; the fact that—what could it do to crop insurance, the problem with revenue products, a program that delves into all of that, both price and production. You're trying to do too much with one program.

And I appreciate your comment, Mr. Chairman, about having too many programs. I agree with you. I think we need to strengthen the ones we have, and maybe eliminate some and combine some and make them work better. And probably where it's—there has been a proposal thrown out there that you would take and bring the ACRE program down to the county level, and you wouldn't have to have multi-peril crop insurance. You could use that county's average yield.

Well, the problem with that is when you think about a county's average yield, half of the producers, half of the production in that county, were below that line. So what do you do for those folks if you take away multi-peril crop insurance?

You can say, "Well, you can buy supplemental." Well, I don't know of a supplemental drought insurance policy. I don't know of a supplemental flood insurance policy. Supplemental hail insurance policies are obviously very expensive. So what do we do for those folks?

If we maintain the multi-peril and go ahead for our producers that enroll in that ACRE program at the county level, we will say, "Well, we will just self-insure." And so they will get out of the insurance program, and those people that cannot self-insure are going to be left.

If your people are paying premiums as a percentage fund, the claims will go up, and the loss ratios, of course, will climb. And what will they do? Raise the premiums at the multi-peril insurance company. They don't have any choice, to keep the program viable.

So I see a real problem. You know, we need to—for production coverage, we need to drill down to that individual level, to that individual, and that's what crop insurance does. It comes down to my farm, what I produce that year, based on the historical yields that I have made for the past 5 or 10 years. That is as close as you can get, and you can't do that at the county level.

For price, we have a countercyclical program. As I mentioned, it has been overwhelmed by the cost of production, where we are today. Why don't we revamp that? Why don't we go to a 5 year? I'm just throwing things out. I haven't visited about this with anybody. My corn grower buddies may be waiting for me at the back door.

Mr. Chairman, I might need a ride to the airport. Do you think you could give me a ride?

But, at any rate, a 5 year moving average of the price, and that would be the target price, if you used 90 percent of that policy—again, I'm just throwing numbers out for thinking about. And then you can cap it at 25 percent of a 5 year moving average. You've got two numbers that the Committee could work with, to make it work for producers, as well as working within the budget base line.

Anyway, it's something that we can think about as we go forward. Instead of trying to do too much with one program, we're trying to do too much with many programs. Let's find some middle ground here and use some of the programs we have and just make them better.

If we can reduce the premiums that producers are paying, reduce government outlays for crop insurance, possibly we can apply those savings, some of that, and the producer can buy a higher level of coverage and use that in the crop insurance program better. And I apologize for going way over my time.

[The prepared statement of Mr. Vaughan follows:]

PREPARED STATEMENT OF DEE VAUGHAN, CORN, SOYBEAN, WHEAT, COTTON, AND SORGHUM PRODUCER, DUMAS, TX

Good morning, Chairman Peterson, Ranking Member Lucas, and Members of the Committee. Welcome to Texas. Thank you for holding this hearing today to allow those of us involved in Texas agriculture an opportunity to offer our views on U.S. farm policy.

My farm is located in the northern Texas Panhandle near the community of Dumas. My main crop is corn but I, like many Texas producers, grow multiple crops. I also produce wheat, soybeans, sorghum, cotton, and sorghum seed production. I serve as a director for both the Corn Producers Association of Texas and the Texas Corn Producers Board. I also serve as Vice President of the Southwest Council of Agribusiness.

Mr. Chairman, I want to thank you for starting the farm bill discussion now. Sound farm policy, beginning in the 1930s, has been the bed rock foundation providing U.S. agriculture with the stability needed to become the powerhouse it is today. For decades farmers and ranchers have fed and clothed the nation. Now we feed, clothe, and provide renewable energy and products. Our surplus agricultural production is shipped around the world providing essential calories and nourishment for a rapidly growing world population. Consideration of farm policy that affects not only producers, but consumers too, should not be done in haste.

I have now farmed for 3 decades plus and I have seen a lot of change in agriculture and agricultural policy, most of it for the good, but the changes also created challenges.

To begin I wish to comment on the current commodity title. The direct payment provides stability to farmers and lenders. Since it is a guaranteed payment lenders allow producers to list it on their balance sheet as a receivable or asset. Some lenders use the direct payment and the crop insurance guarantee as a basis for determining how much they will lend to a given farming operation. Though the direct payment program has received some scrutiny through the WTO because of the limits on planting of fruit and vegetable crops on program acres, it still appears to be one of the most trade compliant parts of the commodity title.

For grain producers, while the countercyclical payment and marketing loan programs have been helpful in a couple of year since 2002 (2005 for example), they have in the last few years been overwhelmed by the cost of production. If crop prices drop sharply most producers will be in dire financial straits by the time these programs make payments. We are very fortunate that as commodity prices fell from 2008 levels that the cost of production fell as well, leaving most producers the ability to generate a profit. If we had seen a repeat of the 1970s when crop prices plummeted but input costs remained high the country side would be in an uproar. Since agriculture is very dependent on energy, not only for fuel, but also in the manufacture of fertilizer, crop protection products, and other inputs, we remain very vulnerable to sharp rises in the price of oil, natural gas, and electricity.

I am blessed that my area of the state is predominantly irrigated and for the most part we have enjoyed good growing conditions for the past couple of years. The down state areas of Texas have experienced hurricanes, droughts, and floods causing extensive multi year losses. The new SURE program does not have a good reputation in Texas. It has been very slow in providing relief for some producers, with many producers still waiting. Farm Service Agency (FSA) office personnel are working without usable computer programs resorting to doing the computations by hand. The rules are said to be still in flux and change from time to time compounding the problem. One major issue is that FSA and Risk Management Agency (RMA) records at times do not match exactly which requires further review. Since one of the determinants of SURE is based on the average price of the marketing year, producers must wait a full year to see if they will even qualify. Any help SURE provides may come too late. But, beyond just the timing issue, SURE also just does not work for more diverse or larger farm operations because it requires aggregation of all farms. Therefore, SURE does not work for the majority of irrigated producers, those with a mix of irrigated and non-irrigated production, or those growing multiple crops.

ACRE also has proved to be a very complicated program. It is difficult to explain to absentee land owners. In a state as large and diverse as Texas the state wide loss requirement trigger is a tremendous negative. The loss trigger for a geographic area must be localized, at least to the county level. ACRE is even less appealing to irrigated producers. ACRE requires that all crops on a FSA farm number be enrolled in ACRE for the duration of the farm bill. Since ACRE does not work for cotton this automatically precludes many producers from choosing this option. ACRE, like SURE, uses a season average market price for determining eligibility. Producers making the decision on whether to enroll in ACRE by June 1 of the current year are speculating on what the markets will do for the next 15 months.

Bottom line for both SURE and ACRE—no lender can count on them and so they are of little benefit to me as producer.

People in and out of government have sought to apply a one size fits all payment limitation. This very narrow view point does not take into account the differences in cost of production, weather risk, the means to produce off farm income, and even the social norms from one region of the country to another. The payment limits should not be reduced further. The rule limiting corporations to one payment limit should be removed. Corporations have definite advantages in many business situations, not the least of which is that it is often the easiest structure to which beginning farmers can be added. If two or more individuals can form a general partnership and receive payments directly attributed to their Social Security Numbers then why can the same individuals not form a corporation and have the same right? The rules that prevent an existing farmer from being able to co-sign financing for a beginning farmer should also be reviewed and modified to help those wanting to enter production agriculture.

Our challenge for the next farm bill is how to modify existing policy so it is functional in an age of highly variable costs of production and revenue, and hopefully this will be done before it is actually needed. We should move forward carefully so that policy is designed that works for all commodities. Perhaps a single farm policy is no longer realistic but we should make sure that no segment is disadvantaged as resources are allocated. It makes no sense for me as a corn producer to seek policy that is not fair to someone else. Agriculture needs to work together. Rest assured the Corn Producers Association of Texas wants to work with other agricultural groups and the Committee as future policy is developed.

The current loan and countercyclical programs have provided stability to the farm economy for many years until rising input costs made the loan rate and target price obsolete. The simplest fix appears to be to bring the loan rate and target price into line for today's economic reality. Hard numbers that tell a producer and his lender that this is the bottom line have great value. Unfortunately, it appears that the simple fix is beyond the scope of the budget base line.

Perhaps some form of revenue program can be crafted that will work for grains while cotton, sugar, and perhaps others will want to retain the existing marketing loan. Again the word is caution, with thorough study of any proposal for unintended consequences. Revenue can be taken to mean different things. In 2008 many farmers generated substantial gross revenue but their net revenue was small or perhaps even negative because of sky rocketing production costs. To be effective any revenue plan must be reliable, it must be something a producer can take to lenders and say, this is the safety net.

We must be very careful to not rob the commodity title to enhance the conservation programs. Producers and lenders will not be able to support additional investment in conservation cost sharing if the farm is not profitable.

In Texas we currently have about 3.3 million acres of Conservation Reserve Program (CRP). Over 2.7 million of those acres have contracts that will expire by September 30, 2014. The bulk of the acres expire by the end of Fiscal Year 2012. Due to changes in the criteria for eligibility, most of the expiring contracts are not eligible for a new contract. Much of this land should remain in CRP because it is very subject to wind erosion. This land will be put back into production based on recent experience with contracts that have expired. In addition to the erosion issue, placing this land into production will place additional demand on the Ogallala Aquifer which is the primary source of water for the Texas Panhandle/South Plains region of Texas. Since this land has established program base acres it will also be re-enrolled in the farm program. The eligibility rules should be modified to allow more of this land to remain in CRP.

The Conservation Stewardship Program (CSP) is a program that has received mixed reviews from producers. It appears some of the problems are growing pains including different interpretations of the rules across regions and even county Natural Resources Conservation Service (NRCS) offices. One specific problem relates to the payment limit. NRCS has been applying a payment limit rule that is even more restrictive than the one in place for the commodity title; one payment limit regardless of the number of actual persons involved. This has limited some producer's ability to fully implement all of the practices they would like to undertake. A very positive aspect of the program, especially for Texas, is an emphasis on energy and water conservation. While the CSP appears to have merit as a conservation program it should not be confused as being an economic safety net. Producers will spend the full amount they receive plus some to fulfill the requirements of their contract with NRCS.

The Environmental Quality Incentives Program (EQIP) has been an excellent tool to help crop and livestock producers implement conservation measures. It has been very popular with irrigated producers that have used the cost share program to become more efficient with the use of water and thus able to conserve water while maintaining economic activity. It is very important to maintain local control over the setting of priorities and cost share formulas. It is very important that the conservation title does not serve as a budget reserve to fund other titles. Funds allocated to conservation should be available so producers have access to these programs.

Federal Crop Insurance is very important to Texas producers, and we want to see it improved. Texas is an underserved region and there is concern that the problem will be compounded if the current negotiation of the Standard Reinsurance Agreement does not come to a favorable conclusion for all parties. As a tax payer I want programs to be efficient and funded only at the proper level, as a producer I need good service from my crop insurance provider, and as a producer again, I do not want the Committee to lose the budget baseline for the next farm bill.

To the extent that USDA is concerned that companies are making too much money through crop insurance underwriting gains, then USDA should use its authority to lower rates. Lower rates would reduce the underwriting gains, lower the premiums producers pay and reduce government outlays to subsidize coverage. For example, we believe that some of our crop insurance products are over rated, and thus the premiums are higher than needed to maintain the crop insurance program. A comparison of crop insurance premiums for corn using counties in Minnesota, Iowa, Illinois, and the Texas Panhandle shows that Federal Crop Insurance for irrigated corn in the Texas Panhandle/South Plains region is three to five times more expensive than comparable levels of coverage in the Midwest, despite the fact that the loss ratios are very similar. The Corn Producers Association of Texas has been in contact with officials at USDA and will soon meet with the staff of the Risk Management Agency (RMA) in Kansas City, Missouri concerning the rating of crop insurance for irrigated corn in the Texas Panhandle. We will also be seeking a biotech endorsement (discounted premium) for all corn grown in Texas using biotech traits that demonstrate lower production risk.

Production agriculture is the economic engine for much of rural Texas. While production agriculture does not employ as many total workers as it once did, due to the adoption of technology, the workers it does employ must possess higher skills than before. Computers; crop condition sensors; global positioning system guided tractors, harvesters, and irrigation systems; integrated pest management, and other technologies are now routine on farms. This technology not only requires skilled workers on the farm but highly trained technicians to provide support services. It is getting harder to find local people to fill these positions and some farmers and businesses are recruiting from other states. Production agriculture is also rural development. We should not fall into the trap of believing that rural development will provide the same stability to production agriculture that is provided by the commodity title and Federal Crop Insurance. Rural Development has its own separate role supporting communities and creating new economic activity. Where farmers, ranchers, rural citizens, and taxpayers get the most leverage is when production agriculture is economically healthy and new markets and businesses are being created through rural development efforts, further expanding the economic activity within the community.

Much of what farmers and ranchers produce within the U.S. is destined for foreign markets. In the balance of trade equation agriculture is the bright spot. It is important for the U.S. to build on this success and work to increase our share of these markets. Market Access Program (MAP) and Foreign Market Development (FMD) funds help producer groups and others to build and maintain these markets. It is important that adequate funding be available through the farm bill. To build new markets often requires that we seek new trade agreements to enable trade to occur in the first place. The Corn Producers Association of Texas supports the bilateral agreements pending for Panama, South Korea, and Columbia. Conversely it has strong reservations about the U.S. offer to the WTO within the Doha round of negotiations. The ambiguous language of a WTO agreement means it is unlikely we will ever be able to craft a commodity title that will go unchallenged by our competitors. We believed our direct payments were WTO compliant and yet they have been challenged. It will thus be extremely difficult to convert the trade distorting subsidies which the U.S. has offered to cut in a way that will allow us to maintain an adequate farm program safety net.

Agricultural research has enabled the constant increase in farm productivity. It allows our nation to enjoy the least expensive and safest food supply in the world. It is what keeps us competitive in a global market place where other exporting nations have fewer regulations, cheaper labor and inputs, and hidden subsidies. If we are to remain a leader in world agricultural production we must support our land-grant university system, USDA Agricultural Research Service, and other public research institutions through adequate funding of the National Institute of Food and Agriculture.

Texas, for many years, has maintained a nationally recognized Integrated Pest Management (IPM) program. IPM agents and programs support producers at the local level with crop scouting, localized research, and consulting. When a new problem is detected, often the first person farmers and their crop consultants turn to is the local IPM agent. Local steering committees of farmers, crop consultants, and agribusiness assist the IPM agents by setting priorities for work and by providing on farm demonstration sites. Prior to 2008 the funding for the IPM program in Texas was ⅔ state and ⅓ Federal. The 2008 Farm Bill changed from formula funding to competitive grant application. With an outstanding program in place Texas was not concerned about any reduction in funding. Since 2008 grant awards have been capped at lower levels each year and Texas in 2010 is receiving less than half of the funding it received in 2007. Since most of the IPM funding goes to pay local agents, the result has been the loss of agents at the local level. The IPM agent that served my county and three other adjoining counties moved over a year ago and the position is still vacant since there are no funds to hire a replacement. At times there are unintended consequences to very small changes in the farm bill. The next farm bill will be an opportunity to address this issue.

The last thing I would like to comment on is the MIDAS project at USDA. This project will enhance and update the antiquated computer information technology system within USDA. Recently Washington, D.C. based MIDAS project leaders and Farm Service Agency (FSA) personnel came to Texas to get feedback from producers about the project. I was very pleased to have an opportunity to attend one of these listening sessions. I was impressed that they spent virtually all of the time listening to our suggestions. We provided a lengthy list of the information producers need online, how the system can help USDA personnel, crop insurance agents, and growers be more efficient, and how electronic delivery can save USDA money. I want to thank the Committee for working to get the necessary funding for the MIDAS project. I urge the Committee to work closely with USDA to make the new system live up to its full potential.

I appreciate the opportunity to be able to submit these comments to the Committee and that Texas producers will be involved in this process as it moves forward. We are very fortunate that the Members of the Committee understand agriculture and rural needs.

The CHAIRMAN. That's fine. Those were some good ideas you threw out there. We'll take a look at them and see. The problem with all of these things is what the CBO says about it. The CBO doesn't always have the best understanding of the farm programs, although it's probably better than it ought to be. It's just something we may have to live with.

And, Mr. Cleavinger, I want you to know that the state trigger doesn't work in Minnesota either. That was a mistake, and there's also other problems. I think Mr. Vaughan has hit on some of them.

You know, we are not exactly sure what the right strategy, going forward, is, but we clearly know that what we put together is not a workable situation for the whole country. You're just looking to me like we're going to make those things work. We're going to have differences in the program within different crops, but that's just a reality, I think.

And that's going to—as I said, one of the reasons why we started early was to try to have some time to discuss this and work with it before we have to get into actually writing the bill.

I would like to ask each of you: We have this Cuba legislation that was brought up by a couple of people, and we're hoping to be able to move that out of the Committee here the first part of June. I would like a "yes" or "no" from all of you whether you support the H.R. 4645, or whatever the number is, that we have introduced, on the trade agreement, starting here with Mr. Brown.

Mr. BROWN. My answer would be "yes."

Mr. HEFFINGTON. It doesn't affect the cotton industry, but we would support it with the other commodities.

Mr. CLEAVINGER. With Texas, to me, next to Cuba, it would increase our Texas exports by $18.4 million annually, which would basically double that, compared to what we have done in 2009. And we expect the full Committee to support this.

Mr. RAUN. Rice says "yes." I just want to know if all of the Committee was checked for firearms before they come in here. I think in Texas, and like Brad said, it doesn't affect cotton very much, but in Texas, we would be open to that, although I know there's some opposition on the Committee as to that.

Mr. SCHNIERS. Yes, we would be very much in favor of it.

Mr. Dan SMITH. Certainly.

Mr. VAUGHAN. Yes.

The CHAIRMAN. Okay. Thank you. You know, the other—a couple of things were brought up here, and going back to the comment I made, again, I think we understand the case of rice, that you need a different kind of crop insurance, and we will be able—we will do anything to get with the direct payments. You know, you've got to make sure that it's going to work, and that it's a guaranteed kind of a situation. I think there are some ways that we might be able to do that.

So we intend to look at if there's a better way to structure these things, but at the end of the day, if we can't figure out anything better, well, then we're going to have to try to figure out how to take what we've got and make it a little better, somehow or another. So we will look forward to working with your industry.

And cotton, we've got that WTO problem, and we're going to have to do something. You know, I don't know what it's going to be, but I think it's a little too early to tell. There are some ongoing negotiations or discussions going on with the Brazilians right now to try to figure out what the heck they're actually wanting, because we're not sure.

But I can guarantee you that things are going to have to change, you know. So we look forward to working with you, as well, as we, first of all, figure out what it is that we have to respond to, and then try to figure out how to make it work.

But my interest is in providing a safety net for production agriculture. And Mr. Vaughan said, "providing it to the farmer, so it works for that farmer or that producer." And I have a lot of big counties in my district, where the production on one side of the county is so different than the production on the other, that even the county level doesn't work. So, I understand that, and you've got probably bigger differences here in Texas than we have in Minnesota.

So we look forward to working with everybody. We are starting this early, so we can start having this dialogue. As I said earlier, we're going to—we're hoping to get some ideas on paper for you guys to respond to and look at and maybe build upon as the place to start, and we have some time now.

I'm expecting that we're going to start marking our next farm bill up maybe about this time next year, maybe a little later. So we've got some time to work on this. And as I've told people before, my intention is to try to get this bill out of the House by December of 2011, and try to get the bill done on time.

So, Mr. Cleavinger, you can know what the farm bill is before you're planting your wheat, or, Mr. Raun, before he is planting his rice, which hasn't happened for a while.

So, with that, I recognize the gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. And I want to echo something Mr. Vaughan said, and I think his—we've got, I think—the attempt was never to penalize somebody for the structure of their entity. We were trying to make that as neutral to that as we can and go ahead and put in place the payment on it, but still leave the flexibility. And so I think that's definitely for people that want to have a sub S corporation or something like that. We shouldn't have the government making the determination.

The other piece that I want to talk about, before I go to the subject, is one of the things that we heard from the last panelists about crop insurance at the various levels, the triggers, and how much coverage.

And one of the things that I think became very evident in a lot of the testimony is that we're not offering producers any flexibility. It's either take it, or leave it. And most of the time your banker says, "Actually, that's not one of the options."

And so one of the things that we have to do is, instead of the government picking what levels of coverage that you have and what the triggers are, is giving the flexibility. And one of the things that we worked on in the last farm bill was a piece of legislation that actually allowed producers to have some flexibility on the coverage, particularly where we have the multi-crop producers. We have a number of those that have testified that there are obviously different issues with each one of those crops and, also, trying to manage the overall risk of the amount of capital that you've got employed at that particular time based on the market conditions.

And the market conditions always have to be a factor in making a lot of those decisions. And certainly there has been fluctuating input costs that we've had where we've had this gyrating cost of energy and fertilizer. Obviously, we need more flexibility for our safety net program, and in particular, I think our crop insurance program.

And so I look forward to working with the Chairman as we sit down and work on that. In a number of your testimonies, we talked about CRP, and I think somebody briefly touched on that. We have a number of acres that are up for renegotiation, acres rolling out.

And just from the panel, just your perspective, what are two—to me, there are two consequences to that. There are environmental consequences, letting a lot of this land roll out; and, second, there are economic consequences.

And so I'm just starting out here with Mr. Brown, what are the consequences of diminishing the CRP Program, what's your perspective on the outcome of that?

Mr. BROWN. That could be positive from two directions. I know that a lot of our agribusiness people would really like to see this land get back into production, which would be an indirect effect on their particular businesses.

Now, where it would be environmentally, it's hard to say, because we all know there's some land that has been handed to the CRP that probably didn't necessarily need to be there. We have other land that definitely needs to have been there and needs to stay there.

And it's kind of a double-edged sword, as I see it, and I can see there being an advantage to a lot of the communities where it's coming up.

As far as environmental issues, I can see a real disadvantage if it's chosen to be put back into production.

Mr. NEUGEBAUER. Okay.

Mr. HEFFINGTON. I would concur with his statement.

At the time, in the 1980s, when that program came into effect, the times were pretty tough, and there were a lot of older landowners that didn't have options of renting their land out, but that was a viable option for them. I'm not sure how the climate has changed today as far as your producers getting larger and larger.

There's definitely some land that needs to remain in that program, but it also would have an adverse effect on some of the businesses in the communities and would begin to watershed and things like that, but the intent to stop it wouldn't be acceptable.

Mr. CLEAVINGER. Well, we would be in the same position. There's a lot of that land that's highly erodible, and it needs to stay in the CRP, if it's highly erodible, for environmental reasons.

We need an education program if you're going to bring it out, to make sure producers know how to bring it out, out of production, or back into production, so that they are properly doing it, if that's the road you chose to go down.

Mr. NEUGEBAUER. Mr. Raun.

Mr. RAUN. Yes, there are virtually zero CRP acres in the Texas rice business.

Mr. SCHNIERS. In our particular area, I would have to say there's probably at least 95 percent of what is in there that needs to be in there and needs to stay in there. And it is a little bit of a worry on what happens with that land when it comes out, because while we have a little bit ourselves and some around—some adjoining landowners, that we operate, I would really hate to see that stuff come out.

Mr. Dan SMITH. Well, in my area, I am concerned that there is quite a bit of that land that actually should have never been broke out 50, 60 years ago, whatever. And it is quite environmentally sensitive.

But, also, the land—most everything around me, when it does come out, it will be dryland. So it's going to be tough, especially those first few years, to make any kind of viable living going to a dryland crop, rather than CRP.

Mr. VAUGHAN. I think some of the concerns we would have, besides the environmental—obviously, some of that land needs to stay in—would be the budget issue. As far as the farmer, those acres have a base, and they will draw broken payments, when they are returned into the farm program.

Then we've got another issue or a major issue, especially in the northern Panhandle, where we do have irrigation water on a lot of that land. It just adds pressure to the overall aquifer, which is the primary—for those of you not from this area, it's the primary source of water for irrigation, as well as for municipal use, for this whole region.

Mr. NEUGEBAUER. I appreciate that comment. Mr. Chairman, I think that one of the things that we tried to do in the conference was look at and offer an amendment that would allow the banking—because what we know is that there are some areas people would like to roll out, and some areas people would like to stay in, but with the county caps, we take some of those options away.

And so one of the things that I think we ought to look at again is the ability that if you've got a farmer that wants to stay in the program, and you've got a farmer that wants to roll out, that has got 2 or 3 years left on their particular contract, being able to let them swap those positions.

The net effect is the same for the program, but, obviously, again, giving our producers some choices that we don't currently have. So thank you.

Mr. CUELLAR [presiding.] No questions from the gentleman from Mississippi?

Mr. CHILDERS. I'm going to pass now.

Mr. CUELLAR. The gentleman from Alabama, Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman. A little while ago, I was listening to Mr. Cleavinger and Mr. Raun talk about trade agreements and the importance of that to their futures. But, when it comes to cotton, earlier Mr. Heffington made reference to the fact that we've seen the domestic textile industry just really die, and I'm from Alabama, and we've really seen it.

What has that done to your markets? Have those mills that have moved South—are they still—are you still selling to them? Or what are your primary markets now on cotton?

Mr. HEFFINGTON. I think our primary market is Asia.

Mr. ROGERS. Asia?

Mr. HEFFINGTON. Asia; yes. We do have a denim mill here in Littlefield, where I'm from, that buys from the cooperative, that buys from producers where cotton is spun.

But the quality of cotton we grow in west Texas now is being demanded by the Asian mills where most domestic textile mills have moved. That's why we have to export to compete in that market.

Mr. ROGERS. Mr. Schniers, is that true for you?

Mr. SCHNIERS. Yes. Pretty much China and India, they are our number one and two now. So we have to—we have to—we've lost these markets here, and we're going to have to take it somewhere.

Mr. ROGERS. The trade agreements, are they of much concern—as much concern to y'all as they are to rice and wheat?

Mr. SCHNIERS. I definitely think so, because that's the way the world has turned. That's the way our commodities have gone now.

And I think it's going to be very hard to get these domestic mills back here, once they are gone, and it's very important to keep the ones that we have left.

Mr. ROGERS. I think I heard you earlier say that you farm 6,000 acres. Wasn't that you?

In our Georgia hearing, we had a cotton farmer there that also was talking about: He farms 6,000 acres, and he was concerned about discrimination in the farm bill. While he feels like he has to farm that much to be able to make the efficiency work, to be in business, he said, "I don't want to be farming this big corporate farm that you might see on the West Coast."

Are you concerned about the kind of discrimination in our policy as we fashion this new bill?

Mr. HEFFINGTON. Oh, yes, sir. You know, I didn't fly here in my corporate jet this morning.

Mr. ROGERS. You didn't?

Mr. HEFFINGTON. I'm a first generation producer, and there are not very many of those in our area or across the country. But my business structure is all family, and we—I farm about what 30 producers did when I was just growing up. And the technology and the cost of equipment, the cost of seed, the cost of fertilizer, the land cost, all of those inputs have driven us to sizes that large.

And it's not different than any other business in America. We have had to adapt and be more efficient, taking the economy to scale, what's being taken in. But from our research, the only government program that discriminates against corporations, that we can find, is in the farm policy.

Doctors, railroads, banks, any other places that have large corporations, their subsidies or assistance or policies are not discriminatory towards that. And, there are viable reasons to have a corporate structure; liability reasons for one, tax liabilities, the inheritance tax, and things like that, that's the easiest way to bring it.

I have three sons, and a couple or more farm, and one probably doesn't, but to bring them into our operation creates significant trouble within the current regulations. But, with the corporate structure, with payments tied to direct contributions, and Social Security Numbers, that would be much better.

And it's just the most—it's very hard to understand why that was written the way it was, and we really don't understand that.

Mr. ROGERS. I think all of y'all were here when the first panel was here.

Mr. Holt talked in his testimony about getting rid of current piecemeal practice endorsements, and he said that the U.S. has profit sharing and making it across the board with the rate cuts.

What are your thoughts? Do any of you feel strongly about that?

Mr. CLEAVINGER. Well, that's what was in their recommendation. As they say, the proof is in the pudding. You will have to look at some of those and see how they will affect it.

But there are so many different commodities, different corollaries, different areas, different practices. Some of those endorsements are necessary. Doing away with all of them could be detrimental to certain industries.

But at the same time there are certain industries, such as the rice, that needs some endorsements to get their policies set up better. So, if they change, it will probably be harder to manage. It's hard to say. You have to look and evaluate it with any industry proposal.

Mr. ROGERS. My time has expired, Mr. Chairman. I yield back.

The CHAIRMAN [presiding.] The next gentlemen will be Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. The time change legislation that was passed that was in your testimony had some pretty dramatic numbers or greater costs. Would you like to make some comment about that? You did earlier, but as I see your written testimony, it's a pretty dramatic increase in your cost of production.

Can you kind of walk us through some of the increases and what the recent studies show?

Mr. RAUN. Sure. I think the Farm Bureau has done an analysis; also, the AFPC at A&M, through the representative farms, has done an analysis on that.

For rice, as I recall my testimony—you might be able to help me with that area.

Mr. CONAWAY. You said $150.

Mr. RAUN. Yes, $150 an acre. I have done my own analysis, also, looking at my energy costs and fertilizer, so looking at the fertilizer and the fuel costs off of—taking them off of the 2009—excuse me—the 2008 crop year.

If time change legislation is passed by the House, it would increase energy costs 20 to 50 percent. An operator increase on just those two commodities, that being fuel and fertilizer, it would range from $88 to $231 an acre increase, $88 to $231.

Mr. CONAWAY. Is that with respect to what you generally run?

Mr. RAUN. It takes about $1,000 an acre to grow an acre of rice.

Mr. CONAWAY. As is?

Mr. RAUN. As is. So you would not have rice production in the state with those kinds of cost increases.

Mr. CONAWAY. With those kinds of cost increases, you wouldn't necessarily be able to maintain—to flow those through to the price of rice, would you?

Mr. RAUN. With the rice acres and the market, whatever is offered is what we have to take. And so we can't—there's no way for us to pass on these kinds of costs like that. We have to take whatever pricing and accept it, a $200 price increase, and there's all of our business.

Mr. CONAWAY. Well, that's just—I want to state the obvious for the record. Everyone in the room knows that you can't pass those increased prices through as costs. Do the others want to say anything?

Mr. CLEAVINGER. Well, as you're well aware, wheat growers are involved—heavily involved in time change legislation, through the Chairman.

And we would love to say "no" to this whole business, but with the light of the Supreme Court ruling, of EPA regulations, and the Clean Air Act, we are greatly concerned that we will have EPA legislation, and we are greatly concerned from the Congressman saying that they are going to limit EPA regulation.

I would ask each of you: Are you going to go back—I mean, we, in Texas, we understand. We don't want this. But on the East Coast and the West Coast, where the American people are out there, and those Congressmen, are they going to go to those guys and say, "Well, we're going to limit the very agencies that are protecting your welfare"? Are they going to get up before a camera and do that?

And so are we going to—do we not have to come up with some solution to this problem? With that Supreme Court ruling hanging over our heads, with EPA regulation, we would much rather have legislation than EPA regulation and make sure that agriculture is represented, and make sure that all of these costs aren't going to just devastate us after we lose some controls in there. Yes. That's my question.

Mr. CONAWAY. Sure. Well, that's a false choice, because I do think we can have legislation that will limit EPA and not the Draconian increases in energy that the House bill drives. I don't think we have to have that bad policy to limit what happens over at the EPA. I think we can work and make that happen, because the House bill will raise costs.

I mean, the previous President himself said, under his climate change ideas, in which a lot of it is in that House bill, our engine costs will necessarily skyrocket.

Well, I'm not sure I agree with that either, and so I'm not willing to take a risk on a bill that would necessarily skyrocket your energy costs to do something that an Executive Branch agency should do. Congress should do this, in being able to rein them in, in a more direct rifle shot basis, than to be part of that bad policy on energy across the board.

We had been conferring about this earlier, and we had a hearing on this last week on the whole farm insurance program on the U.S. crop. Do you want to share with us your oral testimony under those same terms that affects, I guess, the farmers as well, but it changes the academics and takes care of the proposal from last week as viable.

Mr. VAUGHAN. Well, that was what I had alluded to in my oral comments, was the fact that that proposal wants to bring ACRE down to the county level.

Mr. CONAWAY. Okay.

Mr. VAUGHAN. And there are various other proposals out there that bring it down to the county level.

My point was that when you do that, you risk destroying Federal crop insurance, and if you do that, then what are you doing with this proposal to deal with those problems?

Mr. CONAWAY. Does anybody else need to say something real quick about the time change legislation? Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. The gentleman from Nebraska at this time.

Mr. SMITH OF NEBRASKA. Thank you, Mr. Chairman. Mr. Raun, when it comes to CSP, have you seen instances where there were producers who wish to participate, but they weren't able to because of the lack of rules and details?

Mr. RAUN. Absolutely. And we're really optimistic and hopeful on this new and final rule that we're waiting for, on the amount and the level of the changes, the changes that will be made in the CSP program that will correct some of those problems.

But the basic set-up is where only one person working a farm number can apply for the ultimate sales to participate, and that's one payment. We have lots of farms or farm numbers, this FSA farm number, with multiple tenants on it. We might have—We have some three, four, five and upward participate, ten different farmers.

The first farmer that went down to the NRCS office had the wrong serial number operator for the farm, the wrong serial number, and he was the only one eligible to participate in that program. So, the program, we thought it was going to be a conservation program that would work for all farmers and everybody else, but it was really only to be limited to a very small amount of the population.

Mr. SMITH OF NEBRASKA. Thank you. Mr. Cleavinger, on your reflection on the time change legislation, I appreciate your optimism in being able to bring it in, and in an organization such as that, but I don't share that optimism today.

I'm just wondering, from a consumer standpoint, not only on their energy bill, but their food bill, what are you thinking about on that?

Mr. CLEAVINGER. Look, I agree with everything that is said about it. I think we need to get rid of it. I think whatever we can do to get rid of it, we need to do that.

What concerns me is: We are just saying "no," and we are turning our heads to the fact that the Supreme Court ruled that it's not only your—it's your obligation as the EPA to do this.

And in any of our meetings in California, the former EPA Administrator from the previous Administration said, "Look, we wrote the language that this current Administration is saying about what's going on about—that EPA would regulate."

And so we need to—we've got to have agriculture at the table, making sure we are represented and making sure that these costs that are going to devastate us, that we have to get them under control.

And I'm not—I agree with you. We need to get rid of them and at whatever it takes, but, I don't think we can just say "no." It didn't work for Nancy Reagan with the drugs because we still have drugs.

And, we just need to be at the table, to make sure that agriculture is represented, and that we have a good deal with the—if the deal is being made.

Mr. SMITH OF NEBRASKA. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. The gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. Mr. Cleavinger, is going to be the representative for the Northeast here.

Let me assure you that there are many of us that would love to beat up on the EPA and get back to having more business industry in agriculture. And having seen the budget triple this past year just scares us, the impact that they have on us.

And I'm very proud to say that public statement in front of the cameras at home.

Mr. Heffington, if you enforce the circumstances in the bill under the WTO case, which direction should the cotton program go?

Mr. HEFFINGTON. Well, that case is very complicated, because it gets into the WTO trade agreements, and that case was filed under two previous farm bills. I know we've made some significant changes in the cotton program since that time.

At the time that farm bill was written, the WTO lawyers said it was implied. They couldn't fix it anyway. So our cotton acres in the United States were cut nearly in half from that time.

I don't know what else—concessions we, as U.S. cotton growers, need to do to satisfy whatever they want. And I think what the Chairman said is, "We don't know what they want."

You know, the problem we have is—or I have in our membership is that we have another country getting to our Congress while our policies should be here, and we have other countries that are not paying attention to the farm bill pretty much.

And, that's our opinion when you first see the unilateral trade agreements, but this is—it's very clouded right now on what's going to happen and what needs to be changed, and any changes that are made apparently are for our safety. And there's some hard questions there, and it's—but it's different than whatever they want, what their purpose is.

And we don't believe it's cotton. It's other goods. That was the case that was brought forth. I am sure that doesn't clarify your question very well. But we are at a little bit of a loss on how to respond to it, also, since we have already made significant changes.

Mr. THOMPSON. Okay. Thank you.

Mr. CLEAVINGER. Thank you.

Mr. THOMPSON. Mr. Heffington kind of reflected on the estate tax, to be honest, and the future of agriculture in this country that's going to keep agriculture, agricultural lands in production. And I just wanted to get thoughts and comments on the estate tax.

How do we keep—Mr. Brown, what are the things we should be looking at in our farm bill to make sure that that we are continuing our legacy and having production in agriculture strong in this country with things like estate tax or any other concerns that you might have?

Mr. BROWN. Well, of course, agriculture has some great concern about estate taxes, and, of course, we would like to see it just removed, but we realize that is probably an impossibility.

We would like to see them put it at a realistic level and maintain the farms in the family and the businesses that have been created over the years, to be able to continue without the loss of any of that land and the business that they've put together.

We think it would be outstanding if a level could be reached and agreed upon, because during estate planning, *et cetera* and so forth, into the future now, it's impossible. How are you going to plan when you don't know what the future will hold?

I hope at some point in time in the near future that this level, whatever it is, can be agreed to, and hopefully it will be a level that most farms can still be made whole after the tax.

Mr. THOMPSON. Mr. Heffington.

Mr. HEFFINGTON. It just occurred to me that we just need this in agriculture. There are people that have worked their whole lives to pay for their farms, and they have paid taxes on their income over all of those years, and they have passed away, and their children or their heirs have paid a tax on the farm so high that they have to sell the farm, and it's already been paid for, and taxes have been paid on it for the whole time.

So that is actually a great inequity, and there needs to be a solution in that problem. But, personally, I think the solution is the corporate structure we discussed earlier; that the family members can come in, and we can transition these farms with as little—just as best as you could.

But what Mr. Brown is saying about the levels that there can be—reasonable people don't have to sell the whole estate to keep it functioning, or put them into economic stress because of the assets they have paid for in the first place.

Mr. THOMPSON. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. And I want to thank you, the witnesses from the panel, as well. I just want to say that I was there when the negotiating session went on, and you're aware of the WTO. A lot of times, I was the only Member there.

I read the agreement on the way back, on the plane, going through the schedules and stuff. I didn't vote for it, because I had actually read what was in it.

And, we're dealing with trying to figure out what to do with the farm bill, and we're dealing with a lot of past history and decisions that were made when times were a lot different than they are now. We have voted on that, and that is what we are trying to untangle here.

The WTO, you have a situation where they are suing you guys over past history. This is not an acceptable situation. We cannot afford to be in a system where we are fighting battles that don't mean anything in the real world, and frankly——

[Applause.]

The CHAIRMAN. Because the only solution at this point is that we can figure out how to become a negotiator in getting any kind of variance out of this deal over here.

So I'm told that by our great negotiator. I'm told this by Mr. Maguire and all of these other guys that are involved in this thing; that they are not going to get an agreement unless they change their ways, and they figure out some of this stuff, because they're not going to give in agriculture without us. They're not going to get it either.

So I will guarantee you that based on this Member, we're going to be tough, and we're going to make sure this thing works, and we don't get into this stuff in the future.

[Applause.]

The CHAIRMAN. And with that, we have 11:59. We're doing pretty good. So I thank the panel; thank the previous panel; thank all of you for being with us today.

I think this is the biggest crowd we've had. So you can be proud of yourself in Texas. It seems like that always is the case, the turnout of the folks down here, and this has been very helpful to us, the testimony and the exchange on the questions. And we look forward to working with you over the next year, to try to figure out what we're going to do.

And with that, under the rules of the Committee, the record of today's hearing will be remain open for 30 calendar days, to receive additional material and any written responses from the witnesses for any questions that may have been posed by Members of the panel, they are submitted. And with that, this hearing of the Committee on Ariculture stands adjourned.

[Whereupon, at 12:02 p.m. (CDT), the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT BY HON. COLLIN C. PETERSON; ON BEHALF OF TEXAS SHEEP AND GOAT PRODUCERS ASSOCIATION

2012 Farm Bill

The sheep industry of the United States benefits from several provisions of the current farm bill:

The Loan Deficiency Program for wool and unshorn pelts with nine categories of graded wool loan rates based on a national rate of $1.15/pound grease and a non graded rate of $0.40 per pound. FAPRI analysis supports a national rate of $1.20 to make graded loans actually available to industry. Since 2002, only a few months for very limited categories has a graded loan made sense over the non graded category. The non graded category was intended to provide marketing assistance to flocks too small to justify quality grading of wool with laboratory testing.

The National Sheep Industry Improvement Center was authorized in the current farm bill with $1 million in mandatory funds and up to $10 million in appropriation authorized per year of the legislation. The American Sheep Industry Association encourages USDA to implement the Center and appoint a board in 2010.

The sheep industry is currently preparing a nationwide plan to increase the sheep inventory for additional lamb and wool production. Sheep producers and feeders, lamb company executives and wool industry representatives comprise the committee developing the plan and release in 2010. We understand USDA programs may be helpful in addition to industry projects and funding to expand sheep production in America and we intend to share the plan with the Agriculture Committees for consideration in the next farm bill.

Two provisions that were suggested for the 2008 bill included a tax credit for pharmaceuticals to be developed and labeled for minor use/minor species such as catfish, goats and sheep.

Retained ewe lamb program to encourage ewe lambs be kept for breeding rather than slaughter in order to increase production.

The American Sheep Industry Association (ASI) was a strong supporter of the Disaster Trust Fund and found the Livestock Indemnity Program created in the 2008 legislation to be a lifesaver for ranches in the intermountain west and northern plains that lost tens of thousands of sheep in severe spring and winter storms of 2008 and 2009.

ASI also actively supported the authorization of interstate shipment of state inspected meat as authorized in the 2008 legislation.

SUBMITTED LETTER BY WALLACE L. DARNEILLE, PRESIDENT & CEO, PLAINS COTTON COOPERATIVE ASSOCIATION

May 12, 2010

Members,
House Committee on Agriculture,
Washington, D.C.

RE: 2012 Farm Bill

Chairman Peterson, Ranking Member Lucas, and Members of the House Agriculture Committee, I sincerely appreciate the opportunity to submit this written testimony regarding the 2012 Farm Bill on behalf of the members of Plains Cotton Cooperative Association (PCCA).

Headquartered in Lubbock, Texas, PCCA is a fully vertically integrated farmer-owned cotton marketing cooperative with approximately 25,000 stockholders. We market cotton produced in Texas, Oklahoma and Kansas, making us one of America's largest cotton suppliers with total annual sales of over $1 billion. Our mission is simple—to add significant value to the cotton marketed for our members.

We add value to our members' cotton in a number of ways. We own and operate cotton warehouse facilities in the three-state region. We own a textile mill in Littlefield, Texas, that turns some of our members' cotton into denim fabrics. This mill, American Cotton Growers (ACG), provides more than 500 jobs in a town of approximately 6,000 residents. It is estimated that every textile job supports three additional jobs in the community and the region. We also own a denim apparel facility in Guatemala employing more than 5,000 people to turn some of ACG's fabrics into high-fashion jeans. In other words, PCCA is a field-to-fashion system working to enhance our members' overall farm income while competing in domestic and international markets. It is the issue of competition that will dominate the remainder of my comments.

With the dramatic decline in U.S. textile production capacity during the past 12 years, we have been forced to sell as much as 75 percent of our members' cotton in the international marketplace. Quite often, we face formidable competition from highly subsidized foreign cotton. Therefore, I encourage the Committee to strongly support export programs that are vital to maintaining and expanding U.S. agricultural exports. By so doing, you will be supporting farm income, contributing favorably to the U.S. balance of trade, and protecting jobs throughout the communities where PCCA operates and where our members live.

With this in mind, I am very concerned by the Administration's proposal to cut the Market Access Program (MAP) by 20 percent. MAP has proven to be very successful in developing, maintaining and expanding long-term export markets for U.S. farm products. A recent study showed that each promotional dollar spent in the MAP program generates $35 worth of export sales. I urge you to maintain the MAP program at the highest possible funding level in the next farm bill.

Despite the incredible success of U.S. agriculture, due in large part to past Federal farm policy, we continue to be challenged by those who do not understand the importance of our industry to the U.S. economy. Even cooperatives like PCCA are threatened by some who question whether the Capper-Volstead Act and its limited antitrust immunity for farmer cooperatives is still needed or if it should be changed. Without this limited immunity, many family farmers, including our members, would not be able to compete in today's marketplace due to their lack of bargaining power. Nor would they be able to integrate in value-added processing operations like those of PCCA.

Congress has long supported farmer-owned cooperatives and recognized they serve many essential functions for U.S. agriculture. I respectfully ask that you continue to support these cooperatives and maintain the statutes that allow us to operate on behalf of our members.

The 2008 Farm Bill introduced an economic adjustment program for the U.S. textile industry. PCCA's denim mill has used this program to upgrade our facility in order to compete against cheap, foreign-made apparel that has flooded the U.S. market in recent years. We believe it is vital to maintain this program in the 2012 Farm Bill for our textile operation and the jobs it provides as well as the rest of the remaining U.S. textile industry. Equally important, this program will help protect the millions of dollars our members have invested in PCCA's textile and apparel operations.

I am writing this letter from a conference in Sanya, China, where we are hearing about all the steps the Chinese Government is taking to support their farmers. There are many Indians in attendance, and one gave a speech on the workings of the cotton price support system in their country. A Pakistani is scheduled to speak this afternoon. My point is that U.S. farmers must compete in a global marketplace against heavily-subsidized cotton from other countries. Thus, it is critical that we maintain a safety net which will sustain U.S. agriculture in times of low prices while costing our government and our taxpayers very little, if anything, when prices rise to higher levels. The 2008 Farm Bill has worked extremely well in that regard, and we believe it is a very good model for the future.

In summary, PCCA and its members maintain that sound farm policy is essential for the viability of the U.S. cotton industry. Farm policy set by the 2012 Farm Bill should:

1. Be market oriented;
2. Allow production to meet market demand;
3. Provide an effective safety net;
4. Make available competitively-priced U.S. cotton to textile mills in this country and around the world; and
5. Encourage maximum participation regardless of farm size or structure.

An effective marketing loan program should continue to be the centerpiece of the upland cotton program to provide an effective safety net for producers. This marketing loan is the foundation that gives banks the assurance they need to make operating loans to our members.

Finally, I realize you face many challenges due to the current budget situation, and I appreciate your responsibilities. I encourage you to remember the continued importance of policies contained in the farm bill that promote an economically healthy and competitive U.S. agriculture industry, while providing American consumers with food and fiber at the lowest cost relative to personal disposable income of any country in the world.

Thank you in advance for your consideration and for your dedication to America's family farmers.

Sincerely,

WALLACE L. DARNEILLE,
President & CEO.

SUBMITTED STATEMENT BY DAVID FISH, CEO, BREEDLOVE FOODS INC.

USAID Reduces Popular Program Despite Available Funds Money Wasted on High Priced Commodity

Thank you, Mr. Chairman.

Breedlove Foods is a nonprofit supplier of nutritious food products for hunger relief throughout the world. We are based here in Lubbock and use products from our local farmers for our processed foods. We also are an employer here in the agricultural sector, providing over jobs to many in our community.

For the past several years, Breedlove and many smaller American nonprofit organizations have participated in a unique USAID overseas feeding program known as the International Food Relief Partnership (IFRP). This program, which was initiated by the Agriculture Committee, has been a useful supplement to the health, nutrition, education and community assistance activities carried out by these organizations in various locations in the world.

Originally authorized by the Congress in 2000, the IFRP was extended in 2008 and provides for a minimum of only $8 million in funding annually for smaller U.S. nonprofit organizations. The funds for this program come from the much larger P.L. 480 Title II program valued at over $1.6 Billion. In 2009, USAID received over 80 proposals from such groups, but only chose to fund 30 programs despite having the authority to increase the program, without additional appropriations, from the much larger Title II program. Many people in need of adequate nutrition were denied that opportunity, as a result.

Recently, USAID issued new guidelines for the 2010 IFRP program and will now FURTHER reduce the number of programs to less than 20. This is not a financial issue the funds are appropriated for the program at least at last year's levels, or more, if USAID chooses to expand the program.

These further reductions are the result of an ill-advised USAID decision in January of this year to award nearly $2 million of the $8 million available to the program to a nonprofit affiliate of a French firm for only 302 tons of a very expensive peanut paste commodity. The cost to U.S. taxpayers as a result of this decision is a staggering $6,400 per ton! Other bids were reportedly less than half that amount.

We and other critics of this decision have noted that the French firm holds a patent on the product to the exclusion of other suppliers and we are in the process of challenging that patent. We also question the eligibility and capability of the awardee, Edesia, who claims nonprofit status through a third party organization and who was only established last year and has never produced a product.

As a result, more funding must now be used for this French commodity and less is available to fund even last year's low level of 30 IFRP programs. We believe USAID should reverse this decision and add more funding (already available to them) to the IFRP program in order to accommodate what will be a massive number of requests, especially for Haiti.

If USAlD refuses to add available funding to the IFRP Program, then we urge the Committee to legislate a substantial increase in the minimum funding available for this program—in the next farm bill.

Thank you.

DAVID FISH,
CEO,
Breedlove Foods Inc.

SUBMITTED STATEMENT BY HON. SUSAN L. KING, REPRESENTATIVE, STATE OF TEXAS

May 17, 2010

Dear Chairman Peterson, Congressman Neugebauer, and Members of the U.S. House Agriculture Committee:

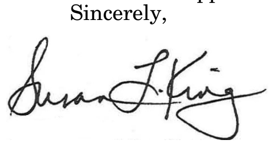
Thank you for your dedicated service to our country and your potential focus on the nutritional aspects included within the farm bill. It was with great interest that I read of your hearing to be held today at the Texas Tech University Museum in Lubbock. Unfortunately my legislative responsibilities require me to be in Austin or I would be in attendance.

As the 2012 Farm Bill is being formulated and evaluated by Congress, I and other Members of the Texas Legislature have a shared interest in the area of the Supplemental Nutritional Assistance Program. As a Member of the Public Health Committee, I have frequently posed the question as to why there is not a way to apply nutritional guidelines to the SNAP program in the same manner as other Federal and state administered food assistance programs such as Women, Infants and Children (WIC) and the National School Lunch Program. It is illogical that one or more Federal food assistance programs have nutritional guidelines and an education component while the largest program, SNAP, has no nutritional guidelines or food choices education for the consumer. Should not all citizens, regardless of age, who are receiving nutritional assistance have healthy guidelines as well?

With the national dialogue on childhood obesity, obesity, fitness and alarming statistics on Type II Diabetes, the time to change taxpayer funded programs to potentially enhance our nations' health is now. Instead of allowing the choice of non-nutritional items at taxpayers expense, the program could be changed with this life-altering parameter. While the basis of one argument is that no nutritional guidelines for SNAP is an irresponsible expenditure, we must begin first with the priority commitment that only balanced and nutritionally sound choices are a proper path for our country. With present health care costs, this is a specific way to contribute to decreasing nutrition-related diseases both now and in the future.

It is my understanding that only Congress can enact these changes. For the health and nutritional sake of SNAP recipients now and for generations going forward, please consider this change at the Federal level or at a minimum allow the individual states to have a waiver to customize their own guidelines to ensure a balanced food choice approach.

Sincerely,



Hon. SUSAN L. KING,
State Representative, District 71.

SUBMITTED STATEMENT BY SCOTT MCGARRAUGH, PRESIDENT, TEXAS WHEAT PRODUCERS ASSOCIATION

Mr. Chairman, Rep. Neugebauer, Rep. Conaway, Rep. Cuellar, and other Members of the Committee, welcome to the great Lone Star State of Texas. On behalf of the Texas Wheat Producers Association (TWPA), I would like to first thank you for allowing me the opportunity to appear before you today to discuss the priorities of wheat growers regarding the 2012 Farm Bill and the future of U.S. farm policy.

The Texas Wheat Producers Association was founded in 1950 with the sole purpose of providing a strong unified voice for Texas wheat producers. The TWPA currently represents over 500 farm families across the state and we continue to grow on an annual basis.

Texas has a long history of production agriculture, and while we are not the largest wheat production state in the U.S., we are arguably the most diversified in terms of production, weather, geography and exports. Texas wheat producers harvest nearly 99 million bushels of wheat per year on average, the majority of which is comprised of hard red winter wheat. Although Texas is largely recognized for its beef, cotton and corn production, sixty percent of our 99 million bushels of wheat are exported annually through the Gulf Coast.

As a lifelong farmer and rancher in Ochiltree County which was once noted as the wheat heart of the nation, my operation consists primarily of wheat, but also includes milo, oats, hay and a commercial cow-calf and stocker cattle operation.

Federal farm policy and its impacts on American farmers and consumers is the focus of the Committee's field hearing today. Mr. Chairman and Members of the Committee, as President of the Texas Wheat Producers Association, I hope to leave you here today with a better understanding of where Texas wheat growers are in regard to policy and farm programs.

Farm Support Programs

Budget Baseline

The TWPA is well aware and very concerned with the possibility of a severely constrained budget baseline for future Federal farm programs. U.S. farm policies, along with efficient and innovative farmers, have helped to minimize safety net expenditures which have chipped away at the baseline for these programs. As I am sure you are well aware, the Congressional Budget Office (CBO) projected commodity program spending for the current farm bill will be less than ¼ of 1 percent of the Federal budget. For each American that is about 25¢ out of every $100 dollars paid in taxes. U.S. farm policy as a whole costs Americans just 3¢ per meal or 9¢ a day (*Farm Policy Facts*). These costs are minimal in comparison to other countries' annual income expenditures on food alone. I would attest that the farm safety net must continue to be robust and the farm bill budget baseline must be maintained and preserved in order for consumers to continue to enjoy a safe, abundant and affordable food supply as they do today.

Farm Programs

Texas farmers widely participate in Federal farm support programs and view them as vital to ensuring the continuance of the agriculture industry in light of its inherent risk and increasing volatility. The Direct and Counter-cyclical Payment (DCP) program and marketing loan programs are widely utilized by Texas producers. In the instance of wheat growers, we have served as a cost saving measure within the marketing loan program due to the fact we use the least amount within our industry.

During the 2008 Farm Bill process, farm programs faced pressure to be reformed, reduced or eliminated. The TWPA along with other commodity groups focused very heavily on maintaining the Direct Payment and with help from the House Agriculture Committee we were successful in doing so. While the TWPA is open to looking at possible new ways of maintaining a safety net for producers, we still see the net benefit the agricultural industry receives from direct payments.

Direct Payments have been very essential in ensuring the vital support farmers need to continually meet the demands of the agricultural industry. Over the years, Direct Payments have allowed producers to continue to purchase needed equipment, seed, chemicals, parts, and fuel from dealers and suppliers. In looking at a farm forward reaction, due to farmers being able to utilize direct payments in the aforementioned way, small business owners, coops, tractor supply stores, and many others are able to stay in business and lead to creation of jobs and opportunities in rural communities.

The TWPA is well aware that Direct Payments are constantly under scrutiny and attack, but let me remind the Committee that the reliability of this program cannot be overlooked in meeting the needs of producers that are unable to utilize other Federal safety net programs. As Congress looks toward crafting new farm bill legislation, the TWPA asks that careful consideration be given to the Direct Payment program.

In addition, Texas wheat producers continue to gather knowledge and experience with newer farm programs like ACRE and SURE. According to the FSA, 930 farms were enrolled in ACRE in 2009. Of those 930 farms 897 carried wheat acreage. However, we believe this degree of enrollment was largely influenced by the extenuating wheat cropping conditions in 2009 and the extended deadline to elect and enroll in the program.

Despite the current enrollment levels, the program is still very complex and confusing to producers. It is our recommendation that as the ACRE program goes forward the complexity and paperwork involved with the program be reduced and that payments be made to producers in a more timely manner. There is also concern over the timeliness of both the program sign-up for SURE and the delivery of payments to eligible producers. However, we do recognize the SURE program as an improvement in terms of predictability over an *ad hoc* disaster program.

As seems to be a recurring theme in any farm policy discussion, farmers in Texas and all across the country say they are inundated with the amount of paperwork they complete when signing up for farm programs. There is also frustration with the inconsistency in rules and regulations associated with the programs. In addition, as the process of signing up for farm programs is moving more toward an online process, the lack of education on how to utilize this system and the stiff penalties associated with unintended mistakes are making producers more hesitant to move in that same direction. These programs are meant to assist producers; however, the cumbersome process provides strong disincentives to participate. I would urge this Committee to explore these issues and try to address them.

Last, the TWPA opposes farm program payment limitations. With regards to the Adjusted Gross Income (AGI) eligibility tests for producers to receive payments, farmers today—whether on a small or large operation—can easily accrue expenditures that far outweigh their gross income. The cost of fuel and fertilizer can be extremely volatile, and the cost of equipment today can seem outlandish to someone unfamiliar with the capital-intensive nature of modern farming. Likewise, we may see significant increases in seed costs in the near future as there continues to be progress in developing commercially viable biotech wheat products. In light of this, it is the recommendation of the TWPA that we maintain the current level of AGI of non-farm income at $500,000 and on farm income at $750,000 instead of looking toward a 25 percent cut as has been proposed by the Administration.

Crop Insurance

The Texas Wheat Producers Association supports maintaining a strong crop insurance program as an important risk management tool for farmers. Federal premium cost sharing encourages participation and is critical to a successful program.

According to the Risk Management Agency (RMA), in 2009 nearly 6.4 million acres—or 76 percent of the state's total wheat acres—were covered by one of the various available forms of Federal crop insurance. Texas grain production is very diversified in large part due to climatic weather conditions and also by soil types that vary across the state. Because of this diversification and the inevitability to predict and control acts of Mother Nature, be it drought, hail storm, tornado, or even a freeze, Texas' participation in the Federal crop insurance program is very high.

Because of the high enrollment rates among Texas producers, and the need to have a viable, reliable program, the TWPA has always encouraged RMA to require crop insurance companies to interpret and apply crop insurance rules and regulations in a uniform and timely manner.

That being said, as we look toward the future, the ongoing Standard Reinsurance Agreement (SRA) negotiations are a cause for concern for our growers. We understand and agree with the Administration's desire to find budget savings. However, the USDA's draft SRA proposal seeking $6.9 billion in cuts over ten years to Federal crop insurance programs could severely affect the scope of the program. A reduction of this magnitude could significantly reduce the accessibility, competitiveness, and quality of crop insurance and thus have a negative impact on the agriculture industry.

The TWPA understands that negotiations between insurance providers and the RMA are ongoing. We certainly support a mutually agreeable and expedient outcome, so long as it does not hinder the competitiveness and the quality of crop insurance coverage to producers. In addition, we believe any savings achieved through these negotiations should be captured in a way to maintain the agriculture budget baseline.

Conservation

Texas and U.S. farmers have consistently worked to be good stewards of the land with which we have been so richly blessed. Texas producers have worked at implementing practices that reduce erosion and maintain water quality and water management. The conservation program that our growers have expressed the most interest in is the Conservation Reserve Program (CRP).

Conservation Reserve Program

The TWPA is very supportive of the use of CRP as a natural resource tool to better preserve soil quality and reduce soil erosion. We also recognize the erodibility index of 8 as a guideline for establishing CRP eligibility, but we encourage flexibility to enroll land that does not meet the erodibility index of 8 when environmental or economic benefits justify We also encourage more priority designation and more access to wind and water points in areas where applicable.

In the Panhandle and Northern High Plains Region of Texas where I live, roughly 507,000 CRP acres will be due for re-enrollment, termination, or extension by October 2010. In 2009, 680,000 acres were expired and in 2008, 78,000 acres expired. The TWPA would encourage the Committee to work closely with the USDA–FSA and NRCS with regards to the potential impacts of producer decisions as the October deadline approaches and future CRP acres expire.

Trade

Last, I would like to leave you with some thoughts to consider about trade. The TWPA is very supportive of a robust trade agenda including passage of the current pending free trade agreements and more open trade with Cuba. Trade is essential to our market especially since the U.S. typically exports 50% of the U.S. wheat production and 60% of Texas's wheat crop. Given the large carryover stocks that are currently in play and looking at the current wheat crop conditions nationwide, having viable international markets for our wheat is vital. It is more important now than ever to maintain and grow our markets: if we fail to do this, our competitors will capitalize on the opportunity.

The U.S.-Colombia FTA is a prime example. Where the U.S. once boasted maintaining roughly 85 percent of the Colombian market, estimates now show that our share could fall as low as 30 percent if Canada, one of our leading competitors, approves a free trade agreement before the U.S. That in itself is simply unacceptable, especially when we continue to hear on a regular basis from our foreign buyers that the U.S. has the highest quality and most readily abundant supply of wheat but we cannot export it because of a lack of competitive trading conditions.

Cuba proves another example of the potential for Congressional action to significantly benefit the Texas economy. According to a study conducted by the Center for North American Studies which was supported by Texas AgriLife Research, implementing a bill like H.R. 4645, the Travel Restriction Reform and Export Enhancement Act of 2010, would increase Texas agricultural exports to Cuba by $18.4 million annually. This would nearly double agricultural exports from Texas to Cuba compared to 2009.

Mr. Chairman and Members of the Committee, there are many other critical areas of interest affecting Texas wheat farmers, including estate tax policy, research funding, rail transportation, and environmental regulation. The TWPA looks forward to engaging further in these discussions with the Texas Congressional Delegation and the House Agriculture Committee as these issues continue to unravel.

In closing, when looking at constructing the 2012 Farm Bill, Texas wheat growers are seeking a robust safety net that reflects the realities of today's production system, that helps them manage against the risk of volatile weather and market conditions, and supports their stewardship efforts on our nation's soil.

Again, the Texas Wheat Producers Association is privileged and honored to represent over 500 family farming operations before this Committee today. We look forward to working with you, your staff, and the rest of Congress to ensure that production agriculture can and will continue to provide a safe, abundant and affordable food supply for the U.S. and for the world.

If Members of the Committee have any questions I would be more than happy to respond to them.

Thank you.

Submitted Statement by Joe Rapier, Chairman, Lubbock Chamber of Commerce

Mr. Chairman, and Members of the U.S. House Committee on Agriculture: Thank you so much for choosing to hold a 2012 Farm Bill Hearing in Lubbock.

Accredited by the U.S. Chamber of Commerce at the highest level of distinction with "Five Stars," the Lubbock Chamber of Commerce is the largest business federation on the Texas South Plains, representing 2,200 businesses and the almost 60,000 workers they employ.

Lubbock's economy is founded and still based on the millions of acres of cotton, grain and other row crops efficiently grown by area family farming operations that today have a $3.5 billion economic impact on Lubbock. This efficiency, unparalleled worldwide, requires major capital and technological investments that result in huge risk since unexpected losses or increases in input costs cannot be passed directly on to consumers.

We are well aware that the 2008 Farm Bill accounted for less than 2 percent of the Federal Budget; with almost ¾ of that being the Nutrition Title alone and less than ½ of 1 percent of the Federal Budget dedicated to farm programs.

From a business standpoint, we believe this 0.5 percent or less of the Federal Budget to be a sound investment that, while covering a fraction of the costs of equipment, fuel, and other inputs necessary for viable and efficient farming operations, provides stability critical to the survival of our independent, entrepreneurial family farms.

This investment also allows our area's crops to be sold at globally-competitive prices while competing with other governments' unfair trade and, in some cases, inhumane labor practices. In the face of this, and as long as the nations of the world intervene to the extent that they do in agricultural markets, this investment in U.S. farm programs is necessary to protect our nation's agricultural infrastructure. These support programs are essential for allowing area producers to make the investments that will keep U.S. agriculture—and with it, the nation—productive and viable.

We hope our position on this issue is clear. The Lubbock Chamber of Commerce supports fiscal restraint and a marked decrease in government spending and interference, but spending reductions should be made where they are meaningful, where they eliminate true wasteful spending, and not where they impact less than 0.5 percent of the Federal budget in an area that we find to be a fiscally restrained, sound investment. Such spending reductions would be made on the backs of hard-working, efficient family farm entrepreneurs and would be detrimental to U.S. agriculture.

Finally, our input would not be complete if we did not address the fact that, much like the small businesses we represent, U.S. and Lubbock area farmers are already operating in a climate of uncertainty regarding what other policies outside the jurisdiction of this Committee may come from Washington next in such areas as a climate change bill and a looming 55 percent estate tax in 2011. Making major changes to existing farm legislation would create yet more uncertainty in already uncertain times.

"Farm subsidies" and supposed "corporate farming" make for fetching headlines, and we know based on our past experience that many newspapers and groups, including some fellow business organizations, will chime in with these themes as your work on this legislation progresses. However, we respectfully urge you to remember the past dividends of the investment of a mere ½ of 1 percent or less of the Federal budget. This includes a fiscally disciplined, market-oriented safety net that has reduced actual farm program spending and created certainty around a safe, stable and abundant food supply amidst a world economic crisis.

We are very grateful for the opportunity to provide this Committee with input. We wish you and your Colleagues the best as you continue to work toward the next farm bill, and we hope you have enjoyed your visit to Lubbock.

Thank you for your service on the U.S. House Committee on Agriculture, and thank you for your service to our nation.

SUPPLEMENTARY MATERIAL SUBMITTED BY BILLY BOB BROWN, IRRIGATED AND DRYLAND WHEAT, SORGHUM, AND BEEF PRODUCER

House Agriculture Committee Testimony . . . Cuba Trade

Mr. Chairman,

I am for developing better trade and travel with Cuba. In my opinion there is much to gain in commerce, trade and relations.

Several of us on the Board of Directors of Texas Farm Bureau have made fact finding trips to Cuba. I went September of 2008 along with Texas Farm Bureau President Kenneth Dierschke. We accompanied a group of Texas small business food product companies that were interested in exporting to Cuba. Cuba had agreed to let the business's demonstrate their products for possible acceptance. The products were a sausage product and several different dessert items that would be directed toward their tourist industry.

The interest in the products the Texas companies was outstanding. While invitations were issued by Cuban officials to the hotel and restaurant tourist trade, almost double the expected number showed up for the demonstration. The products were well received as after the taste test session, not one morsel of food was left. The products have since been approved for import.

Because of the nature of our trip, we were able to meet and visit at length with several of the key officials of trade for Cuba. These officials included: Vivana Garcia Fonseca, Director Ministerio del Comercio Exterior; Alberto Betancourt Roa, ALIMPORT Chief Adminstrator; Ariel Fialo Semino, protein buyer and attorney; Michael Rodriquez Chavez, buyer; and Michel Bourg Munoz, buyer. I was impressed by the youth of this group. I would put the age of most between 35–50 years. I had expected much older officials.

Cuba is a country of well educated people. Many have attended the University of Havana or subsequent university and are bilingual if not multi-lingual. The literacy rate in Cuba is estimated to be 99.8 percent (*CIA World Factbook*) exceeding that of all other countries in the Caribbean and Latin America. It is easy to see they are very resourceful as well as realize the conditions in which they exist. They are anxious for change.

As we were considered trade dignitaries of sorts, we were furnished a van, driver and guide. This allowed us to travel unimpeded to various parts of the country. We found what seems to be tremendous opportunities for our exports. Livestock genetics, both beef and dairy, lag years behind U.S. herds. Crop science and agronomy is years behind. 50 percent of Cuba's land is classified as agricultural. According to the Food and Agriculture Organization, about 70 percent Cuba's arable land has low organic matter content, while 45 percent in low fertility. These soil conditions are attributed to poor land management, including continuous tillage, overgrazing, lack of fertilization and inadequate or improper use of irrigation or drainage systems.

Because of poor soil conditions, high humidity, timing and amounts of rainfall, high insect infestations and lack of pesticide or biological controls, Cuba's ability to produce grain and oilseed crops is limited and likely to remain so over the long term. As a result, Cuba will remain on of the top grain and oilseed product markets in the Caribbean region provided the economic conditions there are conducive to market growth and the utilization of imported products.

Vivana Garcia Fonseca, Director Ministerio del Comercio Exterior, mentioned several times about the possibility to import corn from the United States.

The location of the United States to Cuba cuts the time and freight rates for goods shipped. Shipping time would be cut from weeks to days. Rice, for example, comes mostly from Viet Nam. The U.S. has better quality and lower freight rate rice that Cuba would like to buy. This would apply to other goods as well making the U.S. very competitive on the world market when trading with Cuba.

We have the products Cuba needs and along with our help and expertise to utilize the products, Cuba could become, I believe, a more open, viable country via expanded trade. The key for expanding U.S. exports would be developing a finance package that would allow direct buying and selling between countries. Currently it is cash only with a third country involvement.

According to Texas A&M AgriLife Research key findings, in 2009, U.S. exports to Cuba were $528 million, supported by $1.6 billion in total business activity, and provided 8,600 jobs throughout the U.S. economy. If U.S. travel and financial restrictions are removed, up to $365 million/year in additional U.S. exports would result, requiring $1.1 billion in business activity and 6,000 new jobs. While the U.S. agriculture is estimated to receive major economic gains from increased exports, non-agricultural sectors such as business and financial services, real estate, wholesale and retail trade, and health care are also important beneficiaries of increased exports to Cuba, receiving up to 45 percent gains in some cases.

The report goes on to say: Increased access for U.S. travelers is also important for stimulating demand for U.S. foods in Cuba over the next few years as economic recovery occurs and U.S. firms become better positioned to respond to global market opportunities. Cuban revenue from tourism was reported to be $2.1 billion in 2009 and was major source of foreign exchange. A record 2.4 million tourists visited Cuba in 2009.

The analysis and report were prepared by the Center for North American Studies (CNAS), Principal Author, C. Parr Rosson III, Professor and Director, North American Studies, Department of Agricultural Economics, Texas AgriLife Research, Texas A&M University.

I see expanding trade with Cuba as a long term win-win. I think it will stir coals of free enterprise long smoldering in the Cuban people. It will be the wheel-horse toward a more open Cuban society and beneficial to the economy of the United States.

Thank you for allowing me to share my thoughts concerning trade with Cuba.

HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

TUESDAY, MAY 18, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Sioux Falls, SD.

The Committee met, pursuant to call, at 8:01 a.m., in the Second Floor Theater, Edith Mortenson Center, Augustana College, Sioux Falls, South Dakota, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Herseth Sandlin, Walz, Markey, Kissell, Childers, Goodlatte, Rogers, Conaway, Fortenberry, Smith, and Thompson.

Staff present: Aleta Botts, Dean Goeldner, John Konya, Clark Ogilvie, Anne Simmons, April Slayton, Kevin Kramp, Josh Mathis, and Sangina Wright.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

The CHAIRMAN. This hearing of the Committee on Agriculture to review U.S. agriculture policy in advance of the 2012 Farm Bill will come to order.

We have many Members of Congress here. On my side we have Ms. Stephanie Herseth Sandlin from South Dakota, our host; Mr. Tim Walz, my neighbor to the south in Minnesota; Ms. Betsy Markey from Colorado, the northeastern area; Mr. Larry Kissell from North Carolina; and Mr. Travis Childers from Mississippi. The Ranking Member today is Mr. Bob Goodlatte from Virginia who used to be Chairman of the Committee before I was; Mr. Mike Rogers from Alabama; Mr. Mike Conaway from Texas; Mr. Jeff Fortenberry from Nebraska; Mr. Adrian Smith from Nebraska; and Mr. Glenn Thompson from Pennsylvania. So we've got good representation here today from the Committee. We're looking forward to the testimony.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good afternoon, and thank you for joining us for today's House Agriculture Committee hearing. We are glad to be here in Sioux Falls to hear from area farmers and ranchers about the issues facing agriculture and rural communities.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business. But we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture.

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing that they need to put a crop in the ground.

I want to welcome our witnesses and thank them for taking time out of this busy time of year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. A bill this large and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process that is open, transparent, and bipartisan.

For all those joining us today in the audience, I hope that you will also participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on our Committee website, and we have cards available today with that web address so that everyone has a chance to tell the Committee about what is working and what new ideas we should consider for the next farm bill.

We have a lot of ground to cover, so let's get started.

The CHAIRMAN. And I'm going to recognize our host, Ms. Stephanie Herseth Sandlin, to do the opening statement for our side and welcome us to South Dakota. So the gentlelady is recognized.

OPENING STATEMENT OF HON. STEPHANIE HERSETH SANDLIN, A REPRESENTATIVE IN CONGRESS FROM SOUTH DAKOTA

Ms. HERSETH SANDLIN. Well, thank you, Mr. Chairman, for holding a field hearing in South Dakota. I want to thank you and Mr. Goodlatte. In 2006 we had a field hearing in anticipation of the 2008 Farm Bill when Mr. Goodlatte was Chairman of the Committee in western South Dakota, in Wall. Some of the folks in attendance today joined us at that hearing. I think it highlights the importance of getting an early start. You can't start too early when we talk about writing the next farm bill in light of the changed economy—economic circumstances, challenges, opportunities as we proceed in the months and years to come in anticipation of what more we need to do in public policy for farmers and ranchers and those in rural America. I want to welcome my other colleagues from other parts of the country, neighboring states, for joining us here in Sioux Falls. It's a beautiful day out there today, so I know we've got some producers in the fields and some folks that are here that will be hurrying home to get out there this afternoon. But I do thank you for hosting one of our field hearings here and pleased as we wrap up this second series that we have so many Members of the Committee in attendance to hear the testimony today.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net programs that protect farmers and ranchers and provide the certainty they rely on to stay in business, but we also made historic investments in nutrition, in conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture. While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing they need to put a crop in the ground.

I want to welcome our witnesses. We thank them for taking the time out of this very busy time of the year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. And a bill this large that covers so many important issues takes a lot of time and effort to get it right, and I'm committed to a process that's open, transparent, and bipartisan. And clearly in the work that Mr. Peterson and Mr. Goodlatte did in the last farm bill, we anticipate that the 2012 Farm Bill will also be open and transparent and bipartisan.

For all those joining us today in the audience, I hope that you'll participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on the Committee website, and there are cards available today with the web address so that everyone can get a chance to tell the Committee what's working for you, what isn't working, what we should consider for the next farm bill, some of the new programs were authorized in 2008. So it's *www.agriculture.house.gov*. We've got a lot of ground to cover, a lot of witnesses, and a lot of Members, so I know that the Chairman's looking forward to getting right at the witnesses.

The CHAIRMAN. I thank the gentlelady.

And I recognize the Ranking Member, Mr. Goodlatte, from Virginia.

OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM VIRGINIA

Mr. GOODLATTE. Thank you, Mr. Chairman.

It's great to be back in South Dakota. It's great to be back with one of my dearest friends in the Congress, Congresswoman Stephanie Herseth Sandlin. And I think the respect that she commands on the Agriculture Committee is reflected by the great turnout we have here. This may be the largest number of Members of Congress—six Republicans, six Democratics—who have come to participate in this hearing. And I look forward to hearing the testimony of all of our witnesses as well.

We have some real challenges compared to when we wrote the last farm bill, when we were successful in getting additional resources. Unfortunately, we had to go to some other committees to get those resources, and when they brought their money, they also brought lots of terms and conditions and wishes of their own, and definitely played a bigger role than we would have liked in the writing of the last farm bill. I know the Chairman is committed to not letting that happen again. But we also face very difficult economic times now that has impacted the resources available to the Federal Government. Just as an example, based upon the President's projected budget for next year, we are going to spend $1.6 trillion more than we take in; 70 percent more in spending than we have in revenues. That's going to affect the farm bill in terms of the resources available to us, so I'll be interested in hearing from all of our witnesses today, their views on where we can cut back, where we can achieve savings, what programs are not working as well as others that could be sacrificed, as well as hearing from you how Congress can help you in another way; and that is, what can be overbearing Federal Government regulations that impact your bottom lines dramatically, what government regulations are not working well. We do not need—obviously, we need to protect our environment, we need to have safe workplaces, but we also need to recognize that micromanagement of American agriculture by various government agencies is not the best way to achieve the most abundant, most affordable, safest food supply in the world. That is achieved by the great outstanding work that South Dakota farmers and ranchers and others from across the Midwest and around the country have achieved for many, many years.

We also need to take note of the fact that more than ¾ of the spending in our farm bill goes to nutrition programs and does not go to provide assistance to farmers and ranchers and others in the pipeline of growing and processing that food. And so achieving savings in that area is a major challenge for us as well. And I would note that these programs are in significant need of reform when you consider the nationwide obesity problem that people are now very much aware of. And that obviously the problem that we have there is not a shortage of food. It is rather a program that is not functioning properly to deliver healthy food in the most economic way to those who are most in need in our country. So we look forward to your testimony today and, again, we are happy to be here in South Dakota.

The CHAIRMAN. All right. I thank the gentleman.

And the other Members, if they have statements, will be made part of the record.

We'd like to welcome our first panel. I think every one of the members of this panel grows corn. Most of them grow soybeans, some of them wheat, some of them are beef producers. So we recognize that they're all producers that are on this panel and that's what we wanted to do is hear from the real farmers out there.

Mr. Gary Duffy from Oldham, South Dakota; Rod Gangwish from Shelton, Nebraska; Doug Sombke from Conde, South Dakota; Steve Masat from Redfield, South Dakota; Kevin Scott from Valley Springs, South Dakota; Matthew Wolle from Madelia, Minnesota; and Scott VanderWal from Volga, South Dakota. I may have screwed up some of the those names, but anyway, welcome to the panel.

Mr. Duffy, your full statements, all of you, will be made part of the record. We have a lot of Members here, a lot of witnesses, so we'd ask you to stick within the 5 minute rule. There will be a light up there that will tell you when the 5 minutes ends. And so summarize your statements and tell us what you think is the most important.

Mr. Duffy, you're recognized.

STATEMENT OF GARY DUFFY, CORN, SOYBEAN, WHEAT, ALFALFA, HOG, AND BEEF PRODUCER, OLDHAM, SD

Mr. DUFFY. Chairman Peterson, Congresswoman Herseth Sandlin, I thank you for this opportunity to share with you observations and views regarding implementation of the Food, Conservation, and Energy Act of 2008.

My name is Gary Duffy, and I currently serve as President of South Dakota Corn Growers Association. And as you heard, I do farm near Oldham.

The South Dakota Corn Growers Association is a grassroots organization representing thousands of corn producers from across South Dakota. First I want to state that the SDGCA is very much appreciative of the Committee holding this field hearing in South Dakota.

I am also thankful to the leadership of Chairman Peterson and Congresswoman Herseth Sandlin's passage of the 2008 Farm Bill with the inclusion of the Average Crop Revenue Election program. The SDGCA also recognizes the ongoing work by you and your respective staff in preparing the 2012 Farm Bill.

Today I would like to touch upon crop insurance, the ACRE Program, the Conservation Stewardship Program, biotechnology, and ethanol. Before I talk about the 2008 Farm Bill and the vision for the 2012 Farm Bill, I want to discuss the Federal Crop Insurance Program. Members of the Committee, Federal crop insurance is the greatest risk management tool producers have. No one knows what Mother Nature is going to do and the risks she brings to our industry. Crop insurance is efficient, effective, and a program that works for all crops. It is the most important program for all producers. I thank you for your support of this critical program.

One of the signature reforms in the 2008 Farm Bill advocated by SDGCA was the adoption of a revenue-based risk management program that adjusts with the annual changes in market prices and crop yields. This new option in the farm safety net—ACRE—represents a fundamental change in U.S. commodity programs by reducing market distortions in planting decisions, cutting direct payments and lowering loan deficiency payments. In contrast to current programs that are linked to set target prices and loan rates, producers now have an opportunity to access a new risk management program that will vary with actual rolling market season average prices and state crop yields. Equally important, ACRE is designed to deliver assistance when a real loss in crop specific revenue is sustained on the farm. It is our view that ACRE, if properly implemented, can provide far more effective protection against volatile markets and production shortfalls not adequately addressed by either Federal crop insurance or the new disaster assistance program.

Because of ACRE's relative complexity to other programs, and the inherent difficulty of introducing a significant reform along with other changes to the farm bill, South Dakota Corn Growers Association acknowledges that this new option presents some real challenges for producers to enroll in.

One of the challenges presented is the landlord has to agree to it and enroll in the program for 5 years.

As an alternative to continuing with the countercyclical program, participation in ACRE does not come without trade-offs, including a 20 percent reduction in direct payments, and a 30 percent reduction in the marketing loan rate.

The Conservation Stewardship Program is a step in the right direction. South Dakota has the fifth highest enrollment in the program. South Dakota producers are very progressive stewards of the land, and this program has rewarded them for their efforts.

Looking ahead to the next farm bill, we believe the CSP program allows producers to actively pursue rewards for adapting to even more conservation practices. But, we should allow the experts in the field to have input into the enhancements that are scientifically proven and could logically be implemented at the farm level. The enhancement options available to farmers through the CSP Program are diverse and include both small and extensive actions.

However, these actions are legislated down from the national NRCS, and input at the local level is no longer available, nor tailored to a state's unique characteristics. We ask you to further change this in the 2012 Farm Bill.

Biotechnology holds great promise for farmers and consumers around the globe. Biotechnology has not only assisted today's producers in meeting increased demand for a safe, abundant grain supply, it has also benefited rural economies and the environment. Farmers understand the advantages the technology offers. Nowhere is that more apparent than in South Dakota, where our farmers have the highest usage of biotech traits in the nation. Ninety-six percent of acres planted in South Dakota feature an enhanced trait.

According to the Food and Agriculture Organization, by 2050 the world will need 70 percent more food compared to what we produce today. Producing 70 percent more food will inevitably require more advances in biotechnology, along with wider use of existing genetically enhanced foods. American producers stand ready to meet this challenge.

Further advancements in biotechnology are necessary to ensure the world can continue to rely on U.S. growers to provide high quality food, feed, fiber, and fuel. Yet, as is often the case with emerging technologies, some consumers do not fully understand the potential of biotechnology.

We must be committed to cultivating an environment and resources for biotechnology to expand and thrive. Please make certain that the Federal Government has the resources and tools to get technology to market in a scientific and effective manner.

Finally, we are in South Dakota where ethanol is the largest market for South Dakota corn. The extension of the Volumetric Ethanol Excise Tax Credit will keep a market for over 330 million bushels of corn in South Dakota, and provide over a hundred thousand jobs in the United States. We need to extend VTEEC immediately. Overcoming the blend wall is critically needed to create new markets and provide jobs across rural America.

Simply put, we need access to the marketplace, we need E15 blender pumps in this nation now, we need vehicles with flexible fuel technology now. Far too long we have sent our American dollar overseas when we can and will spend it right here in America right now, if given the opportunity. We simply need to act—we simply need access to the marketplace.

Mr. Chairman, I want to thank you again for this opportunity to appear before your Committee and discuss SDGCA's concerns. We appreciate your consideration and look forward to working with you and your colleagues in the weeks and months ahead to resolve these issues. Thank you.

[The prepared statement of Mr. Duffy follows:]

PREPARED STATEMENT OF GARY DUFFY, CORN, SOYBEAN, WHEAT, ALFALFA, HOG, AND BEEF PRODUCER, OLDHAM, SD

Chairman Peterson, Congresswoman Herseth Sandlin, I thank you for this opportunity to share with you observations and views regarding implementation of the Food, Conservation, and Energy Act of 2008.

My name is Gary Duffy, and I currently serve as President of the South Dakota Corn Growers Association (SDCGA). I am from Oldham, South Dakota where I farm, raising corn, soybeans and manage a cow/calf herd.

The South Dakota Corn Growers Association is a grassroots organization representing thousands of corn producers from across South Dakota. First, I want to state that the SDCGA is very much appreciative of the Committee holding this field hearing in South Dakota. I am also thankful for the leadership of Chairman Peterson and Congresswoman Herseth Sandlin's passage of the 2008 Farm bill with the inclusion of the Average Counter Revenue Program. The SDCGA also recognizes the ongoing work by you and your respective staff in preparing for the 2012 Farm bill. Today I would like to touch upon Crop Insurance, the ACRE program, the Conservation Security Program, biotechnology and ethanol.

Before I talk about the 2008 Farm bill and the vision for the 2012 Farm bill, I want to discuss the Federal Crop Insurance Program. Chairman Peterson and Congresswoman Herseth Sandlin, Federal Crop Insurance is the greatest risk management tool producers have. No one knows what Mother Nature is going to do and the risk she brings to our industry. Crop insurance is efficient, effective and a program that works for all crops; it is the most important program for all producers. I thank you all for your support of this critical program.

One of the signature reforms in the 2008 Farm Bill advocated by SDCGA was the adoption of a revenue based risk management program that adjusts with annual changes in market prices and crop yields. This new option in the farm safety net, the Average Crop Revenue Election (ACRE), represents a fundamental change in U.S. commodity programs by reducing market distortions in planting decisions, cutting direct payments and lowering loan deficiency payments. In contrast to current programs that are linked to set target prices and loan rates, producers now have an opportunity to access a new risk management program that will vary with actual rolling market season average prices and state crop yields. Equally important, ACRE is designed to deliver assistance when a real loss in crop specific revenue is sustained on the farm. It is our view that ACRE, if properly implemented, can provide far more effective protection against volatile markets and production shortfalls not adequately addressed by either Federal crop insurance or the new disaster assistance program.

Because of ACRE's relative complexity to other programs and the inherent difficulty of introducing a significant reform along with other changes to the farm bill, SDCGA acknowledges that this new option presents some real challenges for producers to enroll in. One of the challenges presented is the landlord has to agree to it and enroll in the program for 5 years.

As an alternative to continuing with the countercyclical program, participation in ACRE does not come without trade-offs, including a 20 percent reduction in direct payments and a 30 percent reduction in the marketing loan rate.

The Conservation Stewardship Program (CSP) is a step in the right direction. South Dakota had the fifth highest enrollment in the program. South Dakota producers are very progressive stewards of the land and this program has rewarded them for their efforts.

Looking ahead to the next farm bill, we believe the CSP program allows producers to actively pursue rewards for adapting to even more conservation practices but we should allow the 'experts in the field' to have input into the enhancements that are scientifically-proven and could logically be implemented at the farm level. The enhancement options available to farmers through the CSP program are diverse and include both small and extensive actions. However, these actions/enhancements are legislated down from the national NRCS, and input at the local level is no longer available, nor tailored to a state's unique characteristics. We ask you to consider this change in the 2012 Farm bill.

Biotechnology

Biotechnology holds great promise for farmers and consumers around the globe. Biotechnology has not only assisted today's producers in meeting increased demand for a safe and abundant grain supply, it has also benefited rural economies and the environment. Farmers understand the advantages the technology offers. Nowhere is that more apparent than in South Dakota where our farmers have the highest usage of biotechnology traits in the nation. Ninety-six percent of the acres planted in South Dakota feature an enhanced trait.

According to the Food and Agriculture Organization, by 2050 the world will need *70 percent more food* (compared to what we produce today) in order to feed an expected population of 9.1 billion. Producing 70 percent more food will inevitably require more advances in biotechnology, along with wider use of existing genetically enhanced foods. American producers stand ready to meet this challenge.

Further advancements in biotechnology are necessary to ensure the world can continue to rely on U.S. growers to provide high quality food, feed, fiber and fuel.

Yet, as is often the case with emerging technologies, some consumers do not fully understand the potential of biotechnology.

We must be committed to cultivating an environment and resources for biotechnology to expand and thrive. Please make certain that the Federal Government has the resources and tools to get technology to market in a scientific and effective manner.

Finally, we are in South Dakota where ethanol is the largest market for South Dakota corn. The extension of the Volumetric Ethanol Excise Tax Credit will keep a market for over 330 million bushels of corn in South Dakota and provide over 100,000 jobs in the United States. We need to extend VEETC immediately.

Overcoming the blend wall is critically needed to create new markets and provide jobs across rural America. Simply put, we need access to the market place. We need E15 and blender pumps in this nation now. We need vehicles with flex fuel technology now. Far too long we have sent our American dollar overseas when we can and will spend it right here in America right now if given the opportunity. We simply need access to the marketplace.

Mr. Chairman, I want to thank you again for this opportunity to appear before your Subcommittee and discuss SDCGA's concerns. We appreciate your consideration and look forward to working with you and your colleagues in the weeks and months ahead to help resolve these issues.

The CHAIRMAN. Thank you very much, Mr. Duffy, for that testimony. We appreciate it.

Mr. Gangwish, welcome to the Committee.

STATEMENT OF RODNEY K. GANGWISH, IRRIGATED CORN, AND SOYBEAN PRODUCER, SHELTON, NE

Mr. GANGWISH. Thank you, Mr. Chairman, Chairman Peterson, Mr. Goodlatte, my Congressman, Mr. Smith, and Members of the Committee. My name is Rod Gangwish and I'm from south central Nebraska near Shelton where I've been involved in farming and agribusiness for 36 years. I'm a fourth generation farmer, and my wife, our son, and I, farm about 2,200 acres of corn, soybeans, and seed corn.

We're also invested in, and I serve on the board of managers, of KAAPA Ethanol, LLC, a farmer-owned ethanol plant at Minden Nebraska. And I also hold a leadership role in several other KAAPA business entities. KAAPA Cooperative is an organization of approximately 500 farmers in central Nebraska whose mission is to add value to the production of its members, and to bring business opportunities for them to invest in.

Thank you for holding the hearings across the Midwest and for the opportunity to testify. I am representing myself today and our family farming operation; however, I'm a past President of the National Corn Growers Association and I've been involved in farm bill debates as well as other issues affecting American agriculture.

I remember the 1996 Farm Bill. Cash corn price was near $3, and farmers did not think they would ever see the price of corn below $1.50 again. Corn went to over $5 in 1996, and 3 years later it was back to $1.50; and we were selling soybeans below $5. This has repeated itself many times over in agriculture's history, many times driven by weather. We are very involved in a business that has to deal with incredible price volatility.

We in agriculture are survivors. I, and most of my colleagues, had balance sheets that took big hits in the 1980s at the height of the farm crisis. Without farm programs during those years and in the following years, my colleagues and I may not have had farming operations today. Out of necessity, we learned to use the loan program, target prices, the LDP program, and other programs to have cash flow at the bank. Some years the dollars that came from government programs were greater than the profit at the end of the year. There were some years there was no profit.

I was planting beans the first of the week—excuse me, the first week in May, the day after I received the call inviting me to testify at this hearing. On the 8:00 news that morning, a recording of Secretary Vilsack, who was speaking at an outlook conference, came on the radio in the tractor and he said, "We should treat farmers like what they are: Producers of a cheap, safe, and abundant food supply, not only for this country but for the world." I agree with Secretary Vilsack, although I'm not sure what the word *treat* is to mean. I wish that I could farm without any intervention or income from the government—from any program, farm or otherwise. We could do this if we had a free market, free of controls and regulations, free of tariffs, without export subsidies or currency manipulation worldwide. But the fact is that agriculture is one of the most regulated and controlled sectors of our world economy, and the U.S. farmer must fit into this system. The ups and downs of the world economy, variation in world crop production and weather are perils that necessitate some type of farm program that will protect and insulate individual farmers from the forces that, over time, can come and go but, on a short-term basis, can drive them out of business.

On our farm, we have always participated in the farm program, and today we have about 70 percent of our acres in the ACRE Program. We look at the ACRE Program a bit like buying a put. A portion of the direct payment is given up as protection and insurance against the probability of something happening that would cause prices or yield to fall below the triggers for some reason. I do not like the way the ACRE Program triggers with respect to state averages as compared to our farm, but the program does cover the systemic loss that would be incurred in case of low price or widespread low production. We use hail insurance to cover the rest of the uninsured portion as hail is our primary peril.

Most of the corn that we raise on our farm is seed corn. We produce for a major seed corn company, raising our crop under contract, and managing all aspects of production with the exception of harvest and choosing the day of planting, which the company decides, as planting day also determines date of de-tasseling and the date of harvest. Our problems with growing seed corn, which we raise in a rotation basis with soybeans, relate primarily to crop insurance. The issue is that we do not produce commercial corn and have not produced commercial corn on these acres since back in the early 1980s when the yields in our area were 150 bushel per acre. Today commercial corn yields are routinely in the 230, 250 bushel range in our area. And consequently, we have a 150 bushel commercial corn Actual Production History, or APH, as opposed to the 240 APHs of our neighbors on like land, which is just across the road. This severely handicaps us from a crop insurance standpoint as we look at going back to raising commercial corn on these seed fields with 150 APHs, when our yields would be in the 230+ bushel range had we been producing commercial corn rather than seed corn. This also impacts us as we look at placing these farms in the ACRE Program.

I spoke with my crop insurance agent about this APH problem. He said that the Crop Insurance Professionals Association is proposing a correction to the Risk Management Agency that would help our situation and also help involve other problems with the APHs involving multiple year losses. I would encourage the RMA to work with CIPA on their APH improvement proposals.

The main perils that affect our crops in the irrigated regions of Nebraska are wind and hail. We use Federal crop insurance to insure the bottom portion of our crop and supplement it with top end hail insurance. Crop insurance provides us the ability to be able to market our crop and guarantee us a certain revenue.

Crop insurance is a vital component of production agriculture as it gives producers the ability to forward-market based on a guaranteed revenue. Without this guarantee, we are fully exposed to any problem our crops may incur over the growing season.

It is imperative that we have an affordable crop insurance program.

I'm going to skip the part on ethanol, and I just want to say that the topic of the extension of the tax incentive for ethanol, the flexible fuel vehicle requirements, and the increase in the blending of the ethanol from E10 to E15 do not fit within the parameters of the farm bill, but they are significantly related to the profitability of my business.

And I cannot pass on this opportunity to urge you as Members of the Congress to look favorably on these issues when they come before you at another time. I want to thank you for the opportunity to testify before you, and I'm willing to answer questions.

[The prepared statement of Mr. Gangwish follows:]

PREPARED STATEMENT OF RODNEY K. GANGWISH, IRRIGATED CORN, AND SOYBEAN PRODUCER, SHELTON, NE

Good morning, Chairman Peterson, and Members of the Committee. My name is Rod Gangwish and I am from Shelton, NE located in south central Nebraska along the Platte River where I have been involved in farming and agribusiness for 36 years. I am a fourth generation farmer and my wife and I and our son John farm about 2200 irrigated acres of corn, soybeans and seed corn. We are also invested in, and I serve on the Board of Managers of KAAPA Ethanol LLC, a farmer owned ethanol plant at Minden Nebraska and I also hold a leadership role in several other KAAPA business entities. KAAPA Cooperative is an organization of approximately 500 farmers in central Nebraska whose mission is to add value to the production of its members and to bring business opportunities for them to invest in.

Thank you for holding the hearings across the Midwest and for the opportunity to testify. I am representing myself and our family farming operation today, however I am a past President of the National Corn Growers Association and have been active in past farm bill debates as well as other issues affecting American agriculture.

I remember the 1996 Farm Bill debate. Cash corn price was near $3.00 and farmers did not think they would ever again see corn below $1.50 again. Corn went to over $5.00 in 1996, 3 years later it was back to $1.50 and we were selling soybeans below $5.00. This has repeated itself many times over in agriculture's history, many times driven by weather; we are involved in a business that has to deal with incredible price volatility.

We in agriculture today are survivors. I and most of my colleagues had balance sheets that took big hits in the mid 1980's at the height of the farm crisis. Without farm programs during those years and in the years that followed, my colleagues and I may not have farming operations today. Out of necessity we learned to use the loan program, target prices, the LDP program and other programs to cash flow at the bank. Some years the dollars that came from government program were greater than the profit at the end of the year. There were some years that there was no profit—or net income.

I was planting beans the first week in May the day after I received the call inviting me to testify at this hearing. On the 8:00 news that morning, a recording of Secretary Vilsack, who was speaking at an outlook conference, came on the radio in the tractor and he said, "We should treat farmers like what they are . . . producers of a cheap, safe and abundant food supply, not only for this country but for the world." I agree with Secretary Vilsack, although I am not sure what the word "treat" is to mean. I wish that I could farm without any intervention or income from the government—from any program, farm or otherwise. We could do this if we had a free market, free of controls and regulations, free of tariffs, without export subsidies or currency manipulation world wide. But the fact is that agriculture is one of the most regulated and controlled sectors of our world economy and the U.S. farmer must fit into this system. The ups and downs of the world economy, variation in world crop production and weather, are the perils that necessitate some type of farm program that will protect and insulate individual farmers from the forces that over time can come and go, but on a short term basis can drive them out of business.

Margins today with $3.00 to $3.50 corn are as narrow as they were when corn was $2.00 a few years ago, a result of higher expenses and input costs making risk in farming greater today because of the total dollars involved. We have a farm bill today with payments, but the safety net that would be triggered by a catastrophic drop in price or a production related weather peril, is well below a level that would provide protection for farmers and assist them in staying in business in the short term.

ACRE—On our farm, we have always participated in the farm program and today we have about 70% of our acres in the ACRE program. We look at the ACRE program a bit like buying a put. A portion of the direct payment is given up as protection and insurance against the probability of something happening that would cause prices or yield to fall below the triggers for some reason. I do not like the way the ACRE program triggers, with respect to state averages as compared to our farm, but the program does cover the systemic loss that would be incurred in case of low price or wide spread low production. We use hail insurance to cover the rest of the uninsured portion as hail is our primary peril.

Seed Corn—Most of the corn that we raise on our farm is seed corn. We produce for a major seed corn company raising our crop under contract and managing all aspects of production with the exception of harvest and choosing the day of planting, which the company decides, as planting day also determines date of de-tasseling and date of harvest. Our problems of growing seed, which we raise in a rotation with soybeans, relate primarily to crop insurance. The issue is that we do not produce commercial corn and have not produced commercial corn on these acres since back in the early 1980's when yields were in the 150 bu. per acre range. Today commercial corn yields are routinely the 230 to 250 bu. range in our area, and consequently we have a 150 bu. commercial corn Actual Production History (APH) as opposed to the 240 bu. APH's of our neighbors, on like land just across the road. This severely handicaps us from a crop insurance standpoint as we look at going back to raising commercial corn on these seed fields with 150 bu. APH's when our yields would be in the 230+ range had we been producing commercial corn rather than seed corn. This also impacts as we look at placing the farms into the ACRE program.

I spoke with my crop insurance agent about this APH problem. He said that CIPA (Crop Insurance Professionals Association) is proposing a correction to the RMA (Risk Management Agency) that will help my situation and also help solve another problem with the APH involving multiple year losses. I would like to encourage RMA to work with CIPA on their APH improvement proposals.

Crop Insurance—The main perils that affect our crops in the irrigated regions of Nebraska are hail and wind. We use Federal Crop Insurance to insure the bottom portion of our crop and supplement it with top end hail insurance. Crop insurance provides us the ability to be able to market our crop and guarantee us a certain revenue.

Crop insurance is a vital component of production agriculture as it gives producers the ability to forward market based on a guaranteed revenue. Without this guarantee we are fully exposed to any problem our crops may incur over the growing season.

Ethanol—Much of the growth of the U.S. ethanol industry has been supported by farmers and rural America investing their hard-earned dollars in local biorefineries. For the American farmer, the ethanol industry provides the opportunity to enjoy some of the value-added to their commodity while revitalizing rural communities, creating economic opportunity and good paying jobs for American workers, and expanding the role of U.S. agriculture in our movement to greater energy independence. The programs included in the Energy Title of the 2008 Farm Bill will greatly contribute to ensuring America's future energy security. Congress has a significant opportunity to further advance the development of renewable bioenergy, cellulosic ethanol and other advanced biofuels technologies in the 2012 Farm Bill. It would be my hope that the programs the House Agriculture Committee will include in the Energy Title of the 2012 Farm Bill will continue to promote Federal procurement of biobased products, expand loan guarantee programs for biorefineries and biofuels production facilities, increase research to better utilize ethanol co-products such as distillers grains, and continue programs to incentivize cellulosic and biomass feedstocks for ethanol production and energy production of ethanol plants. Thank you for recognizing the potential of biofuels and providing the agriculture community a pathway that will provide a more stable and sustainable energy future for all Americans.

The topic of the extension of the tax incentive for ethanol, the Flexible Fuel Vehicle requirements and the increase in the blending of ethanol from E10 to E15 do not fit within the parameters of the farm bill, but they are significantly related to the profitability of my business and I cannot pass on this opportunity to urge you as Members of Congress to look favorably on these issues when they come before you at another time.

I want to thank you for the opportunity to testify before you and share my thoughts. I would be happy to answer any questions.

The CHAIRMAN. Thank you very much, Mr. Gangwish.

I appreciate you shortening up things a little bit. So I'm going to—you know, we've got a lot of witnesses and a lot of Members here that will be asking questions, and we've got to be back to Washington to vote. When the yellow light comes on, you need to wrap it up.

So, Mr. Sombke, welcome to the Committee.

STATEMENT OF DOUG SOMBKE, CORN, WHEAT, SOYBEAN, AND BEEF PRODUCER, CONDE, SD

Mr. SOMBKE. Thank you, Mr. Chairman, Mr. Goodlatte. Stephanie, thank you. Everything these two gentleman just said, ditto. You know——

The CHAIRMAN. Somebody in Lubbock did it in about 2 minutes, and I gave him a lot of extra credit so——

Mr. SOMBKE. Well, first of all, I want you to understand that we did—South Dakota Farmers Union did have another individual willing to testify today, but he's home planting where I should be planting. I've been farming for 32 years, and in my area the State of South Dakota, we are way behind in planting. We just got started last week one day, and now we've been getting just wetter and wetter. Yesterday we were finally able to go again. It wasn't pretty. That's all I can tell you. There's a lot of trouble out there in the northeast part of the State of South Dakota. Thank God President Obama declared it a disaster area for us in the State of South Dakota this last week. And it's helped us immensely. We at least will be able to get FEMA in to help us with our infrastructure. Not only is our cropland super wet, we are struggling tremendously with roads and bridges and trying to get to the fields, let alone get the crop planted.

So with that, I've also been able to serve as the President of South Dakota Farmers Union for the past 5 years along with being a farmer, and I can tell you that it's probably one of the most rewarding jobs I've ever had. I've been able to talk to individuals such as yourself and other Members of Congress on behalf of farmers. And that, to me, means a lot more than just complaining about it at the coffee shop.

I know that crop insurance is a big issue with you, and it is for farmers as well. But I can tell you this: Without crop insurance, as Mr. Duffy indicated, farmers have grown to use that as a marketing tool, have been using it to market their product when they don't have it available, and bankers have come to rely on it as well, our communities have come to rely on it. Any change to—a major change to crop insurance would be felt very dramatically across rural America, I can tell you that.

My family, I have three sons that farm the farm with me today. My last one just graduated from college this last weekend. And I'm more than happy to say that they all want to come back to agriculture, which is really surprising to me considering the trials and tribulations that we go through. The good Lord has definitely blessed us in a number of different ways, but at the same time, he's placed many challenges in front of us. We've been able to supply an abundant amount of food for this nation. And we'll continue to do so, but we have to be profitable. I think that's the main thing that you've got to remember here: Farmers need to remain profitable. Without a chance of being able to make a profit, young people will not come back to the farm.

In the State of South Dakota, the average age is 57 years old, average age of a farmer. That's up there. I just turned 50. I'm a grandfather. I'm proud to say that. I'm proud to say that I'm 50. But the fact of the matter is, how do I pass my farm on to my children and have them continue to do the same? I'm a fourth generation farmer in my family. On the farm that I farm today, back 32 years ago when I first started farming beside my dad, our operating—balance of our operating loan was $128,000. Today it's $1.3 million on the same amount of land.

We need to be profitable. This isn't about farmers just making money. This is about rural America making money as well. This is how you put the country back to work. You put money back into agriculture, agriculture pays you back.

Simple as that.

I'm not going to go on any further. You've got my written testimony. I appreciate you coming to South Dakota and welcome to South Dakota. My mom always told me that if you don't treat people the way you wanted to be treated in your home, you're in deep trouble with her. So welcome.

[The prepared statement of Mr. Sombke follows:]

PREPARED STATEMENT OF DOUG SOMBKE, CORN, WHEAT, SOYBEAN, AND BEEF PRODUCER, CONDE, SD

Chairman Peterson, Ranking Member Lucas, and distinguished Members of the House Agriculture Committee, My name is Doug Sombke, I am a farmer and rancher from rural Conde, South Dakota. My three sons and I run a cow/calf and backgrounding operation, and we raise corn, wheat, alfalfa and soybeans. I am also honored to serve as President of South Dakota Farmers Union. Thank you for allowing me the time to submit comments on behalf of South Dakota Farmers Union, myself and all South Dakotans.

Every farm bill brings new rewards and challenges to America's agricultural producers, nutrition programs and Federal programs alike. The revenue guarantees set forth in this bill will define the future of our livelihood for years to come. It is imperative we help you craft the best piece of legislation possible that ensures family farmers and ranchers the best return on their investment. The following issues are of utmost importance to American agriculture.

Derivative Market Reform

For years, the derivative market has been influenced both positively and negatively by outside sources. Whether it has been foreign investors, Wall Street brokers or the natural market movement, they have all affected the derivative market. While I understand profits ensure market viability, those profits should not be achieved through market manipulation. Agricultural producers rely on the market to survive, and when their bottom line is altered by manipulation in the derivative market their livelihood could be in jeopardy. Derivative Market reform must be a top priority in any financial reform bill. As you know, markets are extremely volatile, and influence from outside sources does not help its volatility. Unjustified trends due to speculators can ruin agricultural producers by creating wild swings in the market. I understand that we cannot have burdensome regulations and expect our markets to flourish. However, substantial derivative market reform is needed to ensure the markets are protected and overseen in a transparent and efficient way.

Disaster Aid & Payments

Recently in northeastern South Dakota, we have had major problems with increased moisture from rain and snow. Early last fall we received a tremendous amount of rain, followed by increased snowfall, and then more rain this Spring. It has forced us out of our fields and unfortunately off of our roads which are nearly impassable. With the abundant moisture, our rural roads have not been able to sustain the saturation, turning to sinkholes and washing away. While FEMA has surveyed the damage and has promised some financial assistance, it simply isn't enough. We need to expedite the process of payments to counties and townships, and stabilize our infrastructure to ensure farmers get their products to market in a timely manner.

Crop Insurance

The contentious issue of crop insurance continues to be debated in almost all farming circles. Federal crop insurance is essential to the livelihood of our producers. Farmers are required by ag lenders to carry crop insurance to obtain a line of credit. Crop insurance not only helps farmers gain access to private funding to finance raising a crop, we also use it as a marketing tool which allows us to forward market a portion of our crop to capture highs in the market when they occur before the crop is harvested. Federal crop insurance ensures that Americans have access to an affordable food supply. By maintaining Federal crop insurance we will maintain our abundant and low-cost supply of food, while ensuring producers the right to a profitable bottom line and lifestyle. I would urge the Committee to keep crop insurance at their current level in the 2012 Farm Bill.

Trade Standards

Over the past few years, USDA has changed portions of its regionalization standards when it comes to international trade. Regionalization of countries that do not meet OIE standards puts the United States at greater risk of importing animal diseases, such as foot and mouth disease. These diseases could be deadly to our domestic supply chain and I would urge the Committee to protect those sources by creating new standards for our trading partners. Any regionalized zone which includes a nation or state that is not deemed free of contagious disease should be required to be surrounded by all disease free border sharing entities. This would restrict the flow of disease positive animals or raw goods from the region to the U.S. We must help other counties control their disease outbreaks. By requiring higher trade standards of other countries, it would cut the risk of disease spreading in the U.S., while increasing the profitability of our domestic producers.

Captive Supply & Competition

For years the multinational meatpacking companies have manipulated domestic meat markets by using captive supply to flood the market at the right time. When the captive supply owned by these companies is introduced into the market, producers suffer from an over liquidated stock which results in lower earnings per head. The cattle industry has called for a ban on packer ownership of livestock, which would result in an assurance of anti-monopolistic or vertically integrated market. Open, competitive markets would help the livestock producer's commodity be more profitable.

The addition of a Competition title to the 2008 Farm Bill was a major victory for family farmers and ranchers, and the USDA/DOJ hearings on concentration in agricultural markets will provide useful information for the Committee as you consider legislative responses to the looming threat of corporate monopoly in seed, inputs, crops and livestock. We look for stronger legislation on competition, comparable to the successful efforts of Congress to get Country of Origin Labeling operational in 2008. We can begin by requiring Federal agencies to enforce the Packers and Stockyards Act and other existing antitrust laws.

COOL and Check-Off Reform

In the 2008 Farm Bill, final implementation of Country of Origin Labeling became a reality. The system has been successful in promoting domestic products and providing full information to the consumer regarding their food supply. While most retailers have come into full compliance with the law, some still have not. I believe stronger language may be appropriate in the new farm bill to ensure complete implementation of Country of Origin Labeling. Full implementation will result in greater consumer confidence and an increased awareness among the general public. We must also use other methods to promote our domestic and imported products. Requiring a portion of our check off dollars be used to promote U.S. only products would be greatly beneficial to our domestic producers. Countries which export to the U.S. would also be able to use their check off funds to promote their country's product which would provide them fair access to the open market. Rules should be written to allow this under the next farm bill.

Conclusion

This is a critical time for agriculture in the United States. I understand the difficult job you have before you, and I thank you for your service to American agriculture. Mr. Chairman, and Ranking Member Lucas, I look forward to working with you and the Committee on these important matters, and I look forward to answering any questions that you might have. Thank you.

The CHAIRMAN. Thank you very much. And as a Farmers Union member, I commend you for your leadership and the work in that organization.

Mr. Masat, welcome to the Committee.

STATEMENT OF STEVE MASAT, WHEAT, CORN, SOYBEAN, HAY, AND LIVESTOCK PRODUCER, REDFIELD, SD

Mr. MASAT. Mr. Chairman, my name is Steve Masat and I'm from Redfield. I'm here representing myself as well as the South Dakota Wheat, Incorporated, the wheat producers of South Dakota. On my farm, I raise spring wheat and soybeans, corn, alfalfa, and I use precision farming on the grain side. I also have a feed lot operation as well as a cow/calf. In my livestock operation, I do have a committed feedlot. So I do work to keep the environment better than the way I left it.

For you that are not from South Dakota, we mainly grow winter wheat, spring wheat, and some hard white wheat, which is winter wheat which is new. Been pretty successful at it so far.

I'm going to summarize some of this stuff, to get your time down here. But for the most part, I guess I feel a lot of the direct payments, countercyclical payments are kind of working. Beyond that, our group is open to any new ideas that producers have.

Crop insurance, I agree with these other three fellows. One thing that being a wheat producer up in the part of the state that I am from, we cannot get winter wheat coverage because of winter kill. I think that's something that needs to be looked at, and that is very—been very beneficial to—for wild—or waterfowl production.

The conservation programs, I have participated in the CSP Program, I've participated in the EQIP and a small portion in CRP. I believe in these programs. CSP is a wonderful program for my operation. It's things that I've been doing. It enhances things we've been doing. In the Jim River Valley where I live, we have salt issues. Good programs. They're being looked at correctly.

Of course, we are big supporters of biofuel. And on to biotechnology, we would like to see more research done in wheat. And we also—alfalfa would be very important to have in part of our operations. And for my own operation, we have the draws that we can't farm. Here come the salts. If we could plant them into Roundup Ready alfalfa, come across it with the bio-plant biotech crops around them, spray Roundup across them, we would leave the alfalfa there, we would be better stewards of our property. So we think this is very—I think personally this is very important.

With that, I'd like to thank you folks for all coming here. I appreciate you coming to the great State of South Dakota and thank you.

[The prepared statement of Mr. Masat follows:]

PREPARED STATEMENT OF STEVE MASAT, WHEAT, CORN, SOYBEAN, HAY, AND LIVESTOCK PRODUCER, REDFIELD, SD

Mr. Chairman, and Members of the House Committee on Agriculture, my name is Steve Masat, President of South Dakota Wheat Inc and I am a farmer from Redfield, South Dakota. On my family farm I raise spring wheat, soybeans, corn, and alfalfa hay, using precision farming practices on the grain side of the operation. I also have a cow/calf and feedlot operation. In the feedlot operation I am using up-to-date conservation practices to protect the environment in which I live in, and that is a part of my heritage. I believe that all landowners are or should be responsible stewards of the land.

South Dakota wheat production consists mainly of winter wheat and spring wheat with some hard white winter wheat grown as well. South Dakota produces on average around 130 million bushels of wheat produced in the state on an annual basis. Needless to say wheat is vitally important to this state.

Now to the issue at hand . . . the 2012 Farm Bill.

Farm Programs

The National Association of Wheat Growers, our national affiliate is currently undertaking a survey of wheat producers throughout the nation. This initial NAWG survey was designed to generate some potential new ideas to explore when approaching the writing of the 2012 Farm Bill.

It is important to note that producers seek a safety net, within the farm bill that reflects the realities of today's production system. We believe this safety net needs to be composed of reliable and meaningful programs that provide coverage for producers and keeps in mind the role that United States farmers play in the global market.

For the most part Federal farm programs such as Direct Payments, Counter-Cyclical payment programs and marketing loans are established and accepted in South Dakota's farming community. The newer farm programs such as ACRE and SURE are slowing being reviewed by producers and we expect participation in these programs will grow in coming years. Beyond that, we are open to considering new and creative ways to maintain or improve the overall safety net for wheat growers across the country and are exploring ideas to that end.

Crop Insurance

Crop insurance is and should be a critical part of the farm safety net. Last year in South Dakota ninety two percent (92%) of wheat acres were covered by crop insurance. In 2009 the wheat crop had an estimated value of $500 million.

Moving forward, we want to make sure that any future changes to the crop insurance program do not hamper the provider's ability to accurately assess risk and maintain viability. This is vitally important if they are to continue to provide protection to wheat farmers, especially in the areas of the state that carry the most risk.

On a side note, in northern South Dakota and in parts of North Dakota, there is interest in planting winter wheat because of higher yields, crop rotation opportunities and wildlife benefits. Unfortunately, crop insurance in northern South Dakota and North Dakota does not provide winter kill coverage for winter wheat. South Dakota Wheat Inc. has worked with USDA's Risk Management Agency to find a solution to this gap in coverage. We will continue to work with RMA and other stakeholders to develop agronomic criteria and implement coverage that will provide farmers with winterkill protection for their wheat, while protecting the integrity of the crop insurance program.

Conservation

Conservation programs such as CSP, EQIP, WHIP and CRP have been embraced by South Dakota producers and these programs need to be maintained. Strong leadership by South Dakota's state conservationist and the state technical committee has provided many success stories throughout the state. Because of a backlog of applications for conservation programs there is a need for additional funding. The need for additional funding for technical assistance should be considered as well.

Biofuels

Agriculture has and is continuing to provide additional alternatives for energy for this nation. The production of biofuels from agriculture residues has the potential to provide an additional value-added revenue stream for producers. Current research has positive results; however there is a need for additional funding of development programs to bring advanced biofuels to commercial production.

Biotechnology

South Dakota producers are enjoying increased production through the use of biotechnology in corn and soybeans. South Dakota Wheat Inc. is a supporter of the use of biotechnology in wheat. The sustainability of agriculture lies within biotechnology through less agronomic inputs while maintaining profitability for farmers and ranchers.

Research

The mapping of the corn, soybean, and sunflower genomes has created many additional opportunities for disease and insect resistance within those plants as well as the possibility of higher yields. It is critical that mapping of the wheat genome be continued, and that Federal funding be continued so that the wheat plant may join its fellow plants in adopting sustainable agriculture practices.

I appreciate the opportunity to share the thoughts of South Dakota wheat producers on this variety of topics with respect to the future of farm policy, look forward to your questions.

The CHAIRMAN. Thank you very much. You guys are earning big points here summarizing.

Mr. Scott, welcome to the Committee.

STATEMENT OF KEVIN SCOTT, SOYBEAN, CORN, AND HOG PRODUCER, VALLEY SPRINGS, SD

Mr. SCOTT. Good morning, Mr. Chairman, Members of the Committee. I'm Kevin Scott, a soybean and corn producer from Valley Springs, South Dakota, which is located about 15 miles east of Sioux Falls. I appreciate your invitation to appear today, to provide some views on the 2008 Farm Bill and future farm policy.

My wife—excuse me. Is my microphone not on? My cord's a little stuck. How about that? Are we good to go? My wife Jannell and I have been married for 29 years next week, and we have six children. I'm a fourth generation family farmer in partnership with a brother, and I hope our operation will continue to serve the community and provide for future generations of the Scott family.

The farm program, of course, was created as a safety net for growers and for food security for the nation. My farm has participated and been supported by the safety net provisions many times. The 2002 Farm Bill was especially helpful to us in a time of extended commodity—low commodity prices. Many farms would not have survived without the underlying support we had and they had. For those of you who helped pass prior farm bills, we thank you and we appreciate what you've done for us.

In preparations for the—this statement, to get a more comprehensive view of current farm policy and how it affects farmers in South Dakota, the South Dakota Soybean Association members were surveyed about provisions from the 2008 Farm Bill, and here are some of their comments.

Direct payments: They've been around for a number of years, and during their history provided much needed support when commodity prices were poor. With today's commodity price levels being higher, the direct payment program is not as much a necessity as it was in the past.

The SURE disaster assistance: Some perceive it as complicated. Multiple program changes occurred after the program began. Producers and Farm Service Agency officials were hard-pressed to keep up with those changes. It has been a pleasant surprise for some producers who incurred losses in their operation and did not realize they were eligible for compensation.

Bio-based product initiatives: This initiative has been instrumental in helping fund the development and production of soy-based products that originate here in South Dakota.

For example, South Dakota soybean processors in Volga, South Dakota have brought to market products that replace petroleum-based foams, insulations and plastics with soy-based alternatives.

Conservation programs: U.S. farmers work very hard to conserve the resources that provide for our families. We have to maintain them or they will not sustain us. And farmers are environmentalists. Clean air, water and fertile soil are among our most important assets. That's about all I have to say on that one.

The ACRE Program: It's complex, confusing, difficult to administer are some of the responses we had. I chose this option for many of my farm acres because it was recommended to me, and it added a revenue component to the safety net.

The program adjusts for fluctuating grain prices like crop insurance does but uses statewide yield and price points to gauge pavement rates. Due to their location, type of crop, and livestock operation mix, some of our South Dakota Soybean Association members did not think the ACRE provision was as good a product as the traditional program. Most said it was difficult to determine which program would offer the best protection for their farm. And clarity will come with time on that program we know.

Crop insurance: Though crop insurance is not part of the 2008 Farm Bill, it has become an increasingly important part of risk mitigation that is necessary in farming today.

It is not uncommon to have $600 per acre of expense into a corn crop prior to any income. Most farmers cannot afford to risk that amount of money without some protection. Crop insurance with the Revenue Assurance Option is what I use on my farm. It covers up to 75 percent of my expected revenue for the crop I am insuring based on spring and fall grain prices and my proven 10 year yield history. I can choose to buy more or less coverage based on the amount of risk I feel our operation can afford. The coverage is also specific to where I farm, not the whole state or even the county. Crop insurance is a critically important device for growers in South Dakota and the nation to help avert risks of production and commodity price fluctuations.

Thank you again, Mr. Chairman, for inviting me to appear today and share a few preliminary thoughts on the 2012 Farm Bill. The South Dakota Soybean Association and I look forward to additional discussions on the farm bill in the future. I'll be happy to answer any questions.

[The prepared statement of Mr. Scott follows:]

PREPARED STATEMENT OF KEVIN SCOTT, SOYBEAN, CORN, AND HOG PRODUCER, VALLEY SPRINGS, SD

Good morning, Mr. Chairman and Members of the Committee. I am Kevin Scott, a soybean and corn producer from Valley Springs, South Dakota which is located 15 miles east of Sioux Falls. I appreciate your invitation to appear today to provide some views on the 2008 Farm Bill and future farm policy.

My wife Jannell and I have been married for 29 years next week and we have six children. I am a fourth generation family farmer in partnership with my brother. I hope that our operation will continue to serve the community and provide for future generations of the Scott family.

The farm program was created to provide a safety net for growers and food security for the nation. My farm has participated and has been supported by those "safety net" provisions many times. The 2002 Farm Bill was especially helpful to us in a time of extended low commodity prices. Many farms would not have survived without the underlying support they had. For those of you who helped pass prior farm bills, thank you. We appreciate what you have done for us.

In preparing this statement to get a more comprehensive view of current farm policy and how it affects farmers in South Dakota, the South Dakota Soybean Association members were surveyed about provisions from the 2008 Farm Bill. Here are some of their comments:

Direct payments: They have been around for a number of years and during their history provided much needed support when commodity prices were poor. With today's commodity price levels being higher, the direct payment program is not as much of a necessity as it was in the past.

SURE disaster assistance: Some perceive it as complicated. Multiple program changes occurred after the program began. Producers and Farm Service Agency's offices were hard pressed to keep up with those changes. It has been a pleasant surprise for some producers who incurred losses in their operations and did not realize that they were eligible for compensation.

Bio-based product incentives: This initiative has been instrumental in helping fund the development and production of soy-based products that originate here in South Dakota. For example, the South Dakota Soybean Processors in Volga, South Dakota have brought to market products that replace petroleum-based foams, insulation and plastics with soy-based alternatives.

Conservation programs: U.S. farmers work very hard to conserve the resources that provide for our families. We have to maintain them or they will not sustain us. Farmers are environmentalists. Clean air, water and fertile soil are among our most important assets.

ACRE program: Complex, confusing and difficult to administer are common responses. I chose this option for many of my farm acres because it was recommended to me and it added a revenue component to the safety net. The program adjusts for fluctuating grain prices like crop insurance does but uses statewide yield and price points to gage payment rates. Due to their location, type of crop and livestock operation mix, some of our SDSA members did not think that the ACRE provision was as good of a product as the traditional program. Most said that it was difficult to determine which program would offer the best protection for their farm. Clarity will come with time.

Crop insurance: Though crop insurance is not part of the 2008 Farm Bill, it has become an increasingly important part of risk mitigation that is necessary in farming today. It is not uncommon to have $600 per acre of expenses into a corn crop prior to any income. Most farmers cannot afford to risk that amount of money without some protection. Crop insurance with the Revenue Assurance option is what I use on my farm. It covers up to 75% of my expected revenue for the crop I am insuring based on spring and fall grain prices and my proven 10 year yield history. I can choose to buy more or less coverage based on the amount of risk I feel our operation can afford. The coverage is also specific to where I farm, not the whole state or even the county. Crop insurance is a critically important device for growers in South Dakota to help avert risks of production and commodity price fluctuations.

Thank you again, Mr. Chairman, for inviting me to appear today and share a few preliminary thoughts on the 2012 Farm Bill. The South Dakota Soybean Association and I look forward to additional discussions on the farm bill in the future. I will be happy to answer any questions.

The CHAIRMAN. Thank you very much, Mr. Scott.

Mr. Wolle, welcome to the Committee.

STATEMENT OF MATTHEW J. WOLLE, CORN, SOYBEAN, AND LIVESTOCK PRODUCER, MADELIA, MN

Mr. WOLLE. Thank you, Mr. Chairman, Congressman Walz.

I appreciate the invitation to speak in front of you today. I'm here representing beginning and young farmers.

That's my major qualification being up here is I'm young and I'm inexperienced. I also use that line in my marriage.

I've been married about 8 months now to a beautiful woman from Rapid City, South Dakota so—but I look forward to seriously working on the 2052 Farm Bill long after everyone in this room is retired, so I'm taking the long view.

I'll start off by addressing conservation. EQIP, CRP, CSP—I participated in these. I feel farmers are the frontline in conserving our natural resources in this country. I believe that programs we have in place do a very good job of encouraging that. And my key point on this would be it's best to get beginning farmers and ranchers involved early in these programs. So I would encourage you to consider dedicated funding for young and beginning farmers in this area of conservation. It's best to get them when they're young, when they have a long time to practice what they've learned in these programs. It will provide much more dividends.

Risk management: Farming is risky business. The amount of risk in a modern farming operation is substantial, and you've heard that from established farmers. It's even more substantial for young beginning farmers that don't have a net worth to sustain losses in their business. Providing a revenue-based safety net in case of disasters and market volatility is key, I believe, in keeping young people on the land and involved in agriculture.

I believe the ACRE Program is a good start at this.

It's—for myself in corn and soybeans, we haven't lived through the program a full year so it's kind of too soon to tell. Hopefully, by the time 2012 rolls around, we'll have 2 years under our belt and we'll be able to tweak that to make it a much more applicable program. Finesse it out, if you will.

Finally, the major thing I'd like to touch on is farm transition. Several key points in this area, tight credit being the first one. Most lenders do not want to assume the risk of lending to someone with zero net worth—beginning farmers and ranchers. As I alluded to earlier, it's very risky. It's weather-driven whether you'll get a crop or not. There's market volatility depending on what happens in Brazil, what happens in China. Many things that are out of our control; therefore, lenders look at that and say I'm not going to put my money in this. You're not a viable option for me. And they'd much rather lend to established producers or let someone else cherry pick, if you will, the young beginning farmer after he's got 5 or 6 or 7 years—if he makes it that long—then take his loan on.

I believe we should do a fundamental shift from the USDA being a lender of last resort to maybe a lender of first resort. Could be a—oh, spearhead a new initiative to say, yes, we're going to take on young farmers and realize it's risk, but we realize that we need young people on the land working the land. We need a next generation of farmers.

I believe loan limits should be increased. The loan law process needs to be streamlined. And if I had my druthers, I'd like to see succession planting. I believe Iowa and Nebraska at the state level have some very good programs that we could model at a national level. Minnesota currently does not have anything along those lines. Some incentives for older generations without an heir apparent to rent to some young individual who's not a relative. Get them started in farming, pass along a lot of the knowledge that they've accumulated in their life farming to the next generation, incentivize them to do that in some way.

I also feel rural development, infrastructure, as well as leadership needs to happen. We need young people on the alliance committee. We need people on the church board. We need young county commissioners. We need young people back to carry the load because the older generation has done that for many years, and they're tired of all the committee meetings and being on the town board. We need young people back there to pull the weight and get it over the hill.

In conclusion, the foundation of our modern society rests on the ability of some to produce food for others. I feel the main goal of the 2012 Farm Bill should be to ensure that there is a well educated, financially viable next generation of farmers to carry on the task of feeding the nation.

Thank you, Mr. Chairman, and Committee Members for your time and the opportunity to address the Committee. I look forward to answering your questions.

[The prepared statement of Mr. Wolle follows:]

PREPARED STATEMENT OF MATTHEW J. WOLLE, CORN, SOYBEAN, AND LIVESTOCK PRODUCER, MADELIA, MN

Chairman Peterson, Congressman Walz, and House Agriculture Committee Members, thank you for inviting me to testify today about my experiences as a Beginning Farmer and Rancher utilizing the 2008 Farm Bill.

My name is Matthew Wolle and I farm primarily corn and soybeans in Watonwan County, Minnesota (South Central MN). I rent approximately 800 acres from my family that includes the land that my ancestor's homesteaded in 1883. My primary business partner is my father and I am in the process of developing a farm transfer plan for his operation into mine. I am also in the process of acquiring my Grandfather's farm land. My wife and I live in the house that my Grandfather built. We are every bit a family farm with two prior generation's operations transitioning into the third.

The first crop that I planted was in 2004. I am Beginning Farmer and Rancher by the FSA's definition (I have not farmed more than 10 consecutive years and I materially and substantially participate in the operation of my farm). Using this lens, I will share my experiences with the Committee about how the 2008 Farm Bill has worked for me. There are plenty of experts that can provide technical data and statistics on Beginning Farmers and Ranchers, I will provide you with a "View from the Cab" testimony.

Conservation

I am a past participant in the EQIP program. I was enrolled in the areas of residue management, nutrient management, and integrated pest management. This program not only motivated me to be a better steward of the land, agriculture's primary resource, but also provided me an avenue for the education of how to best raise a crop while conserving natural resources: 2010 will be my first year for being enrolled in CSP. I appreciate the incentives that this program provides and look forward to practicing new farming methods because of what I learn. It is important beginning farmers and ranchers are given some preferential treatment in the selection process for USDA programs as they have the most to learn from these programs and will return the benefits to environment over a longer period of time. According to my district conservationist I was selected to participate in CSP due to my Beginning Farmer and Rancher status.

Risk Management

I chose last year to enroll my whole farm in the ACRE program. While this is the first version of the ACRE program and questions about its responsiveness to localized catastrophes have some validity, I still feel that an extra method of risk management is vital for beginning producers who have limited resources and net worth compared to established farmers and ranchers. I liked the revenue aspect of the ACRE program and the use of 5 year Olympic yields *versus* the straight 10 year yield average utilized by the crop insurance industry. I do feel that the state wide trigger for an indemnity payment is too large and possibly sub state areas would provide more localized protection. I do believe that the Federal crop insurance subsidies need to remain at current levels to keep crop insurance affordable for beginning farmers and ranchers. As I stated earlier—beginning producers need to be able to utilize all the risk management methods that are available to them.

Farm Transition

While I have not used the FSA's Beginning Farmer and Rancher loan programs yet, I do anticipate utilizing them some day. I have done some research on the programs and feel that they are in general quite adequate except for that the loans limits need to be adjusted upwards to constantly reflect the price of farmland that beginning producers want to acquire. In order to be valid and useful these loan amount limits must somehow be related to the cost of land as farmland values escalate.

For the 2012 Farm Bill, I feel more needs to be done to aid young people to get into production agriculture. Our farming population is aging at an alarming rate. I am always scanning and consistently in the lower 10% age bracket at every farmer meeting or agricultural event that I attend. This observation is reaffirmed by the MN Department of Agriculture's figure that the average age of the Minnesota farmer is 53 years old. We need to act now to get young agriculturalists into production agriculture. The capital requirements for starting up a farm are next to impossible to manage for someone with zero net worth. That issue, along with access to land, puts young people with an interest to farm in a "no go" situation. It is my hope that we can build on the strengths of the 2008 Farm Bill and make the 2012 Farm Bill better for Beginning Farmers and Ranchers. Thank You.

The CHAIRMAN. Thank you very much, Mr. Wolle. And we hope there are many more young people like you that come forward and get into farming. It's important to the future.

Mr. VanderWal, welcome to the Committee.

STATEMENT OF SCOTT VANDERWAL, CORN, SOYBEAN, SMALL GRAIN, AND BEEF PRODUCER, VOLGA, SD

Mr. VANDERWAL. Thank you, sir. Good morning, Mr. Chairman, Representative Herseth Sandlin, and other distinguished Members of the House Agriculture Committee.

My name is Scott VanderWal and I am from Volga, South Dakota, and I farm with my family in a diversified operation, producing mainly corn and soybeans, and we also operate a custom cattle feeding operation. I've served as President of the South Dakota Farm Bureau since June of 2004. So that's my second full-time job.

I thank the Committee for conducting this hearing in South Dakota, and the Members here today for spending your time and effort to come to this Committee. I've done this a couple times before, testifying before House Committee hearings, and this is, by far, the largest number of Members of the Congress that I've seen at these Committee hearings.

So I appreciate that and appreciate your commitment to the very important issue of agriculture in our country.

The 2012 Farm Bill should treat production agriculture as a strategic resource of this nation and be constructed to further enhance that resource. A healthy, prospering farm and ranch sector is of paramount importance for this country and its citizens. In my view, the health of our agriculture industry is a national security issue. We've all seen the consequences of our reliance on other countries for a major portion of our energy needs. The importance of avoiding doing this same thing in regard to our food and nutrition needs cannot be overstated.

I have eight main points that I'd like to make this morning. I'm going to keep it very brief by just making a couple comments on each one. But these are some of the challenges that we see that lie ahead of us as we formulate the next farm bill.

First of all, fiscal responsibility. We recognize that restoring this country's fiscal integrity must receive the highest priority from everyone, and that includes farmers and ranchers. Reduced spending by the Federal Government must happen in order to ensure economic opportunity and national security for future generations. We do ask that agriculture be treated fairly as we go through the process and not suffer disproportionate cuts in Federal spending, recognizing that the entire USDA budget, including food and nutrition programs, amounts to less than ½ of 1 percent of the Federal budget.

My second point is funding allocation. Farm Bureau supports the allocation of funding across the titles of the present farm bill. We'll resist shifting funds from one commodity title to another one with one exception: Potentially transferring dollars from the commodity title to the insurance side of the program in an effort to ensure that—to improve that side of the issue.

Third, balance and fairness: Farm Bureau is a general farm organization with members that produce all commodities. Our overriding goal is to maintain balance and benefits for all farm sectors. Shifting benefits from one commodity to another is divisive and many times unfair.

Fourth is world trade. There may be a need to include options to comply with existing trade agreement obligations and WTO litigation rulings that are in place now. However, we would resist efforts aimed at presupposing the outcome of WTO negotiations. To do so would reduce our negotiating efforts—or our leverage on behalf of the United States.

And the fifth point I'd like to make is market orientation. We favor a market-oriented farm policy with less reliance on government and more on market signals, including adequate options for insurance and revenue assurance products to help producers better manage during times of market fluctuations and weather-related hazards.

Sixth is world markets. The farm bill must enhance U.S. ag producers' opportunities to access world markets on a competitive basis. Farm Bureau supports the Administration's call for a doubling of U.S. exports. We recognize achieving that goal would benefit ag producers, jobs, and the overall economy.

We believe a good place to start that expansion would be with enactment of the free trade agreements with South Korea, Columbia, and Panama. We watch with major concern as those three countries continue to develop trade agreements with our competitors but we're getting left out. We're no longer standing still in ag exports across the world; we're going backwards.

The SURE Program, just a quick comment on that. If the shortcomings in the SURE Program are not corrected in the next couple of years, an improvement will be necessary in the next farm bill. SURE payments are not available until a full year after the end of the crop year in which a disaster occurred. This needs to be corrected so that assistance is more timely. For a producer who's in favor of going out of the business due to some kind of a disaster most likely does not have the financial ability to hang on for another year waiting for that assistance.

And finally, the ACRE Program. This provision in the current farm bill is extremely complicated, and the many unknowns have caused producers to hesitate to sign up. In addition, the cuts in the DPs and the MALs are more of a deterrent in some crops than others.

So in conclusion, we're certainly committed to working with each and every one of you as we go forward in the formulation of the next farm bill. And, again, I appreciate your attention to this issue today. Thank you.

[The prepared statement of Mr. VanderWal follows:]

PREPARED STATEMENT OF SCOTT VANDERWAL, CORN, SOYBEAN, SMALL GRAIN, AND BEEF PRODUCER, VOLGA, SD

Mr. Chairman, Representative Herseth Sandlin and other distinguished Members of the U.S. House of Representatives Agriculture Committee.

My name is Scott VanderWal of Volga, South Dakota. I farm with my family in a diversified operation, producing mainly corn and soybeans and operating a custom cattle feeding enterprise. I have served as President of the South Dakota Farm Bureau Federation since 2004.

I thank the Committee for conducting this hearing in South Dakota and thank the Committee Members here today for your time, effort, and foresight in beginning the development of the next farm bill.

The 2012 Farm Bill should treat production agriculture as a strategic resource of this nation and be constructed to further enhance that resource. A healthy, prospering farm and ranch sector is of paramount importance for this country and its citizens. In my view, the health of the agriculture industry is a national security issue. We have all seen the consequences of our reliance on other countries for a major portion of our energy needs. The importance of avoiding doing this same thing in regard to our food and nutrition needs cannot be overstated.

Some of the challenges that lie ahead as the future farm bill is determined include:

1. **Fiscal responsibility—**We recognize that restoring this country's fiscal integrity must receive the highest priority from everyone, farmers and ranchers included. Reduced spending by the Federal Government *must* happen in order to ensure economic opportunity and national security for future generations. We do ask that agriculture be treated fairly and not suffer disproportionate cuts in Federal spending, recognizing that total spending on farm programs including food and nutrition amount to less than ½ of 1 percent of the Federal budget.

2. **Funding allocation—**Farm Bureau supports the allocation of funding across the titles of the present farm bill. We will resist shifting funds from one title to another with one exception—potentially transferring dollars from commodity programs to the crop insurance program.

3. **Balance and fairness—**Farm Bureau is a general farm organization, with members who produce all commodities. Our overriding goal is to maintain balance and benefits for all farm sectors. Shifting benefits from one commodity to another is divisive and many times unfair.

4. **World trade—**There may be a need to include options to comply with existing trade agreement obligations and WTO litigation rulings. However, we resist efforts aimed at presupposing the outcome of WTO negotiations. To do so would reduce the United States negotiating leverage.

5. **Market orientation—**We favor a market-oriented farm policy with less reliance on government and more on market signals including adequate options for insurance and revenue assurance products to help producers better manage during times of market fluctuations and weather-related hazards.

6. **World markets—**The farm bill must enhance U.S. ag producers' opportunities to access world markets on a competitive basis. Farm Bureau supports the Administration's call for a doubling of U.S. exports. We recognize achieving that goal would benefit ag producers, jobs and the overall economy.

We believe a good place to start export expansion would be enactment of the free trade agreements with South Korea, Columbia and Panama. We watch with major concern as those three countries continue to develop and sign free trade agreements with our competitors. We are no longer standing still in ag exports and the jobs connected to those exports; rather, we are beginning to retreat.

7. **SURE program—**If the shortcomings in the SURE program are not corrected in the next couple of years, an improvement will be necessary in the next farm bill. SURE payments are not available until a full year after the end of the crop year in which a disaster occurred. That needs to be corrected, so that assistance is realized on a more timely basis. A producer who is in danger of going out of business due to some sort of a disaster most likely does not have the financial ability to wait a year or more for that assistance.

8. **ACRE program—**This provision in the current farm bill is extremely complicated and the many unknowns cause producers to hesitate to sign up. In addition, the cuts in DP's and MAL's are more of a deterrent in some crops than in others.

In conclusion, we are committed to assist in developing the next farm bill and look forward to working with you in that effort.

Thank you.

SCOTT VANDERWAL,
President, South Dakota Farm Bureau.

The CHAIRMAN. Thank you very much, Mr. VanderWal, and I thank all members of the panel for your excellent testimony.

We'll now go to questions. I'd like to say I think most of the Members here read your testimony ahead of time, our staff did, so we've been through the details. We appreciate that. But sometimes the important stuff is the question part of things.

So we recognize Ms. Herseth Sandlin for the first questions.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman. Thank you all for your testimony. A number of you touched on the ACRE Program. We appreciate the leadership of the South Dakota Corn Growers and the National Corn Growers Association working with other commodity groups in anticipation of the last farm bill to look at a revenue program as an option *versus* the traditional price support programs. So for those of you that addressed ACRE and others that want to comment, one of the things that we pursued as we were looking at the 2008 Farm Bill was whether or not we should be basing this new program on a county basis—so the county basis information *versus* statewide. We know here in South Dakota or in neighboring states in our region there are such varied weather patterns, and other circumstances by state, that that could have possibly been an additional challenge or disincentive for producers to enroll.

So, Mr. Duffy, I know you had identified some challenges, others of you talked about the complexity of the program, but what are your respective views on whether or not you think, either for yourself or other producers in your area, would increase participation if we based it on a countywide basis *versus* the statewide basis.

Mr. DUFFY. I think basing it—from my personal opinion, basing it on a countywide basis would be an improvement over the statewide basis. A bigger improvement would be making it more localized yet. Because I live in southeast Kingsbury County, and the rainfall that I get in southeast Kingsbury County is dramatically different from what they might get in western Kingsbury County. But it would be a great improvement.

I think one of the stumbling blocks as I mentioned is the landlords. We were fortunate on our operation that most of the landlords that we had to deal with were family, and so they trusted our judgment and gave us the go ahead to do that. There are a lot of operators that are not in that position to do that. So I think there's a major education effort that has to be gone through to do that. And so it's complicated enough for me to figure out, but for me to explain it to my 75 or 80 year old landlord is going to be very tough.

Ms. HERSETH SANDLIN. Any disagreement with trying to improve it by looking at a more county or local level?

Yes, Mr. Masat.

Mr. MASAT. I'd like to make one comment. One other thing you might consider doing is going off of productivity, and that is a number that most county soils have depending on what—where you are in the state. I know our county has that. That might be something that history will equal across the board in that county. And I don't know how it is for the rest of the part of the United States.

Ms. HERSETH SANDLIN. Okay. Thank you.

Mr. VanderWal.

Mr. VANDERWAL. Thank you. Yes, I think most of our members would say that if we could zero in on a county basis it would enable you to make the program more friendly to more producers. The "however" on that would be that our economics department came up with some numbers that indicate that it could cause a budget problem if you go to that kind of a system. So that might be just a thing to keep in mind.

Ms. HERSETH SANDLIN. Good point, Scott. I appreciate your testimony as it relates to the tight budget environment, the baseline we'll have to utilize for the next farm bill and the allocations and the importance of preserving the safety net, either in the commodity title or through the crop insurance program.

One final question. You know, Mr. Gangwish, you had mentioned this, but I think all of you that I know so well, we know how important the energy title was in the last farm bill. And while the VTEEC and the blend wall, they may be outside of the parameters of the farm bill, we know how important having an additional market in biofuels has been to reducing the amount of payments that we've made to corn growers and other producers in the commodity title.

The Chairman and I were reviewing charts here a couple weeks ago where we have had zero payments under the LDP and countercyclical growth for the last 3 years, at least for corn producers. I think a couple of you had mentioned this issue in terms of overcoming the blend wall, extending the VTEEC. Do you anticipate, based on your increased yields, based on what you know is going on in.

South Dakota or throughout our region, if we don't overcome the blend wall, do you anticipate—what do you anticipate in the markets in terms of what the safety net may have to provide? Historically, I know you had mentioned we never thought we'd go under $3.60, $3.70 a bushel, and then we saw the drop; and now it's been holding more steady. But any thoughts on what we might be facing if we don't deal with some of these issues outside the parameters of the farm bill, and the impact they could have on the commodity title?

Mr. GANGWISH. Well, I think that we need to continue to increase the demand and the use for corn at the same rate that we—and the rest of the crops that we grow at the same rate—that we are increasing our production. And if you look at trend line yields, and if we are to believe the geneticists and the companies that are developing our seed, we're going to have a lot more corn 5 years from now and 10 years from now than we produce today.

I just mentioned that on our farm—when I came back to farm in 1974, my dad was bragging about having raised some 150 bushel corn. Today on the commercial corn that we raise, we raise 250, 260, 270, 280 bushel corn, and that's—you know, that's just a fact of life. And we're irrigated, we mitigate some of the other weather perils by that. But, yes, we need to look at this, and it's very important to the profitability of American agriculture.

Ms. HERSETH SANDLIN [presiding.] My time has expired.

And we do—as the Chairman stated, we're short on—we have some strict time limits today. But if others of you would like to comment again, we'd like a written response if you're interested on the particular impact without having those markets and not overcoming the blend wall on the payments that might have to be made with the surplus of grain production that we'd see.

I'd now like to turn it over to, from Virginia, my good friend, Mr. Goodlatte.

Mr. GOODLATTE. Thank you. Mr. Duffy, you promote the ACRE Program as the best defense against volatile markets if properly implemented. Do you think there are problems with the program's implementation?

Mr. DUFFY. Well, I think it's a complicated program to get your arms around, especially with the state trigger. I know what my production history has been. You know, I—as a marketer, I'm somewhat guessing on the price, but to have that state trigger, it's kind of tough to get your arms around it. So I think that's one of the things that we would like to do is to get it more localized, at least to the county level.

Mr. GOODLATTE. We've heard from southern producers that ACRE doesn't work for them. Do you think the program can be changed to benefit producers in all regions.

Mr. DUFFY. I'm sure that there are some tweaks in it. I guess I'm only familiar with the corn and the soybean part of it. You know, I guess I'm not—I don't feel qualified to answer for producers in other parts of the region.

Mr. GOODLATTE. Anybody else have an opinion on it? Mr. Scott?

Mr. SCOTT. We've talked about the difficulty of the implementation of that program; and I've talked to my FSA office a number of times and been in there. They said the hardware and software portions of this, trying to get it figured out on their basis is really tough also. So if the FSA can't quite figure the program out, it's really difficult for farmers to figure out.

And as far as us speaking about whether the southern producers—it would be easier for them or not to go into the ACRE program, it would be real difficult being that it's hard for us to know, and we've been in it for a year. But like was discussed, it's really hard to know so far, and in time, we'll fix that I think.

Mr. GOODLATTE. Following up on the questions from Ms. Herseth Sandlin and I recognize as she did that this Committee, unfortunately, doesn't have jurisdiction over everything that we might like to in resolving this. If the Congress as a whole were to create a situation in which consumers had the maximum discretion in terms of how they blended their gasoline with their ethanol, and were able to create an opportunity for a real competitive marketplace in that regard where people would make individual decisions about whether—you know, what level of ethanol use they wanted to make, how quickly could we move in the direction of more free markets overall in terms of eliminating the tax credit and lowering the tariff barriers on international competition in this area? How competitive do you think this growing industry is and how quickly will it be strong enough to allow the Federal Government to save a substantial amount of money in terms of those tax credits? Anybody want to start there?

Mr. SOMBKE. Mr. Chairman.

Mr. GOODLATTE. Mr. Sombke.

Mr. SOMBKE. Well, first of all, the infrastructure is a challenge with that and the education. I mean those of us in the Midwest, we've been schooled on blending for several years, so we understand it. Those on the coast don't understand it quite as well. And how do we get the ethanol from here to the coast? That's going to be another limiting factor. When we get there, when we get to that point, I think we'll be very competitive.

Mr. GOODLATTE. Well, what about producing it on the coast? Being someone from one of the coasts, we recognize that we're not ever going to be competitive with you in corn production, but we certainly hope that in the South and on the East Coast, other sources, whether it's timber or other forms of feedstock that grows in abundance in our areas but has no useful agricultural purpose today being converted, where do you think we're headed with cellulosic ethanol?

Mr. SOMBKE. I think we're headed down the right path. There are a number of plants in the Midwest that are using both, refining, getting better. I think that the bio-industry has a big future in that area. I think that you'll notice in some areas where they're using woodchips. I know they're shipping woodchips from our area along the Jim River bottom over into Minnesota, burning in the Benson plant, and it's working quite well. So I think they're gaining. I think they're making it more efficient. I think there's a bright future in that area.

Mr. GOODLATTE. Thank you. Let me ask Mr. VanderWal on a separate subject. On my earlier comments about fiscal responsibility, your testimony promotes that and I wholeheartedly agree with it. Because of Federal overspending, have you noticed any tighter credit standards that you and other farmers are facing?

Mr. VANDERWAL. Personally we have not on my farm. I've heard some people saying that it's a little bit more difficult to get their operating loan lined up for next year. I think more in terms of just bankers wanting more information and more documentation, possibly a more concrete marketing plan, things that we probably ought to be doing anyway. I haven't ever really heard of a lot of people getting flat turned down at this point.

Mr. GOODLATTE. Thank you. My time has expired. Thank you. Madam Chairman?

Ms. HERSETH SANDLIN. Thank you, Mr. Goodlatte. Mr. Walz?

Mr. WALZ. Thank you to the Chairman and to the Ranking Member and, of course, to our host, Representative Herseth Sandlin. I'm very appreciative to be back here. I—of course as she knows, I grew up just a little bit south of Bonesteel on the Nebraska side of that, so it's good to be back in the big city for a while. I'm very appreciative to be here with my colleagues. This is a Committee I very much look forward to. The testimony is critically important. And these folks are friends and colleagues. I learn much from them. The Ranking Member has spent a lot of time helping me see things from a different perspective, and that's helpful for us in Congress. And so thank you all for being here. Your testimony is incredibly helpful. This is how we learn and this is how it's written. So I feel very, very good about this.

Mr. Wolle, thank you for being here. You have other qualifications and not just being a gray hair. It comes with experience. But the scenario that I—I do thank my colleague, Ms. Herseth Sandlin. It is absolutely critical that we look at demographics of what's happening on the farm. It is absolutely critical we get this right to get our young producers and incentivize this in the right way. And both from a market perspective of opening up—I think someone said if they're not profitable, they're not going to come back to the farm. You're absolutely right. That has to happen. But I think we need to understand some of the things we're doing to incentivize that.

And, Matt, you talked about using some of those.

Anything in particular, if you had one or two things to enhance that again from your testimony that you'd leave us with of making that job easier? I know the capital requirements are a big one but——

Mr. WOLLE. You know, we talk about coordinating cohort groups possibly. There's a lot that a farmer—a farmer wears many, many hats, and it's—I looked at my father one time when we were out fixing something and I said, I wasted my years in college because nothing prepared me for this. And there's some of that learning in agriculture, but there's also this intrinsic knowledge that people learn from making mistakes. If I can learn from someone who's made that mistake, then I don't have to repeat that mistake. And I don't know how you transfer that knowledge from an older generation to a younger generation. Having cohort groups of informal learning with young farmers and older farmers or some sort of—and getting them involved in leadership and commodity groups and Farm Bureau, Farmers Union, some way of spearheading that. If somehow—you know, you don't need to reinvent the wheel. There are organizations already doing this, but maybe coordinating them, collaborating together would be key.

Mr. WALZ. Well, we look forward to working more on this. And I want to tell you. All of your testimony is—I think all of us know. The food, the fuel, the feed, the ability to produce the safest, most abundant, affordable crop that feeds the world is absolutely critical. There's a lot more that comes out of these rural areas. All of us share a lot in common.

I said—Secretary Vilsack uses a statistic that I like a lot. Rural areas have about 15 percent of the population; about 50 percent of our military folks are in that. It says something about the culture that comes out of rural areas.

I think some of the times we get caught up in the details of this. This is a much broader issue. This idea of fiscal responsibility is absolutely critical, and it can start right here as a model for this. I say this because I think we need to be very careful. This idea that all spending is not created equal, and the idea that we need to get things right, but when you talk about freezing budgets across the board, that means you're going to freeze programs that are absolutely useless and you're going to freeze programs that should be plussed up, that have a return on the dollar and grow the economy. We need to start getting out of this it's either or, it's this or that, you're for this, you're against that and start dividing. That's not the way you do it in your business, and I think we need to start figuring out how to grow that pile.

I love this idea we're talking about increasing markets. I love the idea of the value-added that we've all done. And one of the things we need to be talking about here is we've got an issue in transportation in this country. We need to upgrade our transportation system, we need to finish the WRDA bill, we need to make sure rail is competitive, and we need to make sure all those things are happening together. The banking sector that's happening, that's going to impact us. We have all of these things that we can't see it in just a vacuum. It has to be much broader. And all of you are bringing that extra piece.

So I look forward to working on this bill because I think, once again, the farm bill can be a model for how good government can work and how we can incentivize the private sector to grow the jobs and create this country. And it should be—we can do it and we can make it happen all while being fiscally responsible.

So I thank you, Mr. Chairman, and I yield back.

The CHAIRMAN [presiding.] I thank the gentleman. I now recognize the gentleman from Alabama. We were in Alabama on Saturday I guess it was, and we learned all about peanuts and cotton and all those good crops. And we appreciate Mr. Rogers being with us.

Mr. ROGERS. I also had the privilege of helping the Chairman eat his first fried dill pickle. I don't know how it is here, but if you can batter it and deep fry it, we can eat it in Alabama.

This is my first time in South Dakota, and it's pretty, just like your Member of Congress. And I had the great privilege yesterday of getting to visit the POET ethanol plant, and it was just really exciting to me because they appear to be on the cusp of figuring out this cellulosic technology, which is going to be a big deal for my region of the country, and I'm excited about that.

But what I want to talk about was crop insurance and direct payments. I heard several of you touch on crop insurance. My question is simple: If we were able to get the crop insurance reimbursement rates higher—maybe 80 percent, 85 percent—with a premium that you felt good about—Mr. Scott testified a little while ago that direct payments really don't help with prices being high—would you be willing to opt out of the direct payment and countercyclical payment programs for that very favorable crop insurance program? Anybody that wants to take it. This is pretty much what I got in Texas yesterday: A deafening silence.

Mr. SCOTT. A blank stare. I'll——

Mr. ROGERS. Mr. Gangwish.

Mr. SCOTT. No, go ahead.

Mr. GANGWISH. I would just say that it depends on what the payment is, or it depends on what the protection is. I'm in a part of Nebraska that our primary—as I said in my testimony, our primary peril is hail, and so we use Federal crop insurance to insure the bottom portion and then we buy up with top portion coverage. And we can't be without hail insurance because one—we only get hail once every 20 years—one year of hail could take us out of business. We had that last year in 2009 where about 60 percent of our acreage was wiped out by hail. And—but if we had—if we had as—you mentioned—you said an 80 or 85——

Mr. ROGERS. Or it could be 90. I mean, say, if we had a crop insurance program that you and the banker found very attractive, would that be favorable enough for you to say I'd rather have that than direct payments and countercyclical payments? Because we have to pay for it some way, this enhanced crop insurance program.

Mr. DUFFY. I would look at that because the amount of direct payment—ironically, I hadn't thought about it until you mentioned it—but the amount of our direct payment is about equal to the cost of our crop insurance package for crop insurance and hail insurance. They would just about offset each other. And if we could replace one with the other, I would look at that.

Mr. ROGERS. And that's something that hopefully in this farm bill we're going to be able to present that to people like y'all, as well as people in the farm credit business, and it may be something that you may have that option.

Mr. Scott, did you have something?

Mr. SCOTT. Well, in our area, I mentioned direct payments are not quite as important to us. On corn and soybeans, those payments are not very high. And—now on the rice and the cotton and those sorts of things that you'd probably be more familiar with, they're a little higher than that. But in our area, a lot of those we tend to be a pass through. A direct payment is something that can be visually seen and identified. And land rents can go up based on, they know you've got $10, it can go on through. That is just my "2¢" there.

Mr. ROGERS. Mr. Masat.

Mr. MASAT. Yes, I'd like to make a comment on that.

You know, some parts of the United States, Federal—or Federal crops are very profitable for the companies. Here in South Dakota I don't think it is because we collect a lot.

So that's something you want to probably consider into your thought process. You know, there are going to be thousands of acres in the state this year that's going to be preventative plant. We go from that to a drought. So it's very variable. Just like our counties when we were talking about the other programs, we have land that will produce a hundred bushels of corn and land that will produce 200+ within 5 miles. So there's a lot of variance of what goes on.

Mr. ROGERS. Thank you, Mr. Chairman. I yield back.

Mr. DUFFY. Can I make just a short comment?

The CHAIRMAN. Go ahead, Mr. Duffy.

Mr. DUFFY. I think you can also possibly look at that in combination with the ACRE program with some tweaks, and between the two of them, I think you could come up with something that would work very well.

The CHAIRMAN. I thank the gentleman. What percentage in South Dakota signed up in the ACRE program, do you guys know?

Oh, yes. And I could just take this opportunity—we have some people with us that we want to recognize. The FSA State director, Craig Schaunaman, is with us. Why don't you stand up and be recognized. The State Rural Development Director, Elsie Meeks; and the NRS—NRCS State Conservationist, Janet Oertly. Why don't you give them a hand for the great job they do.

We also have the North Dakota FSA State Director, Aaron Krauter, is with us. The Nebraska FSA State Director, Dan Steinkruger. And the acting Secretary of the South Dakota Department of Agriculture, Jon Farris, is with us.

Mr. Schaunaman, do you know what the percentage is that signed up in South Dakota?

Mr. SCHAUNAMAN. Eighteen percent.

The CHAIRMAN. Eighteen? Okay. How about North Dakota?

Mr. KRAUTER. Ten percent.

The CHAIRMAN. Ten percent? The—I would assume, like we've heard other places, but most people would like us to look at going to the county, the county-by-county, rather than state. Would you all agree with that? And the area of South Dakota that had the disaster problems, I guess the northeast was the worst hit, they—will they get SURE payments?

Mr. SCHAUNAMAN. Yes.

The CHAIRMAN. Does anybody know?

Mr. SCHAUNAMAN. Yes, they will, Mr. Chairman.

The CHAIRMAN. Do you know what percentage of people will get SURE payments?

Mr. SCHAUNAMAN. I guess percentage-wise, no. Right now we've paid out about $31 million in the state in SURE payments, most of them going in the northeast corner. Hutchinson County directly west of here is another county that's received a lot of SURE payments.

The CHAIRMAN. On the wheat, we had a meeting with some people, and apparently there's a new crop insurance product that's being tried and put together, or some kind of a deal that's being put together between Ducks Unlimited and winter wheat for cover crops and getting a better insurance coverage. Are you guys involved in that effort?

Mr. MASAT. Yes, we are, and that's where I was referring to, because we do not have win—and I'm in a county that has no winter kill. We plant winter wheat. It has to be inspected in the spring. If the stand is not good enough, then they won't insure it for us. But the county that's 5 miles away from me, both sides have that. That's something that we'd like to see expanded all the way up into North Dakota also.

The CHAIRMAN. And we're looking at it even in Minnesota, northern Minnesota, to try to move in that direction, get a better cover crop, and I think we're going to be successful in being able to come up with something that's going to work for people. And I think it will be better for wildlife, be better for the wheat farmers and better for everybody.

One other thing. I've got this bill, H.R. 4645, to expand trade with Cuba, and we hope to bring that bill up the in first part of June in the Committee. Yes or no, do you guys support that bill? I see everybody—everybody's on board it looks like. We're hoping that we'll be able to get—get some good support in the Committee to get that moving, and we'd like to see some of these other trade agreements move as well. But if we could get Cuba done, I think it's a lot of opportunity, especially for wheat, rice. We heard that in some of the other hearings.

And, we're trying to think out of the box a little bit and figure out how to make these programs work better together. You know, my own personal opinion is we've got too much. We've kind of added stuff on top, different programs, and I don't think they work together as well as they should or could. And that's one of the things we're trying to do is see how we can make these programs work better together with crop insurance, how they can be simpler, less complicated, and hopefully maybe more efficient, you know. So we look forward to working with you as we do that.

The gentleman from Texas, Mr. Conaway, who we're working on to get him to understand the benefits of ethanol. Being an oil and gas guy, he's a little bit reluctant, but he's coming along I think a little bit maybe.

Mr. CONAWAY. Well, thank you, Mr. Chairman. It's not the first time I've been thrown under a bus. I went to Havana with a group of ten Members of Congress; nine of whom wanted a full and open trade with Cuba, and one of which didn't. I was thrown under the bus every single meeting there, too. But it is great to be in your wonderful state. Like my colleague from Alabama, today's my—yesterday was my first time to set foot in South Dakota and actually my first time to eat a fried dill pickle also. We had them last night at the Ramada Inn. So it's terrific to be with you.

Mr. ROGERS. That's why I like South Dakota.

Mr. CONAWAY. I feel right at home.

Mr. ROGERS. Exactly.

Mr. CONAWAY. I won't take up all of my time. I do want to ask one question of Mr. Scott and Mr. Gangwish. Seventy percent of your acres—or your acreage is in the ACRE program, and, Mr. Scott, your testimony said 75. Have you been through a full cycle yet where you signed up with the program, had a crop, did or did not collect at this stage?

Mr. GANGWISH. No, 2009 was the first year. And it was kind of funny. We signed up at the end of 2009 or halfway through for the whole year, and we did not have a claim.

The—in order to have a claim in the ACRE program, you've got to have a pretty significant impact on either price or yield. And as I said, it's giving up a bit of the—of your direct payment to buy, like, a foot. It's insurance against some catastrophic thing. But when you look at the other alternative, the rest of the farm bill as it's written, you have to really have a disaster to collect anything, we looked at it as a progressive, proactive——

Mr. CONAWAY. So your share of direct payment was not so valuable as to cause you to not get into the ACRE program——

Mr. GANGWISH. We gave up 20 percent of our direct payment.

Mr. CONAWAY. Yes.

Mr. GANGWISH. I'm a risk taker. I said I'll give up 20 percent of it in order—on those—on that 70 percent that we signed up to insure against some catastrophic drop in——

Mr. CONAWAY. Which crop is that?

Mr. GANGWISH. Corn and soybeans.

Mr. CONAWAY. Okay.

Mr. GANGWISH. And if we trade—take corn below $3 and have the dry summer this year, we may collect on the ACRE program.

Mr. CONAWAY. Okay. Mr. Scott?

Mr. GANGWISH. I'm talking about $3 futures. That will be $2.75.

Mr. SCOTT. Yes, I would concur with most of that. It just was a matter of—our direct payments are not that large, and the 20 percent was not much to give up for the potential revenue assurance that that program gave us. And at the time, the prices were high when we signed up, and so there was a significant risk that we could lose value there and collect. But there, again, I don't think we'll have any payment this year.

Mr. CONAWAY. I represent an awful lot of cotton farmers, and direct payments to them are a big deal. And they're very reluctant to trade one for the other. Mr. Masat?

Mr. MASAT. Yes, I'd like to—I'm on the other—I never took that program. I never elected to do it. First of all, we have the opportunity ourselves to control the prices, as far as locking them in. We don't—you referred to as a put option. We can do that in the marketplace ourselves if the market is high enough where we can do that. Second of all, we have crop insurance to protect our yield. So I guess that's why I chose to stay out of it.

Mr. CONAWAY. Thank you very much. With respect to what appears to be a conflict between oil and gas and ethanol, I don't see it as a conflict. We import 65 percent of the crude oil we use every day. That's an awful lot of non-U.S. produced crude oil that we could—that we don't need. We need—we don't—we ought to be buying it from our own self. And so I'm not against ethanol. I do want it to be market-based. And I'm hesitant to force the infrastructure costs on to merchants and retailers. We've got to figure out how to make that work. But I represent a lot of independent oil and gas operators in west Texas, and we don't see ethanol as a threat to their way of life because we import so much crude oil from folks who don't like us. We give them that money every single day that we shouldn't be doing. And so I think there's plenty of room in the market for increased domestic production of crude oil and natural gas, as well as all the ethanol we could do, with the cellulosic or corn base. It's not a real big fight, but we'll keep working at it, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentleman. The gentlelady from Colorado, Ms. Markey.

Ms. MARKEY. Thank you, Mr. Chairman, and thank you, Congresswoman, for hosting us in Sioux Falls.

It's my first time here.

The CHAIRMAN. Is the microphone on?

Ms. MARKEY. Is the microphone on? Okay. One of our witnesses mentioned that, in terms of the overall budget, that our ag programs represent ½ of 1 percent, and that is pretty small. And particularly when you think that just a little over a hundred years ago, the average American was spending about 40 percent of their income on food and now it's about ten percent; which means, because of the efficiency of the American farmer, the average taxpayer has a lot more money in their pocket. But of course, as we've all noted, there's always room for improvement and additional efficiencies.

So with that, Mr. VanderWal, you had mentioned in your testimony that you favor market-oriented farm policy with less reliance on government and more on market signals. Can you expand on that a little bit? You know, what is your thinking there? What are some programs where you think there should be less regulation by the government, and what do you envision as policies that would be more—have additional market signals?

Mr. VANDERWAL. Well, thank you for that question.

That's an excellent one. And it really goes to the heart of the policy that we have in Farm Bureau. And I'm not sure I'd get any argument from anybody on this policy when I say that, ideally, in a utopian world we'd like to get along without any government support and keep the government regulations to a minimum, and just run our farms the way we need to on an economic basis and react to market conditions. The market will take care of that on a supply and demand basis. If the price of a commodity goes down, somebody out there might switch to a different commodity that offers a better price.

So that's really what we're getting at is we'd like to minimize government regulation and try to minimize the government support, recognizing that down the road, the appetite for urban Congressman especially to spend money on ag programs is kind of going away, and we realize that's happening. And it kind of gets back to the earlier question about the crop insurance *versus* commodity programs. That's one thing I thought of for years that we ought to look at, taking that money we spent on commodity programs and putting it into an insurance product where we introduce personal responsibility. And it really comes down to personal responsibility and being able to run our operations the best way we can in an effort to feed the country and the world.

Ms. MARKEY. So with that, are there particular programs right now in the farm bill that you would say are essential and others that you—where you think there is too much government regulation? Can you maybe list a couple of specific programs?

Mr. VANDERWAL. Okay. As far as the parts of the program we think would be essential, right now I think the countercyclical part of it, whether you're in the CCP or the ACRE program, gives us a safety net at this point to keep agriculture healthy. I think a lot of people would say let the direct payments go if that's necessary. As far as regulations, we see a lot of things coming out of EPA right now as far as the Clean Air Act, regulating greenhouse gases in there, we oppose that because we don't think that the Clean Air Act is the way to do that. There are also pesticide drift regulations that the EPA is looking at, and I understand they're reconsidering at this point.

These are all things that farmers have been very good managers of over the years. We're excellent conservators of our environment, and we don't feel that we need those regulations adding expense to our bottom line.

Ms. MARKEY. And the USDA has played that oversight role in the past. Just switching a little bit to CRP. Do any of you on the panel have any thoughts on how large the CRP program should be, what its focus should be on, and is it better to concentrate on continuous practices or general sign-up enrollments? Anyone who'd like to address that?

Mr. SOMBKE. Madam Representative, I participate in the CRP program, and we found it to be very beneficial in those marginal grounds. I think that if you ever wanted to expand on it, I think we've done that in the past. From the beginning—I've been in it ever since the beginning. And the old contracts are difficult to manage. The new ones now are a lot easier to manage. Your flexibility of working to get the noxious weeds out, and to allow wildlife habitat to flourish, is better. It's been very beneficial in our area for tourism. We've had a lot of hunting businesses come and other businesses start up as far as the restaurants and lodging. I think that you've got to have a balance here, and I think that you also should be able to use some of this ground for the biofuels. I think there's an opportunity there as well.

Ms. MARKEY. Thanks very much. My time has expired.

The CHAIRMAN. The gentleman from Nebraska, Mr. Fortenberry.

Mr. FORTENBERRY. Thank you, Mr. Chairman, and it is a pleasure being with you all. I'm your neighbor right to the south, and my district overlooks a part of your wonderful country here. And it's great to be with you.

Thank you all as well for being farmers.

I think a couple of comments are worthy of unpacking here because agriculture in its essence is—agriculture policy is environmental policy. Agriculture policy is national security policy. Agriculture policy is also energy policy. The farmer is the original steward of the land and water, as you pointed out, Mr. Scott. The farmer is aggressively participating in helping stabilize the most essential part of an economy—the food production—and is creating a health—or generally has helped create a healthy balance of trade for this country. And now we've got huge emerging opportunities in helping secure a new energy future through our agricultural policy by helping build biofuels into a multiple set of energy options this country has to look at to wean ourselves off of our particular independence on foreign oil, but also in an environmental and sustainable way.

I say all this because I think it's very important as we, who are interested in healthy agriculture income, but also public policy position is for the rest of the country to understand that agriculture is spending a very limited portion of the overall Federal budget. It provides tremendous benefits to society at large in those three areas. Yes, the budget's going to be very constrained, and we have to be—use the—be wise stewards of the resources that we have.

And agriculture—in particular, these policy hearings—always need to devolve down into the specifics of programs.

But what I don't want to miss is an opportunity for all of us to speak in a manner that talks about the importance of environmental, energy, and national security policy and how agriculture helps our country in that regard. But in that regard, we tend to in these hearings quickly get into adjustments to a particular support program, and perhaps lose sight of some of the larger macroeconomic forces at play.

Congratulations to South Dakota by the way. The average age of a farmer is 57; in Nebraska it's 58. Since I've been in Congress, it just keeps ticking up. You're a real exception, Mr. Wolle. We tend to focus again on the farm support program that we have; we tend to, particularly these days, focus on energy and then potentially export opportunities, which are important opportunities that we should seize upon.

But let's talk a little bit about other emerging opportunities. One of you gentlemen mentioned it in terms of ag policy—and, Mr. Sombke, you just talked about it as well—in terms of another value-added option that agriculture brings. Talk a little bit about that. Because if we're going to attract young people, the vibrancy of agriculture and new emerging opportunities has to be a part of our ongoing commentary, and ongoing presentation that flows out of real market opportunity. One of you spoke as well in terms of the production, the use of replacing traditional hydrocarbons, the use of ag products and replacing hydrocarbons used in plastics. But let's touch a moment for other—in terms of other value-added opportunities, which I think helps, in some ways, solve this larger question as to how do we, again, create a more vibrant agriculture marketplace that is going to be particularly attractive to new farmers or new people who haven't been involved in agriculture at all.

Mr. SOMBKE. Thank you, Mr. Chairman—Congressman.

I'm sorry but in South Dakota we don't have a lot of entrepreneur businesses, and in South Dakota we should have more. Agriculture, of course, is our number one industry, and I feel there's a great area where we can expand that business.

I think there's a lot of support of businesses that could be folded off of value-added businesses as well. The wind industry in South Dakota is growing—starting to grow pretty good. We're far behind the states surrounding us, but we're starting to grow. I think there's a lot of potential for that area as well. I think the support businesses in South Dakota for agriculture are locally owned. We import a lot of businesses from other states to do our work for us. Soil sampling for instance. A lot of companies come from Iowa, Minnesota, Nebraska to sample soil in the State of South Dakota. Why is that? We don't have the people doing that type of work. We need to expand on that. We need to find a way to put money into those type of businesses. Rural development, a great place to start. The wind industry in my area has been very beneficial. We have Brigida Hills, Tatanka Hills. Just—GE just developed a wind farm of 66 turbines on that ridge, and it's been very beneficial to our local community for several years now; as they were building this, as they were building up to it, and now as we care for them. So there's a lot of potential there as well.

So this isn't just about biofuels or cellulosic ethanol. This is about all types of renewables. And for the State of South Dakota, I see a huge, huge opportunity for us to continue to not only get young people involved in agriculture as we become profitable because of these other energy sources, but also for the services that we provide, continue to help those kids stay in the state.

Mr. FORTENBERRY. I must have given a longer speech than I thought. My time has expired. I wanted other people to talk, but Mr. Chairman——

The CHAIRMAN. The gentleman from North Carolina, Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman. And it is good to be here in South Dakota and also recognizing the close proximity to Minnesota and Nebraska. So it's good to be here in this area.

Matt, you are the young guy on the panel as self-described. I'm curious. Your involvement in getting into farming, did you come about that because your parents and grandparents are in it, or are you just totally new to farming in terms of any lineage there, or how did you get into farming?

Mr. WOLLE. Mr. Chairman, Mr. Kissell, I really didn't—you know, there are many young people who have the burning desire to farm. I mean I know several of them who just don't have a connection to get hooked up to farming, but they dream about farming. They're working at jobs in town, or they're working for the local cooperative selling products, ag industry. But they'd really love to farm and run their own business. I kind of just stumbled—you know, my father farmed, my grandfather farmed. I didn't have tremendous pressure from home. Dad said you need to go work off the farm. You need to figure out what you want to do.

And I found out through working in education and in the agriculture industry that, boy, farming is a great job. It is—and don't tell it outside this room—it's one of the best jobs in this world. It's risky but the rewards are great. And I think that's why these young people see that, and they really—they want their chance. They're just gnawing at the bit to jump in and get the opportunity, but opportunities are very tight, very limited.

Mr. KISSELL. Well, it was mentioned that the average age of farmers as being 57 and 58. I have now reached the age that sounds young to me. But I think one of the concerns—and you just brought this up—is people that want to go into farming that don't have that grandfather or father that can usher them in, or don't have the land there to usher them in.

I heard on the news going home, I guess, Thursday night that the number of degrees being awarded in our university systems in an agriculture-based field is up 22 percent. So we're seeing—our young people are seeing that there are tremendous opportunities in agriculture. I'm just wondering how those opportunities really go into the actual art of farming itself. And if anybody—Mr. Sombke, I think you said you had grandchildren that are on the farm and want to farm. What do you see in terms of young people wanting to be on the farms and our ability to sustain this art?

Mr. SOMBKE. Mr. Chairman, Congressman, on my farm we've always kept our kids very involved in the operation. It was something that my father didn't do with me. He didn't keep me included in the budget process, in the fiscal responsibilities of the farm. Just do the work. I was a hired man, okay? On my farm I've decided to make sure my kids understand what this is like. I mean this is rewarding work. This is the Lord's work. I mean he gave us—we're the closest to him as anybody can ever be in an occupation. And I want them to understand the rewards of that, but I also want them to understand the risk of that and financial risk. I mean there are a lot of ways you can make a lot more money doing a lot less work than what I do. But, there's nothing as rewarding, there's nothing as fulfilling, and there's nothing that tells you that you did a good job at the end of the day like the work that I do. Even if it's a bad day, it's still a better day than sitting in the office where I work in the Farmers Union.

Mr. KISSELL. Well, we do appreciate what is done on the farm, and this Committee especially. And all the Agriculture Committee is committed to helping your government work with you to try to enhance what you do. Some of the programs in the ag bill, we haven't talked as much about rural development, the FSA people that are here, so forth. So are there other aspects beyond the biofuels and the crop insurance? Rural development is especially important to my part of North Carolina. Is there anything else that y'all would like to mention that we haven't talked about yet?

Mr. SOMBKE. Mr. Chairman, Congressman, this is a topic that is very important to me—rural development in South Dakota especially. We've been lacking. We've had, I would say, a good 8 years of doing nothing. We should be further along than we are. We should have more opportunities than we do. We should have taken advantage of opportunities that we should have, could have had. That being said, that's not saying that the future isn't bright. I think we can learn from those mistakes. If there's ever a place to put more funds, that is the place: Rural Development.

As the young man mentioned about getting started in farming, capital is hard to get. The financial reforms recently have put a lot of requirements on our banking industry that has funneled down to financing of farms. That has pushed the credit limits and has also pushed requirements for creditors through the banking industry of what they can do and what they can't. An established farmer today who is probably a top risk grade is probably in the mid now, and so it makes it even harder for a young man to get involved. That's why we need Rural Development to be able to offer that kind of money to young people and to businesses, entrepreneurs that want to start into agriculture resources.

Mr. KISSELL. Once again, thank you and thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Nebraska, Mr. Smith.

Mr. SMITH. Mr. Sombke, you said 8 years of nothing happening in rural development; is that really accurate?

Mr. SOMBKE. In South Dakota we've had some opportunities that have been passed by. I guess that's what I'm saying.

Mr. SMITH. Okay. Thank you. I appreciate the testimony of each and every one of you, and I thank you to the Chairman for holding the hearing and the great host here with Stephanie Herseth Sandlin. And obviously coming from right next door, it's convenient so—thanks for showing up as well.

There are many challenges obviously with agriculture. I don't have to tell you that. And I am inspired every time I learn of the new innovation that is taking place in agriculture. Whether it's growing record yields of crops with record low amounts of water due to our research efforts, due to new technologies, whether it's biotech or irrigation technology, I'm just encouraged to see the advancements. And certainly, I don't want to adopt any policies out of Washington that would discourage that type of advancement.

I think that a vibrant ethanol industry is important, not only to producers of corn or other feedstocks for ethanol and biofuels in general, but to all Americans. And it's a good American form of energy, and I want to work for its ultimate success and have it flourishing.

As we look at the obstacles, whether it's the blending wall or the infrastructure, what do you think we could do to really work at that infrastructure piece so that we could deliver ethanol more efficiently? So that consumers would ultimately have greater choice that I think consumers are lacking at this point? Anyone wishing to tackle that one? Mr. Gangwish.

Mr. GANGWISH. Well, regarding infrastructure, I think the ethanol industry right now is selling as much ethanol as it produces almost, and one of the things that's holding it back is the—you know, we're blending almost as much ethanol and gasoline as we're allowed to blend. So we need to increase the amount of ethanol up from ten percent to 12 or 15 or whatever it is. I run—we've been burning ethanol in our—all of our farm equipment, including chain saws and every engine that we have on the farm since 1985. I burn regularly up to 30 percent in my pickup and my car, whatever, just by going to the pump and doing it. And I don't have any problems. And I've got the records to back it up, so I know it could be done.

We have an information issue here as well. Everybody has an agenda, and pardon me but I have one, too.

Mr. SMITH. That's okay.

Mr. GANGWISH. But the thing about infrastructure is that if we have the regulations changed, or we have the ability to do something, the American businessman in cooperation with the American farmer will get the job done. And you know, I believe that to be the case. So if we have the opportunity to blend more ethanol, we'll be able to produce it. And we're going to have to blend—you know, we're already producing 13 billion out of corn. We can go—and change. We can go up to 15 billion. And we're supposed to be going on up to above 20 billion with cellulosic ethanol. So we're going to have to do something with the amount of ethanol that we're blending in fuel. We know we can do it because we're—some of us are already doing it. We're not having any troubles. So the infrastructure just needs the regulations opened up and it will come.

Mr. SMITH. Okay. Thank you. Anyone else?

Mr. WOLLE. Mr. Chairman, Mr. Smith. I would put that back also on corporations. I traveled to Arizona this past winter. I had an E85 vehicle. I stopped at Valero oil stations—or gas stations—and you know Valero purchased recently several ethanol plants in the Midwest—and I was not able to buy E85 for my E85 vehicle at a Volaro plant. So I have the question and I would like you to ask members of Valero, which is an oil refinery as well as an ethanol producer: Why? Why can't we get it from their plants in the Midwest to their gas stations in the Southwest? That is a question I have.

Mr. SMITH. Okay. Very good.

Mr. DUFFY. I guess my comment on that as far as the ethanol yield, what we need is market access. And if we have market access, I think the infrastructure will fill that need because then we do have the market. The other thing that I think we need to get is get corn ethanol classified as an advanced biofuel, because I think that's a missed opportunity for us. And we need to keep the corn ethanol going in order to get to the cellulosic ethanol. And again, as that market builds, I think the infrastructure will come.

Mr. SMITH. Okay. Thank you. Thank you, Madam Chairman.

Ms. HERSETH SANDLIN [presiding.] Thank you, Mr. Smith. I now recognize Mr. Childers from Mississippi.

Mr. CHILDERS. Thank you, Madam Chairman. And the good thing about being last is most everything has been asked or said. But I—and so on that note, I would just like to say a couple of things. That we've enjoyed being in South Dakota with Ms. Herseth Sandlin and with all of you. We appreciate all of you that came out for this. And these hearings are important.

I want to commend every single one of you because I have often said two of the most rewarding jobs I think in this country that get paid the least are teaching and farming.

But to those of you who do either of those professions, I commend you, and especially farming. I'd also be remiss if I didn't recognize and let you all know that we have a Rural Caucus in the United States House of Representatives. Both chairs and both co-chairs are on this panel today coincidentally. Tim Walz and I chair and co-chair on the Democratic side; Adrian Smith and G.T. Thompson on the Republican side. We work toward common rural causes and common rural issues such as promoting broadband, which is one of the—one of our priorities, promoting rural health care, access to health care in rural areas and so forth. So I want you to know that, and I urge you to visit our website by going to any of our websites and just click on the Rural Caucus.

And last, I want to comment on this. I realize it's a little bit off of ag, but I commented to Ms. Herseth Sandlin this morning. As we traveled through South Dakota, I want to commend this state. I think this is one of the cleanest states I've been in. There was no litter on the highways, and I commend you for that.

The CHAIRMAN [presiding.] I thank the gentleman. He hasn't been to Minnesota yet.

The gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Mr. Chairman, just thanks to the panel for all the—just great information today. This is so helpful as we prepare and work towards this next farm bill.

I want to come back to a question on credit and zero in on young farmers. So, Mr. Wolle, in terms of—some of the other panelists have talked about the availability of credit, access to financing. And what's your experience as someone who is—you know, has established themselves in the agriculture industry? Have you found yourself being able to access the credit and the financing that you need to have, or are there barriers out there?

Mr. WOLLE. Yes, I've been quite fortunate because I—you know, I have family that's been established in agriculture. They have good relationships with the banker.

A credit score for farming is not as important as your relationship, your abilities to show a cash flow, your ability to have access to land, to manage that land, show a marketing plan. So I have not experienced some of the struggles because I'm one of the fortunate ones. I have a family that got me involved in agriculture.

My father used to love to say anybody with a desire to farm can farm until he brought his own son home and started looking at it. And you know, at one point, we looked it at it and he goes, well, you're basically bankrupt now, so if you go bankrupt in 5 years, you're really not out anything. It was a real awakening to him to realize what a drain on his organization and his business was to bring on a younger member. So he—you know, I'm fortunate.

I look at others—I have mentioned a few of my friends who want to get into it and don't have the access to the capital. I talked to an associate of mine who's a loan officer for the FSA, and he was proud of himself. He said we're a government program that makes money. Now I can't—that's anecdotal and please research that, but if that's true and you're the lender of last resort, what would happen if there's a need there that private industry doesn't want to fill or can't fulfill? If government stepped in at that and made a profit of that and was able to invest that profit into young and beginning farmer education programs. I think that would be a win-win. There could be a lot of synergy there, but I don't know all the intricacies of it.

Mr. THOMPSON. Okay. Thank you. Just one more question. I want to come back to a topic a number of panelists have talked about.

Mr. Duffy, you kind of led that off in noting the importance of biotechnology advancements. And I know one of the things I've been trying to work on this past year was urging the Secretary to move on Roundup Ready alfalfa. And you had mentioned in your testimony that research—what about needing research and tools that would advocate to get technology from research to market? Any specific ideas? And I'll open that up to the panel. What should we be doing?

Are there specific ideas that you have in terms of how are we getting this biotechnology, not just from research, but out into the market?

Mr. DUFFY. Well, I guess what I was referring to in my testimony is that once these products are developed and they come to the government for approval, I want the government to have the resources to do the due diligence and the testing that needs to be done. This way we can safely say that they are proved to go out and—because we do have the environmental organizations—there are certain organizations that are opposed—deathly opposed to this and they're fighting every which way and using every fact they can to do that. So I just felt that the government agencies need the resources they need to combat that.

Mr. THOMPSON. Okay. Any other panelists have any additional thoughts on biotechnology advancements or barriers?

Mr. VANDERWAL. Thank you, sir. I think consumer acceptance is a big one, too. You know, we started out with Roundup Ready crops, and it was a benefit to us as farmers, but not necessarily to the consumer other than a greater abundance of products. But any of these biotechnology things that come out need consumer acceptance because that flows through the government and affects the regulatory process all the way down the line. We deal with that in everything: Environmental issues, animal rights issues. It all comes down to what the consumer allows things—allows to happen.

Mr. THOMPSON. I thank the gentleman. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman, and I want to thank this panel for their excellent testimony and for the answers to the questions. It's very much helpful to the Committee. And we know it's a busy time of the year and not an easy time to get away, so we appreciate you doing this.

So the panel is excused. And we'll give them a hand.

We've got to keep this moving, so we're going to call the next panel. Mr. David Hallberg who's a biofuels representative from Omaha, Nebraska. Mr. Scott Weishaar, biofuels representative, Sioux Falls, South Dakota. Mr. Jim Neiman, forest product producer from Hulett, Wyoming. And Dr. Kevin Kephart, Vice President for Research and Dean of the Graduate School, South Dakota State University in Brookings.

Gentlemen, welcome to the Committee, and they'll get you set up here.

[Recess.]

The CHAIRMAN. All right. Mr. Hallberg, welcome to the Committee. Your full testimony will be made part of the record. I think most of the Members have read your testimony, so if you can summarize. We'll try to keep this short for the road here, and we appreciate you being with us. So the floor is yours.

STATEMENT OF DAVID E. HALLBERG, BIOFUELS REPRESENTATIVE, OMAHA, NE

Mr. HALLBERG. Thank you, Mr. Chairman. My name is David Hallberg, and I'm CEO of a low carbon fuel technology development company in Omaha, Nebraska. I'm a graduate of Augustana so it's good to be on campus. I really appreciate the work you and your Committee have done. In particular, last year on the cap-and-trade bill, your leadership on indirect land use was very, very important. And today I'd like to talk a little bit about the barriers to financing that are posed by the blend wall and focus on that very briefly.

I passed a graph out there to each of you. I understand it may not have gotten attached to your testimony. And it's a—okay. It basically depicts the 30 years of growth in the ethanol industry. It's put together by the ACE organization here in Sioux Falls. And I think it's a useful depiction because it shows the direct correlation—strong correlation between demand stimulus programs from government policies and the industry itself. And you'll note the spike that occurred, in particular, beginning in 2000 and 2002 with the Daschle-Lugar Renewable Fuels Standard, which, of course, we all know about, the RFS. The RFS2 was signed into law by President Bush in 2007. I think the point is, the work you're doing here today is extremely important, and ultimately, it's going to play a substantial, if not pivotal, role in the growth of the industry, going forward.

Thirty-six years ago this summer I left Sioux Falls after graduation for the Middle East. And I was there a year after the 1973 war, and it was a very pivotal time for me because it reminded me just how important our geopolitical position was. When I came back, I went to grad school in Washington, D.C. And had the opportunity to work in the United States Senate and House for a number of years during the second oil interruption in the late 1970s. And from that experience, I formed the Renewable Fuels Association in 1981 and was its first CEO.

I've been in this business ever since internationally and domestically. And one of my primary takeaways is that, in fact, there is no free market in the transportation fuels business. There are very dominant forces. I like to refer to them at big oil, multinational oil companies, as opposed to our independent friends in Texas. And they obviously have enormous resources. Right now, they're playing a masterful game at manipulating the market system that's been built up over the last 100 years to keep ethanol from moving beyond what we call the blend wall that's been referred here today, which is the ten percent limit for blending that was set, frankly, 32 years ago with the first waiver.

I think the proof of how pernicious that market control is can be found in the marketplace. If you go to NYMEX, last week the last time I checked, I think ethanol was about a $1.57 on the board, whereas gasoline was $2.35, $2.36. There's a 76¢ to 85¢ gallon differential before the VTEEC is taken into consideration, which is 45¢.

And that disparity is even more shocking when we consider that ethanol has 30 points more octane. And octane is something we won't have time probably to discuss much today because of the time limitations. But, it's extremely important as we go forward when automakers start to downsize and turbocharge and increase the compression of their vehicles to meet the new CAFE standards.

So ethanol has major characteristics in quality performance, zero sulfur, higher octane, and it's already more than a dollar a gallon below the fair market value in the marketplace today. I would submit to you, if we had that right, we probably wouldn't be arguing too much about tax credits.

So I think one of the things we have to do is to talk about how we get away from that obviously, and I believe the way to get away from that is for this Committee to go back to its leadership role that it's played before and try to convince the Congress to enact something like S. 1627, which is the Harkin-Lugar CHOICE Act. There are some other bills similar to it. I think you have an open fuel standards bill in the House, Mr. Engel. I've referred to that in my testimony. But the bottom line is we need to drive our system to emulate the Brazilian model.

I was last in Brazil again a few months ago.

Ninety-seven percent of the—every automobile sold in Brazil is a flex-fuel vehicle made by all the same auto manufacturers we have in this country. All of their pumps are blender pumps so you can dial your blend; made by the same dispenser manufacturers that we have in our country. Yet, the debate that's going on now that you'll hear about from big oil is these pumps are dangerous, they may blow up, it won't work, the cars are too expensive. We all know that's not true. And so it's a masterful ploy to keep the market at ten percent when we should be at E30, E40, and E50.

Until we get there, I would submit to you that the capital formation that we need, both equity and debt, for next generation facilities for the new technologies that are emerging will not happen. We need billions of dollars in new steel out there, and the folks that have that kind of money aren't going to make it available if they believe that our national policy will not sustainably allow the increased volumes of ethanol that are called for under the RFS.

My written testimony lists all the benefits of this. I won't go through it. You all know them better than I do.

But I would submit to you that your leadership is absolutely critical, hopefully this year when the Senate tries to pivot to an energy bill so that we can maybe meet in the conference with your bill. Maybe we can come out with something that's acceptable to break this market log jam. Thank you very much.

[The prepared statement of Mr. Hallberg follows:]

PREPARED STATEMENT OF DAVID E. HALLBERG, BIOFUELS REPRESENTATIVE, OMAHA, NE

Thank you, Mr. Chairman. My name is David Hallberg, and I am CEO of a low carbon fuels technology RD&D company based in Omaha, NE. I am a graduate of Augustana College, and it is good to be back on campus. You and the Members of your Committee are to be commended for your leadership and vision in mobilizing this timely round of field hearings to solicit public comment as you prepare for the critically important task of shaping the 2012 Farm Bill. I am honored by your invitation to provide comments on the barriers to capital formation for agri-based energy projects. My statement will be brief, and I would like to primarily focus on the importance to the nation's rural economy of removing market barriers to biofuels, especially the ethanol Blend Wall.

The importance of your Committee's deliberations can be well demonstrated by a single slide, which I have attached to my statement.[1] The chart depicts the growth of the U.S. ethanol industry over the past thirty years, and it was prepared by Brian Jennings, Executive Vice President of the American Coalition of Ethanol (ACE), headquartered here in Sioux Falls. As you can see, the chart proves the strong correlation between public policy developments and ethanol industry growth. One picture is truly worth a thousand words: over the past 3 decades, the ethanol industry has most effectively expanded capacity when the Federal Government has enacted demand stimulus policies like the Daschle-Dole-Harkin reformulated gasoline provisions in 1990 (took effect in 1995), and the Daschle-Lugar Renewable Fuels Standards (RFS1 and RFS2) in 2000 and 2007. The point is: what you and your colleagues are doing here today will ultimately have a substantial—if not defining—impact on the future of the domestic biofuels industry, and on the nation's campaign to significantly reduce, and one day eliminate, its costly dependence upon imported oil.

I first became involved in renewable fuels policy as a legislative aide in the U.S. Senate and House of Representatives in the 1970's. In January 1981, I left the Congress to form the Renewable Fuels Association (RFA), and served as its first President/CEO until 1985. I have been involved in biofuels industry technology and policy development ever since, both domestically and internationally. Based upon my 30+ years of experience, I can emphatically say that there is no "free market" in the transportation fuels business. Unless government helps to level the playing field for alternatives like renewable ethanol to compete, the oil industry—especially the multinational petroleum companies—will erect insurmountable barriers to entry, and ensure that ethanol is nothing more than a minor contributor to the nation's energy needs.

However, in large part due to the historic legislative achievements—to which you and many of your colleagues have been major contributors—the U.S. ethanol industry is the largest in the world, even larger than that of Brazil. With their output exceeding 12 billion gallons of ethanol this year, domestic producers are fast approaching the magical 1 million barrels per day figure, which makes U.S. ethanol the third largest source of transportation fuels (gasoline equivalent), exceeded only by Canada and Saudi Arabia, and ahead of other major suppliers such as Nigeria, Venezuela, and Mexico. By 2015, the U.S. ethanol industry is on track to surpass Saudi Arabia to claim second place, and approach parity with Canada, depending upon how fast that nation builds out its environmentally challenging tar sands capability.

I am sure this Committee will hear testimony from many others about the long list of challenges facing the nation's biofuels industry. These issues include the Indirect Land Use Change (IDLUC) controversy (which Chairman Peterson and this Committee did so much last year to defuse during the House consideration of cap-and-trade legislation); definitional changes to the RFS2 law that arbitrarily exclude corn starch-derived ethanol regardless of its carbon footprint performance; the expiration at the end of this year of the VEETC (blenders' credit) and import tariff; country of origin labeling for imported oil; and perhaps even a National Low Carbon Fuels Standard (LCFS) to provide uniformity nationwide. However, I would like to focus my comments on what I believe is the single most important policy challenge confronting today's industry: the absence of a sustainable national market development program for higher ethanol blends, which will require the enactment of legislation similar to S. 1627, the Harkin-Lugar CHOICE Act.[2]

I am a big fan of Winston Churchill. One of my favorite quotes is his 1939 characterization of Russia: "A riddle wrapped in a mystery inside an enigma."

That description also fits the U.S. ethanol industry, which has grown to become a million barrel per day, multi-billion dollar rural economy stimulus program. As the ACE chart shows, the 1990 Clean Air Act reformulated gasoline with minimum oxygen vote was historic, but the real "game changer" was the Daschle-Lugar RFS bill 10 years later. By the time RFS1 was signed into law in 2005, the industry had

[1] Source: Brian Jennings, Exec. Vice President, ACE, Sioux Falls, SD.

[2] Consumers Have Options In Choosing Energy (CHOICE). Similar legislation, known as the Open Fuel Standards Act, has also been introduced in the Senate (S. 835, Brownback, *et al.*) and House (H.R. 1476, Engel, *et al.*). For purposes of this testimony, such proposals shall be referred to generically as "CHOICE."

started its unprecedented capacity ramp-up. And RFS2, signed by Bush in December 2007, requires 36 billion gpy of ethanol by 2022.

But the "mystery inside an enigma" is that ethanol's right hand—the production side—didn't tell its left hand—the distribution and end-use side—what it should be doing. The ethanol industry now faces yet another crisis, ironically perhaps the most challenging in 30 years: the Blend Wall. Big Oil is masterfully manipulating the century-old petroleum-based transportation fuels bureaucracy to accomplish "back-door" what it was unable to do legislatively: limit ethanol blending to 10% of the gasoline pool.[3] I was legislative director for an Iowa Congressman in December 1978 when the first EPA waiver for up to 10% ethanol was issued, and at the time, very little ethanol was produced domestically. Some of us dreamed it could happen, but few expected the industry would ever grow large enough to test its limits. However, 32 years later, ethanol supplies are now overwhelming allowable outlets (*e.g.,* the Blend Wall has been hit), and ethanol prices are plummeting, approaching a dollar per gallon below gasoline. Since ethanol is a high octane, zero-sulfur product that allows refiners to reduce crude oil losses and refining costs by "blending up" sub-octane blendstocks, this price disparity is indeed shocking.[4]

The most pernicious effect of the Blend Wall's price depression effect is its "deterrent effect" on capital formation (both equity and debt) required for new biofuels production capacity to meet the RFS targets. Investors and lenders will be unwilling to provide the billions of dollars in new investment until they see that the nation has put in place a *sustainable* strategy capable of smoothly absorbing the annual increases in production called for under the RFS schedules, without having to rely upon the uncertain prospects of securing EPA approvals of Clean Air Act waiver petitions.[5]

The Solution = Consumer Choice. One of the most thought provoking books I have read in recent years was written by Gal Luft, called *Turning Oil Into Salt: Energy Independence Through Fuel Choice.*[6] In his Epilogue on p. 123, Luft noted that Congress has elected to mandate choice for American TV viewers with the digital-analog television subsidies,[7] and asserted that "choice at the pump is neither more difficult nor more costly to achieve than choice on the screen."[8] For the nation's economic and energy security, however, it is certainly more important.

On p. 56, Luft underlined the dramatic success of the Brazilian flex fuel program: "What Brazil's flex fuel program did was open the once petroleum dominated transportation fuel market to competition. With the majority of their cars flex fuel, Brazilians can now choose between gasoline and alcohol at the pump. While between 2005 and 2008 fuel prices nearly doubled elsewhere, in Brazil, they were almost frozen. As a result of its energy independence, Brazil was one of the most economically resilient countries in the face of the 2008 oil crisis." When I visited Brazil last fall, I was impressed by the fact that over 95% of all automobiles sold are now flex fuel, and every major auto manufacturer now offers FFV's as a matter of course, because consumers like and demand them.

Over the years, our government has mandated numerous automobile protections for the health and welfare of its citizens: seat belts; air bags; rear view mirrors; even FM radio (for emergency transmissions). Luft correctly states: "An Open Fuel Standard requiring that every car sold in America be flex fuel can protect our lives and our economy more than all the above."

CHOICE Would Be Good for Consumers and Their Elected Officials. Americans by nature love the concept of freedom of choice.[9] By making CHOICE law, President Obama and the Congress could offer a consumer who wants "pure" gasoline for his boat to purchase it. The consumer who prefers an E30 blend could have it. And as plug-in electric vehicles become more widespread, FFV PHEV's would

[3] On December 16, 1978, EPA Administrator Douglas Costle "granted without decision" the Gas Plus, Inc. "gasohol" waiver for 0–10% vol. anhydrous ethanol, 44 FR 20777 (4/6/79).

[4] Ethanol is a 115 R + M/2 octane fuel, compared to unleaded regular (ULR) gasoline with its 87 octane rating. Higher octane blending components are more valuable, and typically fetch *higher* prices than gasoline.

[5] The extreme difficulties that have been encountered by the most recent Growth Energy E15 petition are being closely monitored by the financial community, and the threats of sustained litigation, labeling uncertainty, and motorist confusion could significantly reduce the hoped-for demand stimulus effect, even if EPA's decision later on this year is positive.

[6] "Turning Oil Into Salt: Energy Independence Through Fuel Choice", Luft and Korin, 2009, *www.booksurge.com.*

[7] Congress has spent $2 billion to date in providing U.S. households with $80 worth of coupons to subsidize the cost of conversion boxes.

[8] It costs automakers considerably less than $100 per vehicle to make them flex fuel.

[9] In fact, it is fair to argue that failure to have in place policies like the RFS and CHOICE actually impose a "*de facto*" mandate on American consumers, forcing them to purchase petroleum products, most of it imported.

provide the maximum spectrum of choice in transportation fuels, ultimately freeing the U.S. completely from its bondage to imported oil.

CHOICE Would Be Good for Automakers, and Improved Fuel Efficiency. A little noticed, but significant milestone occurred last year when President Obama issued an Executive Order that requires an aggressive increase in CAFE fuel efficiency standards. As they have for years, all auto manufacturers will continue to benefit from the FFV credit.[10] However, by 2016, manufacturers will have to demonstrate that ethanol is in fact being used if they are to claim the credit. As if this isn't sufficient incentive for automakers to begin now to make the easy switch to FFV's, there is another even more important factor: in order to comply with the increasingly rigorous standards in the out-years, automakers will need to down-size, and apply technologies like direct injection and turbo-charging. Preferably, they will want to increase compression ratios. *All of these beneficial changes will put a premium on higher octane fuels, and the most efficient way to increase gasoline octane is to add more ethanol.*[11] Increasing the nation's ability to utilize high octane higher ethanol blends will make it easier for the DOT and NHTSA to ensure compliance with President Obama's stricter efficiency requirements. By using high octane, low sulfur ethanol instead of increasing the energy intensity of their high severity reformers (which also produce high levels of carcinogenic benzene and other aromatics), U.S. refiners conserve substantial quantities of crude oil, and are able to produce more of the other useful products, such as diesel and jet fuel required by the military.

CHOICE Would Be Good for the EPA and the Environment. Enactment and aggressive implementation of the Harkin-Lugar CHOICE Act would take an enormous burden off of EPA's shoulders, which as we speak is struggling with the Growth Energy Sec. 211(f) petition to increase allowable volumes of ethanol from E10 to E15 for use in "legacy" vehicles. Most people expect that EPA's ruling later on this summer will be met with furious litigation, massive confusion in the marketplace over labeling requirements, and retailer resistance due to liability concerns. It is not likely to move the demand needle for ethanol much, if at all, and the Blend Wall will continue to plague the industry as the RFS volumes ratchet up year after year. If CHOICE were the law of the land, within several years, there would be no need for the ethanol industry to ever go back to the EPA with another waiver request. Another benefit: as ethanol volumes in FFV's increase to the E30 level and beyond, the gasoline mixture's volatility curve "bends back", as ethanol's lower volatility begins to assert itself. This means that one of environmentalists' greatest objections to ethanol—its evaporative emissions—would be eliminated.

CHOICE Would Be Good for Americans' Health. Increased use of higher blends of ethanol will substantially reduce the emissions of carcinogenic and mutagenic polycyclic aromatic hydrocarbons (including benzene) and other harmful toxics that result from combustion of petroleum products. Ethanol combustion simply does not produce these deadly PAH's, which are also the primary toxic components of deadly cigarette smoke, due to its chemical composition.[12]

CHOICE Would Be Good for the Nation's Farmers And Rural Economy. Without CHOICE, the Blend Wall will dramatically constrain ethanol production. As productivity continues to increase, we will once again return to the days of costly corn surpluses, depressed farm income, and increased taxpayer outlays.

CHOICE Would Be Good for Transportation Fuel Retailers and Job Creation. Now is the perfect time to modernize the nation's transportation fuel infrastructure and underground tank storage system. Credit card companies are requiring retailers to install new dispensers to prevent identity theft, and blender pump technology is available and well proven. Proper implementation of then-Senator Obama's tax credit for blender pumps would help to make the incremental cost of such new dispensers *de minimus,*[13] and the nation's underground storage tank system is obsolescent and also requires upgrading. Tens of thousands of shovel-ready jobs will be created by the CHOICE Act's requirement to install modern blender pump systems.

CHOICE Would Be Good for America's Energy and National Security. Enactment and aggressive implementation of the CHOICE Act would build greater fuel

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[10] The FFV credit is worth literally billions of dollars to automakers over the next 5 years, see NHTSA regulatory impact statement from final rule.

[11] When I purchase E30 blends in Sioux City on my way to Sioux Falls, I am purchasing a 95 octane, high performance fuel that costs 15 cpg less than 87 octane unleaded regular gasoline.

[12] Gasoline aromatics are the major source of toxic pollution in the nation's urban air sheds, and are produced during the refining of crude oil into gasoline (high severity reforming to increase octane), and then combusted into benzene and other carcinogens out the tailpipe.

[13] Unfortunately, a misguided IRS rulemaking diminishes the value of the Obama tax credit.

diversity and resiliency into the transportation fuel system. Increasing amounts of domestic renewable fuels will not only diminish the impact of oil related price spikes, it will increase the flexibility of the fuel system to respond to oil refinery outages caused by man-made or natural disasters. Ethanol blends could be increased in response to supply constraints, as ethanol becomes a more fungible transportation fuel.

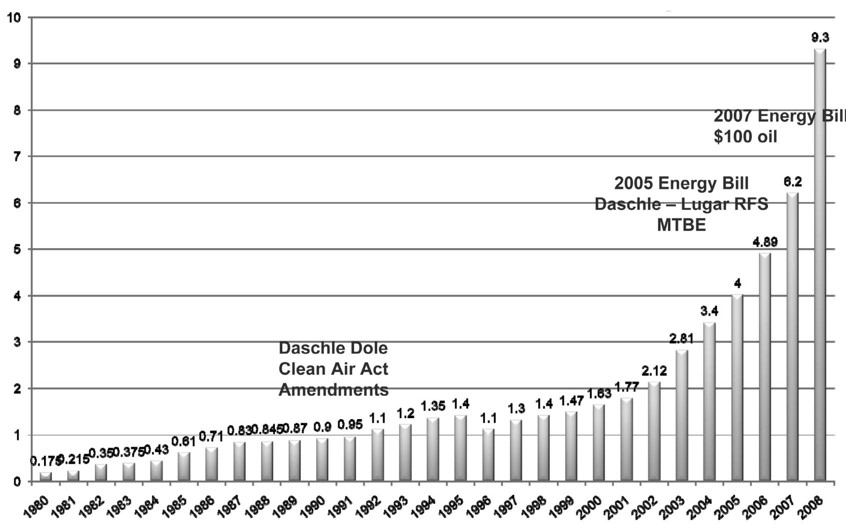
CHOICE Is Strongly Supported By The Biofuels Industry. Most the nation's leading biofuels advocacy groups have signed the attached letter to Senate leadership, advocating enactment of S. 1627 or its equivalent.

A Really Big Idea. In WWII, Winston Churchill observed that "Americans' national psychology is such that the bigger the Idea, the more wholeheartedly and obstinately do they throw themselves into making it a success. It is an admirable characteristic, provided the Idea is good." As Luft says in his conclusion, "**. . . breaking oil's monopoly in the transportation sector is a big idea, one that could greatly improve the human condition, our prosperity, and our national security. It requires dedicated and enthusiastic leadership.**"

I am confident that this Committee's leadership will once again help to move our nation in the right direction, and make us more secure economically, strategically, and environmentally. Thank you for this opportunity to participate in this important hearing.

ATTACHMENT 1

U.S. Ethanol Production 1980 Through 2008



Public policies and market forces help drive demand for ethanol.

ATTACHMENT 2

April 26, 2010

Hon. HARRY REID,
U.S. Senate,
Washington, D.C.;

Hon. JEFF BINGAMAN,
U.S. Senate,
Washington, D.C.;

Hon. TOM HARKIN,
U.S. Senate,
Washington, D.C.;

Hon. MITCH MCCONNELL
U.S. Senate,
Washington, D.C.;

Hon. LISA MURKOWSKI,
U.S. Senate,
Washington, D.C.;

Hon. RICHARD LUGAR,
U.S. Senate,
Washington, D.C.

Dear Senators:

The undersigned organizations represent a broad cross section of renewable energy and alternative fuel interests. We would like to express our support for *The CHOICE Act* (S. 1627), which Senator Harkin and Senator Lugar introduced, and to offer our assistance in assuring passage of this landmark legislation. The title says it all—consumers should have options in choosing energy, or CHOICE, and should be able to choose from a range of fuels.

Since 2005, when Congress passed the first Renewable Fuels Standard, the U.S. ethanol industry has created tens of thousands of new jobs, generated billions of dollars annually in local and Federal tax receipts, and saved motorists $25–$75 billion in imported crude oil and gasoline costs each year. This money remains in the U.S. economy rather than being sent to foreign oil producers. However, these extraordinary contributions to the nation's economic and energy security are increasingly threatened by our failure to adopt the highly successful Brazilian flex-fuel (FFV) model, and thus demolish the looming "blend wall" imposed by the lack of flex-fuel vehicles and modernized blending pump distribution systems.

Nearly all vehicles sold in Brazil will be FFVs, capable of using virtually any blend of gasoline or ethanol. On a gasoline-equivalent basis, more than half of Brazil's transportation fuel is renewable ethanol. The world's leading global automakers such as GM, Ford, Volkswagen, Fiat and others have heralded the Brazilian transition to FFV's as a remarkable success story for a program that was begun only 6 years ago, and Brazilian consumers are pleased with the increased choice and flexibility that the FFV and blender pump dispenser program affords them.

Most Americans would be surprised to know that the only nation that produces and uses more ethanol than Brazil is the United States, which in 2010 will use about 12 billion gallons of domestically-produced, high octane ethanol, primarily as a ten percent high octane blend in gasoline. The U.S. ethanol industry displaces more than 800,000 barrels per day of imported gasoline, and ranks as the third largest supplier of fuel on a gasoline equivalent basis behind only Canada and Saudi Arabia, and ahead of Venezuela, Mexico, and Nigeria.

By introducing *The CHOICE Act* (S. 1627), you have recognized that such a failure to act will impose unacceptable and unnecessary costs on American consumers, and the nation's economy and energy security. This legislation charts a course for the U.S. to emulate the Brazilian experience by requiring that all new vehicles be flex-fuel over a period of 5 years. The bill would also ensure an orderly transition to modern blender pumps at the retail level, allowing consumers to choose from E10 to E85. The bill is properly called *The CHOICE Act* (Consumers Have Options In Choosing Energy) since it would for the first time offer consumers a full range of fuel choices, depending on cost and personal preferences. The enactment of S. 1627 would offer boat owners the option of choosing an ethanol-free blend for their marine equipment if that is what they want, or FFV owners the ability to purchase E85 if they want to reduce the nation's dangerous dependence on imported oil.

The enactment of S. 1627 will not only provide American consumers with maximum choice in their purchases of transportation fuels, it will also stimulate billions of dollars in new domestic biofuels investments and create new jobs, in a gradual and orderly manner. Increased blends would unfold over a period of years as markets open, consumers' and retailers' acceptance grows, and production steadily moves upward to meet demand. Much of this new demand will be met by advanced biofuels that will reduce carbon footprints far greater than anyone could have imagined just a few years ago. Building on America's first generation ethanol and biodiesel industry and ensuring additional demand is met with low carbon biofuels is the right thing to do for the nation, advancing both our economic and national security.

The nation is at a crossroads in dealing with energy security and climate change. If we are to reduce and one day eliminate the billion dollars or more each day that we export to foreign oil producers, we must act just as Brazil has done to provide consumers with a choice in the fuels they purchase and the vehicles they drive. Senator Harkin and Senator Lugar's leadership in introducing S. 1627 calls to Congress's attention the need to overcome the unnecessary blend wall stalemate caused by too few flex-fuel vehicles and too few blender pump fueling stations. The enactment of S. 1627 will help take the United States to the next level of energy independence and green jobs creation.

Sincerely,

25 x '25;
Algenol Biofuels;
American Coalition for Ethanol;
Clean Fuels Development Coalition;
National Corn Growers Association;
Nebraska Ethanol Board;
New Fuels Alliance;
Osage Bio Energy;

Environmental and Energy Study Institute;
Energy Future Coalition;
Growth Energy;
Pacific Ethanol, Inc.;
Renewable Fuels Association.

The CHAIRMAN. Thank you very much, Mr. Hallberg. I appreciate that testimony.

The CHAIRMAN. Mr. Weishaar, welcome to the Committee.

STATEMENT OF SCOTT WEISHAAR, BIOFUELS REPRESENTATIVE, SIOUX FALLS, SD

Mr. WEISHAAR. Thanks. Good morning, Mr. Chairman and distinguished Committee Members. Thank you for the opportunity to visit with you today. My name is Scott Weishaar, and I'm the Vice President of Commercial Development for POET. I'd like to talk to you about our company's plans to commercialize the production of cellulosic ethanol and the hurdles that you can help us overcome.

The ethanol industry has a proud history of meeting and beating expectations, proving that America can produce its own energy cleanly and efficiently. POET has been involved in that mission at every step, but we barely tapped the potential of this clean, green renewable fuel. It is clear that Washington shares our vision of a nation free of foreign oil dependence, and an economy rejuvenated by expanded energy production. Policies are in place that will help keep that vision a reality. With your help we can take ethanol to new heights and provide a real competitor to foreign oil.

POET headquartered here in Sioux Falls is a 22 year old company that annually produces 1.6 billion gallons of ethanol and over 4½ million tons of high quality animal feed from our 26 production facilities nationwide. Approximately 18 months ago, we started up our own pilot scale cellulosic ethanol plant that uses corncobs as feedstock, and we plan to commercialize this process in Emmetsburg, Iowa.

POET continues to see more opportunities to expand the production of ethanol from corn and improve its production processes. Grain yields, which have doubled over the past 50 years to more than 160 bushels an acre, are expected to double again over the next 20 years. Those higher yields would generate an additional 13 billion bushels of corn without planting an additional single acre. Ethanol is the only growing market for that additional corn supply.

POET is continually making production of corn ethanol more efficient and environmentally friendly. Since we were founded, our energy and water use per gallon of ethanol has decreased 50 and 80 percent respectfully. Because the ethanol process is a biological process, the opportunities to improve the inefficiencies in the future are endless. To that end, if you want to capture the full potential of grain-based ethanol, we need to let it compete. First, we need to remove indirect land use from the statute. Second, we need to remove the prohibition of corn from participating in the advanced biofuels section of RFS. We call this a discrimination clause. This keeps us from competing with big oil.

Early on, POET saw the potential of cellulose, the most common organic compound on Earth, to dramatically increase the amount in America's fuel system. For at least the last decade, we've pursued the commercialization of cellulosic ethanol. That includes our pilot facility in Scotland, South Dakota. Those efforts are about to pay off as we break ground this year on Project LIBERTY in Emmetsburg, Iowa. Project LIBERTY is a 25 million gallon per year cellulosic ethanol facility that's collocated in an existing grain-based ethanol site.

This will be an economic windfall for the rural communities across the country. Our one plant in Emmetsburg will generate $12 million annually just from purchasing crop waste from the 450 or so farmers that will participate. Most of these farmers will need to buy a new piece of equipment or two. This would drive the sales of an additional $20 million in that area. Actually, one dealership has already announced and moved into the Emmetsburg area as a result of the activities surrounding Project LIBERTY. But the jobs this will provide are probably the greatest benefit. Our plant will directly employ 40 to 50 workers with another 180 indirect jobs in the areas of equipment sales, service, support, biomass transportation, and other service-related activities. On top of that, there will be about 300 construction jobs for the facility. All this from one plant.

POET envisions much more ambition for the future of the cellulosic ethanol. By 2022, we'll be responsible for 3½ billion gallons of nationwide production, taking the impact of that one 25 million gallon plant and deploying it across the country.

Recently we laid out a three-step plan that involves expanding across our current facilities, looking at other grain-based facilities, as well as a 50-State solution where the technology can be deployed across our nation. The cellulosic ethanol is in need of loan guarantees to get this process off the ground. Lenders are hesitant to invest in new technologies, and the first few plants will need assistance in securing the capital so our industry can prove itself. In addition, there must be a long-term extension of the cellulosic ethanol production credit, which is set to expire in 2012. This credit also needs to be made refundable.

Cellulosic ethanol will only become a reality if we can get the farmers to deliver the material. It often requires new equipment and practices. The current BCAP, or Biomass Crop Assistance Program, which provides matching funds is a great model to help mitigate this risk and entice the farmers to get involved in these first stages. It helps the farmers secure credit, it attracts more farmers to be participants, and it helps offset some of the upfront costs for the first few years. Unfortunately, the program expires under the farm bill after the 2012 harvest just as POET and other cellulosic plants are beginning to ramp up. So we ask lawmakers to give farmers security in this new endeavor by granting loan extensions to that program.

Our industry has crashed into the blend wall as we've heard. We need to grow the markets. We can grow the markets through E15, by creating the market, by getting blender pumps out into the places of business, so we can get not only a supply as well as a pull activity.

We ask for three things. We ask to increase the base blend allowed in today's vehicles, we ask that all vehicles produced in the U.S. are flex-fuel vehicles, and to incentivize the installation of blender pumps throughout the nation. With your help, we can continue this progress. We have the natural resources, the ingenuity, and the technology to reach our nation's goal of 36 billion gallons of renewable fuel by 2022.

I apologize for running a little over, but I wanted to thank you for the opportunity to testify today. And on behalf of POET and the entire renewable fuels industry, we want to thank you for all your hard work and the past support past. It's truly making a difference in our nation's energy supply.

[The prepared statement of Mr. Weishaar follows:]

PREPARED STATEMENT OF SCOTT WEISHAAR, BIOFUELS REPRESENTATIVE, SIOUX FALLS, SD

Mr. Chairman, and distinguished Committee Members, thank you for the opportunity to visit with you today. My name is Scott Weishaar. I am the Vice President of Commercial Development for POET. I would like to talk with you today about our company's plans to commercialize the production of cellulosic ethanol and the hurdles that you can help us overcome.

Summary

The ethanol industry has a proud history of meeting and beating expectations, proving that America can produce its own energy cleanly and efficiently. We have developed the only real alternative to gasoline today in quantities that are finally posing a threat to fossil fuel dominance. POET has been involved in that mission at every step.

But we have barely tapped the potential of this clean, green renewable fuel. It is clear that Washington shares our vision of a nation free from foreign oil dependence and an economy rejuvenated by expanded energy production. Policies are in place that will help that vision be a reality: programs such as the Biomass Crop Assistance program and the cellulosic ethanol tax credit. But it will take a new commitment from Washington to allow these programs to meet their lofty goals. With your help, we will take ethanol to new heights and provide a real competitor to foreign oil.

POET—Introduction

POET, the largest ethanol producer in the world, is a leader in biorefining through its efficient, vertically integrated approach to production. Headquartered in Sioux Falls, S.D., our 22 year old company annually produces more than 1.6 billion gallons of ethanol and 4.5 million tons of high-quality animal feed from 26 production facilities nationwide. Approximately 18 months ago, we started up a pilot-scale cellulosic ethanol plant, which uses corn cobs as feedstock, and we will commercialize the process in Emmetsburg, Iowa.

The POET development model is unique. It started on the Broin family farm in Minnesota and has been spurred by the investment of thousands of farmers and individual main street investors. POET's business model is to invest in, develop, design, construct and manage ethanol production facilities. However, the facilities are independent limited liability companies (LLC) owned primarily by individuals and local farmers that provide corn to the facility.

By leveraging business size and position, POET has created very successful ethanol production facilities. POET has achieved breakthrough progress beyond ethanol processing, extracting extraordinary new value from each kernel of corn and is focused on producing ethanol to meet the nation's needs for domestic transportation fuels.

Corn Ethanol—The Foundation

Corn ethanol is the foundation of the renewable fuels industry and has grown to be the most significant source of renewable energy that is powering America. Today, if the U.S. ethanol industry were a foreign oil producer, only Canada would supply the U.S. with more gasoline.

POET continues to see more opportunities to expand the production of ethanol from corn and improve the production process. Grain yields, which have doubled over the past 50 years to more than 160 bushels per acre, are expected to double again over the next 20 years. Those higher yields would generate an additional 13 billion bushels of corn, without planting a single additional acre. Ethanol is the only growing market for that additional supply of corn.

POET is continually making the production of corn ethanol more efficient and environmentally friendly. Since we were founded 22 years ago, our energy and water use per gallon of ethanol has decreased by 50 and 80 percent, respectively. Because ethanol production is a biological process, the opportunities to improve efficiency in the future are limitless. To that end, we recently announced plans to decrease our water use an additional 22 percent by 2014 and will soon announce an energy reduction goal.

We are also replacing natural gas with alternative energy at our biorefineries. One example is our nearby plant in Chancellor, S.D. which uses waste wood and landfill gas for more than 60% of the plant's power. Three of our plants use co-generation and another is powered by an anaerobic digester. We are constantly looking for opportunities to expand the use of alternative energy at all of our facilities.

Commercialization of Cellulosic Ethanol

Early on, POET saw the potential of cellulose—the most common organic compound on Earth—to drastically increase the amount of ethanol in America's fuel system. For at least a decade, we have pursued commercialization of cellulosic ethanol, investing time, staff and tens of millions of dollars for research that includes our pilot facility in Scotland, S.D.

Those efforts are about to pay off as we break ground this year on Project LIBERTY in Emmetsburg, Iowa. Project LIBERTY is a 25 million gallon-per-year cellulosic ethanol plant collocated at the site of our existing grain-based ethanol plant. Each day, it will process 770 dry tons of material—mainly corn cobs with some "high-cut" crop waste—into ethanol. It will also use the by-product lignin to power both the cellulosic ethanol plant and the adjacent grain-based ethanol plant, cutting fossil fuels out of the ethanol production process. We have enjoyed a great partnership with the Department of Energy and the state of Iowa in this endeavor and plan full production in early 2012.

This is an economic windfall for rural communities across the country. Our *one* plant in Emmetsburg will generate $12 million annually just from purchasing crop waste from the 450 or so farmers with whom we will work.

Most of these farmers will buy one or two new pieces of equipment. With a conservative estimate of $50,000 for each piece of equipment, this would drive sales of more than $20 million. One new dealership has already announced it will open in Emmetsburg in response to the new customers for Project LIBERTY.

But the jobs this will provide are probably its greatest benefit. Our plant will directly employ 40–50 workers, with another 180 indirect jobs in areas such as equipment sales, biomass transport, the service industry and more. On top of that there will be about 300 jobs for construction of the facility.

This is all from one plant, but POET envisions a much more ambitious future for the cellulosic ethanol industry. By 2022, we will be responsible for 3.5 billion gallons of production nationwide. Taking the impact of that one 25 million gallon plant and multiplying it out for 3.5 billion gallons will produce almost unprecedented economic growth for rural America.

POET's specific plan is composed of three parts:

—1 billion gallons from expanding production to POET's network of 26 plants today.

—1.4 billion gallons from licensing the technology to other grain ethanol producers.

—1.1 billion gallons from other feedstock that we feel will be adaptable to our technology.

There are obstacles to realizing that lofty, but achievable goal. Cellulosic ethanol faces many of the same challenges the grain-based ethanol industry is facing. But specific to the cellulosic ethanol industry is the need for loan guarantees to get this important process off the ground. Lenders are hesitant to invest in new technology, and the first few plants will need assistance securing capital so that the industry can prove itself. In addition, there must be a long-term extension of the cellulosic ethanol production credit, which is set to expire in 2012. This credit also needs to be made refundable.

POET's plan is part of an even larger cellulosic ethanol picture. The previous 'Billion Ton Study' illustrates we have the opportunity to produce ethanol in all 50 states. (Additional details in *Exhibit 2*) If committed, our country can realize our 2022 vision of 36 billion gallons of renewable biofuels.

Farmer Involvement Crucial

But cellulosic ethanol can only be produced if we get farmers to deliver the cellulose. This often requires unfamiliar crops and farming techniques for America's agricultural industry. Ethanol producers and government agencies have to partner with farmers to navigate this new territory.

POET's process is unique in that it takes advantage of a crop—corn cobs—that already grows as part of normal farm operations. But incorporating a new harvest into farmers' busy schedules involves risk, and we must instill confidence in farmers harvesting biomass for the first time.

The current Biomass Crop Assistance Program (BCAP), which provides matching funds for delivered biomass, is a great model for helping mitigate that risk to encourage broad participation.

—It helps farmers secure credit for equipment purchases by showing income for their commitment.

—It helps the ethanol producer operate with lower feedstock costs during the expensive start-up period.

—It provides an incentive to attract more farmer participants.

—It offsets start-up costs for farmers harvesting biomass for the first time.

Unfortunately, the program expires with the farm bill after the 2012 harvest, just as POET and other cellulosic ethanol producers are ramping up production to full-scale. We ask that lawmakers give farmers security in starting this new endeavor by granting a long-term extension for the program.

We need USDA to act quickly in releasing the final BCAP rules. POET must apply and be approved before our farmers can apply and be approved. That means it is almost impossible to get farmers involved in our 2010 harvest. Farmers would also like to submit previous biomass harvests for matching funds under the program.

It is crucial that BCAP be part of the next farm bill. Matching payments could be reduced to $15 per ton in return for doubling the length of commitment to 4 years. Also, the program could be focused strictly on feedstock for use in biofuels.

BCAP is an effective program that will strengthen the feedstock side of cellulosic ethanol production. By extending the program and making some minor adjustments, you can solidify the American farmer's role in clean fuel production.

Ethanol Industry Challenges

Despite our country's commitment to renewable fuels and the obvious problems caused by our addiction to oil, a number of challenges currently face the ethanol industry. The most prominent of these is a lack of market access that has stunted development and cut off investment. The small market that exists for ethanol in the U.S. today has led to an oversupply, which is why ethanol is currently pricing significantly below gasoline.

The restricted market opportunity is the result of a decades-old, arbitrary law limiting ethanol to ten percent of the gasoline used in standard vehicles and the relatively slow adoption of flex fuel vehicles. Consequently, ethanol is limited to ten percent of the gasoline supply, which is commonly referred to as the "blend wall," and the U.S. has a 90% mandate for oil.

With current annual gasoline use in the U.S. at approximately 140 billion gallons, the ten percent market is 14 billion gallons. However, it's not realistic to penetrate every single gallon, so experts predict the blend wall to be around 12.5 billion gallons. Our industry has crashed into this wall—as current ethanol production capacity is approximately 13.5 billion gallons.

For the cellulosic ethanol industry needs a market in order to grow and that market doesn't exist today. Two things need to happen to create that market.

The first is to increase the base blend of ethanol in standard vehicles from 10 to 15 percent, which will temporarily move the blend wall further into the future. The U.S. Environmental Protection Agency (EPA) is reviewing a waiver submitted by POET and other ethanol producers asking for such an increase and is expected to rule this summer. That small increase in ethanol content for standard vehicles is supported by academic, industry and government research and would allow the ethanol industry room to grow in the near future.

It would also allow time for the second step necessary for creating a larger market for ethanol; building an infrastructure for the use of higher ethanol blends. The proliferation of flex fuel vehicles (FFVs) and blender pumps has not been fast enough to drive significant ethanol demand. More FFVs and blender pumps would allow the consumer to choose their preferred blend rate—from no ethanol to 10, 20, 30, 40 or 85 percent—and drive greater use of ethanol, especially today when it is attractively priced.

In addition to giving the consumer greater choice, an expanded ethanol market will give investors and lenders the confidence they need finance cellulosic ethanol production. Without a higher base blend, there is no place for the first gallons of cellulosic ethanol to go. Without a higher blend infrastructure, there is no opportunity to use the billions of gallons we will produce in the future.

Role for Policy-Makers

As you can see, POET has made a significant commitment to the production of cellulosic ethanol. You can also see that there is a significant role for policy-makers before the work of POET and others can change our nation's transportation fuel supply. Specifically, government must do the following:

1. Increase the base blend allowed in today's standard vehicles. The 10% blend wall has halted investment in and development of ethanol. Moving to a 15% blend would open the market and allow ethanol some room to grow in the short term.

2. Mandate that all new vehicles purchased in the U.S. are FFVS. The cost to make a new car flex fuel is minimal and the potential benefits to consumers are significant. Because it takes 17 years to convert our automobile fleet, we can't afford to delay this any longer. Without this step, it will be virtually impossible to utilize the gallons mandated by the Renewable Fuel Standard.

3. Incentivize the installation of blender pumps throughout the nation. Without the pumps to dispense higher blends of ethanol, increased numbers of FFVS will have little impact. Blender pumps would provide the needed infrastructure, while giving the consumer the ultimate choice of their ethanol blend. We need to allow the American consumer to choose his or her fuel blend based on performance and price.

4. Support cellulosic development. In addition to providing market access for cellulosic ethanol, there are three important provisions which policy-makers need to address:

a. Help the first cellulosic ethanol production facilities to obtain loan guarantees.

b. Grant long-term extension of the cellulosic ethanol tax credit

c. Provide longer-term assistance and incentives for farmers who want to produce biomass for cellulosic ethanol production.

We still face an energy crisis. A 90 percent mandate for gasoline in our nation's vehicle fleet ensures that oil's hold on our country's economic fortune is strong. But thanks in part to a bold vision in Washington for a renewable energy future, the ethanol industry has become larger and more efficient each year, a growing challenge to the oil industry's dominance.

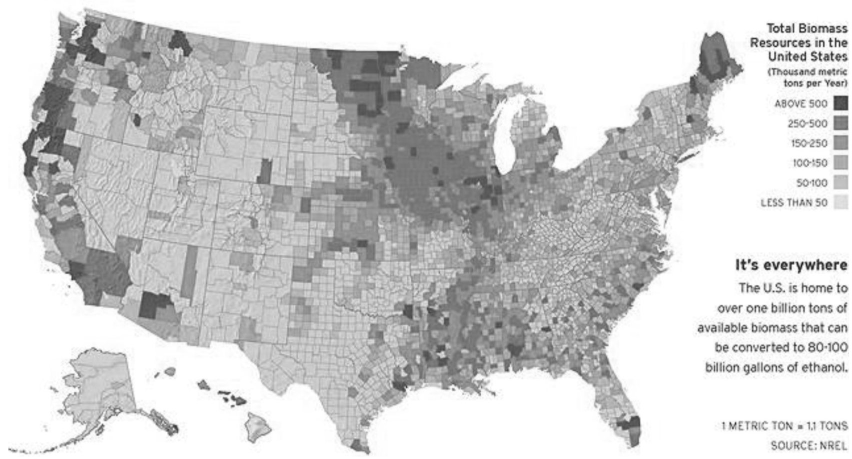
With your help, we can continue this progress. We have the natural resources, the ingenuity and the technology to reach our nation's goal of 36 billion gallons of renewable fuel produced per year by the year 2022.

Thank you for the opportunity to testify today. On behalf of POET and the entire renewable fuels industry, we thank you for the hard work and past support that is truly making a difference in our nation's energy supply.

EXHIBIT 2

- Realistic POET biofuels production targets, and our estimates of industry-wide targets (POET announced three-point approach to achieve 3.5B gallons of cellulosic biofuels).
- POET's vision (world's largest ethanol leading the activity):
  - 1.0B gal from POET Plants.
  - 1.4B gal from non-POET plants located in the corn belt.
  - 1.1B gal from non-corn based feedstocks.
- 50-state solution:
  - Feedstock & geographically driven.
  - POET technology is transferrable to other feedstock (*i.e.,*: the 50 state solution).

The '50 State' Solution



The CHAIRMAN. Thank you very much, Mr. Weishaar. We appreciate that.

Mr. Neiman, welcome to the Committee.

STATEMENT OF JIM D. NEIMAN, FOREST PRODUCT PRODUCER, HULETT, WY

Mr. NEIMAN. Thank you, Mr. Chairman. Thank you for the opportunity to present testimony today. You need it a little closer? Okay. Is that okay?

My name is Jim Neiman, and I'm the Vice President and CEO of Neiman Enterprises. We own three sawmills in the Black Hills—one in Wyoming and two in South Dakota—along with Heartland Pellets in South Dakota. Our company directly supports over 700 Black Hills families through our 475 employees and 250 independent contractors.

I appreciate your attention to the future of our nation's forest. A healthy forest products industry is critical to the future of our nation's forest. Our loggers are the forest's primary tool to achieve the desired forest conditions and forest management objectives. Further, the timber supply from the national forests make it possible for our company to operate on, and contribute to, the management objectives on private lands. The single most important factor to sustain our sawmills is the supply of timber sales from the Black Hills National Forest. Without a consistent supply of timber, no mill owner can justify to invest and to maintain competitiveness in a very competitive industry. My company is seriously exploring a partnership to construct a $55 million, 20 megawatt electrical cogen. facility in Spearfish, South Dakota that would also produce steam for our dry kilns, heater buildings, and supply steam to Black Hills State University. The benefits of this facility would include increased supply of renewable energy, better utilization of forest biomass, and additional local jobs.

I need three things to make this work. First, a consistent and predictable supply of timber sales from the Black Hills National

Forest. Second, I need an inclusive definition of *biomass* in the Renewable Electricity Standard. The Renewable Fuels Standard definition excluded nearly all woody biomass from Federal lands from counting towards renewable biofuels. H.R. 2454, the American Climate and Energy Security Act passed by the House last year, contains too many restrictions on Federal woody biomass to be workable. My recommendation to Congress is that any woody biomass from national forests, which conforms to the applicable law and conforms to forest plan, should qualify as renewable biomass under the RES. The third is production tax credit parity. Electricity from biomass should get the same production tax credit as solar and wind. H.R. 4374, which was introduced by Representatives Herseth Sandlin and Herger, would accomplish this perfectly.

The Forest Service's mission is to sustain the health, diversity, and productivity of the nation's forest and grasslands to meet the needs of present and future generations, it is very important. When I look at national forest statistics of acres burned or acres of trees killed on beetle epidemics, I'm not sure the Forest Service is achieving that mission.

Most of the current timber sales in the Black Hills National Forest respond to the pine beetle epidemic. Instead of always responding to crisis, the national forest should develop and implement proactive strategies to prevent a crisis in the first place. In the Black Hills, we know what it takes to reduce the risk of the pine beetles. Simply put, the problem is primarily a function of tree density. Dense stands have a higher risk of bugs and fire, and thin stands have a much lower risk. In the last decade, mountain pine beetles have killed trees on nearly 400,000 acres in the Black Hills alone. I provided each of you two photos to show the effects of the pine beetle in the Black Hills.

Annual growth of the Black Hills forest timberlands far exceeds annual harvest. Increasing the national forest timber sale program would have multiple benefits, including stabilizing forest products companies, adding green jobs to our local economy, strengthening our nation's manufacturing sector, increasing the health of our forest, and increasing flows of clean water.

I would like to enter into the record this letter from Federal Forest Resource Coalition to Representative Norm Dicks into the—this letter into the record and respectfully ask that the Committee support that request from the increase—an increase to 3 billion board feet in the Forest Service's Fiscal Year 2011 timber sale program.

Again, I am honored that you asked me to testify today, and I would be delighted to work with you, Chairman Peterson, and with Representative Herseth Sandlin in the future to help solve some of these issues. My pleasure. Thank you.

[The prepared statement of Mr. Neiman follows:]

PREPARED STATEMENT OF JIM D. NEIMAN, FOREST PRODUCT PRODUCER, HULETT, WY

Introduction

Thank you Chairman Peterson, Representative Herseth Sandlin, Representative Lummis, and Members of the Subcommittee for the opportunity to testify today.

My name is Jim Neiman, and I am the Vice President and CEO of Neiman Enterprises, Inc. I am also the President of the Board of Trustees for the University of Wyoming, plus I serve on the Board of the Hulett National Bank, the Hulett Airport, the Black Hills Forest Resource Association, and the Intermountain Forest Association.

My family has been in the ranching business for five generations and in the forest products business for three generations. We currently own and operate three sawmills and one pellet mill in the Black Hills of South Dakota and Wyoming. Our company directly supports about 700 Black Hills families through our 475 employees and 250 independent contractors. We produce lumber for wholesale and retail markets throughout the United States, plus shop grade lumber for window and door companies. We also sell sawmill by-products, such as bark, sawdust, shavings, and chips for decorative bark, particle board, pulp and paper, animal bedding, and wood pellets.

Background

I appreciate the Committee's attention to the future of our nation's forests. Our company relies on the Black Hills National Forest, which straddles the Wyoming-South Dakota border, for approximately 75% of our timber supply. The remainder of our timber comes from Federal, state and private timberlands in South Dakota, Wyoming, Montana and Nebraska.

The very first timber sale from the national forests, Case No. 1, was sold to Homestake Mining Company in 1899 from the Black Hills NF near Nemo, South Dakota. Since then, the management of the Black Hills NF has been generally very successful. However, the last 10 years have been challenging, to say the least. In 1999, Forest Service Chief Dombeck remanded the 1997 forest plan revision, a traumatic event that resulted in no new timber sales for most of FYs 2000 and 2001, and required two forest plan amendments and 5 years to fix the problems identified in the Chief's decision. In total, the Black Hills NF spent 16 years completing a 10 to 15 year forest plan. Since 2000, forest fires have burned 184,000 acres of the Black Hills NF, and a mountain pine beetle epidemic has exploded, affecting 396,000 acres to date.

The mountain pine beetle epidemic is a function of numerous variables. The most significant variable, and the one over which we have the most control, is the underlying condition of the forest. Simply put, there are too many trees competing for finite resources. Reducing the risks of mountain pine beetle in ponderosa pine isn't rocket science. Dr. John Schmid, arguably the world's leading researcher on mountain pine beetles, has maintained a series of plots in the Black Hills for nearly 25 years. His bottom-line finding is that the duration and intensity of mountain pine beetle infestations are primarily a function of the number of trees in the stand—the more trees, the higher the risk of mountain pine beetles. Conversely, thinned stands have a significantly lower risk of mountain pine beetles.

Maintaining a Viable Forest Products Industry as a Management Tool

A healthy forest products industry is critical to achieving long-term forest health objectives on the Black Hills NF. Further, the timber supply from the national forest makes it possible for our company to exist to manage timberlands for private landowners. We have a diverse, integrated forest products industry in the Black Hills that depends heavily on the Black Hills NF selling the Allowable Sales Quantity (ASQ) established in the forest plan. Unfortunately, the Forest Service has fallen far short of achieving the ASQ, with detrimental effects to both the Forest and the forest products companies.

The single most important factor affecting the viability of our company is the supply of timber sales from the Black Hills NF. Without a consistent, predictable supply of timber sales from the Black Hills NF, I cannot justify the investments to keep our mills on the cutting edge of technology, or expanding into new products that will better utilize small-diameter trees and help to achieve forest health objectives.

The annual growth on the Black Hills National Forest, and virtually every other national forest, is significantly higher than the annual harvest (*Attachment 1*). Consequently the overstocking and mountain pine beetle risk are compounded each year by new growth, ultimately leading to even higher risks of mountain pine beetles and fires.

Two thousand and nine was the most challenging year for the forest products industry since the Great Depression. The Western Wood Products Association (WWPA) recently predicted 2010 lumber demand of 32.9 billion board feet, an increase from 2009 levels, but far below the all-time high of 64.3 billion board feet in 2005. Home construction and remodeling account for nearly 70% of U.S. lumber consumption. WWPA recently predicted 618,000 housing starts in 2010, an increase from 2009, but only about ⅓ of the 2005 level.

The national forests can help sustain the industry by being a reliable supplier of fiber, both for areas dominated by national forest timber and places where private landowners are reluctant to sell into depressed log markets. Losing infrastructure will harm all landowners and make the task of managing the national forests more difficult. The Forest Service would better serve rural communities if they would recognize the connection between the timber program and jobs. A conservative estimate of jobs created per 1 million board feet of timber harvested is 11.4 direct and indirect jobs.

Forest Planning and Implementation

There is no excuse for not incorporating long-term forest health strategies into every forest plan, yet many forest plans have been approved with scant attention to long-term desired conditions that will minimize the risks of fires and insect epidemics. Over the past decade, the States of South Dakota and Wyoming, along with local counties, have prioritized their involvement in forest planning as Cooperating Agencies, and that has been a very positive development.

Even the best forest plan has little real value if the necessary resources are not available for plan implementation. Adequate funding is a perennial issue. Compared to the costs of fire suppression, rehabilitation and restoration, preventative management is a bargain. I did a cursory analysis of the costs and revenues associated with a recent timber sale on the Black Hills NF that was designed specifically to reduce the risk of forest fires. The net project cost, including NEPA and sale preparation expenses minus timber sale revenues, was $260 per acre. Compared to the $901 cost per acre for suppression and rehabilitation for the 2005 Ricco Fire, that investment of $260 per acre looks pretty smart.

On average, NEPA compliance represents about 50% of the Forest Service's cost of analyzing, preparing and selling a timber sale. The Forest Service's appeals process is still a cumbersome, time consuming and expensive means of resolving issues. If a decision is appealed and remanded, there is no process for the responsible Line Officer to quickly address and repair the flaws; instead, the process requires a new round of analysis, public review and comment, and another appeal period before the modified project can be implemented. This simply cannot happen in less than 6 months. The President's 2011 Budget contains a proposal for a pre-decisional Objection Process, and I urge the Committee to strongly endorse that approach.

I am also concerned about the lack of a process that allows prompt salvage of dead trees following a fire or insect epidemic. Prompt salvage of dead trees is the common-sense response that most private landowners would make to utilize the dead trees and start the process of restoration. Salvage of fire-killed trees will also reduce the risk of a re-burn 10 or 20 years into the future, when dead trees have fallen to the ground and become additional fuel. However, salvage of fire-killed trees following a forest fire on the national forests is no longer a routine "next step." In contrast, all of the Forest Service's actions to suppress a fire and implement emergency rehabilitation are designed to move quickly. One suggestion is to allow the Forest Service to consider salvage of fire-killed trees as part of the total response of fire suppression, rehabilitation, and restoration.

The Healthy Forests Restoration Act (HFRA) is working well, although in some instances the Forest Service appears to be too cautious about using HFRA. In particular, the HFRA Administrative Review process significantly increases the incentives for parties to be a constructive part of the analysis and design process. Recently, Representative Herseth Sandlin introduced H.R. 4233, which expands the Federal lands on which hazardous fuel reduction projects can be conducted, and adds protection of infrastructure in rural communities as an additional purpose of the Healthy Forest Restoration Act. I believe those amendments would be very helpful.

The Forest Service needs adequate funding as well as accountability. The net effect of the creation of a new "Integrated Resource Restoration" account in the FY 2011 President's Budget may be to change the predictability and accountability for these funds. If adopted as proposed, the outputs will become 'acres treated' rather than targets for sawtimber. This 'acres treated' number is difficult to plug in a business plan and take to the bank. The only language related to targets in the 2011 budget *reduced* outputs from 2.5 to 2.4 billion board feet, nationally. Increasing the FY 2011 Forest Products line item by $57 million over the FY 2010 level would increase the Forest Service's timber harvest level to 3.0 billion board feet, thus creating 6,600 new jobs while simultaneously improving the health of the national forests and reducing the potential for catastrophic fires.

On a related issue, 3 weeks ago, Representatives Herseth Sandlin, Lummis and eight other Members of Congress sent a letter to Secretary Vilsack stating that 'the bark beetle epidemics warrant an emergency response' and requesting that the Secretary 'develop a comprehensive and proactive strategy for responding to the bark beetle epidemics', including scope of work, estimated costs and sources of funds. I urge you to support that request.

Definition of Biomass

My company is seriously exploring a partnership to construct and operate a $50 million, 19 MW electrical co-generation facility adjacent to our sawmill in Spearfish, SD. The benefits of this facility include:

(a) Increasing our nation's supply of renewable energy, thus decreasing our dependency on foreign oil.

(b) Utilization of slash from timber sales on the Black Hills NF and private timberlands. About 5,000 large slash piles are created each year, and most of those are burned during the winter months. That generates huge volumes of smoke and carbon, and frankly, wastes a resource.

(c) 40 to 50 additional jobs for families in our local community.

The definition of Renewable Biomass in the Renewable Electricity Standard (RES) is critical. The Renewable Fuels Standard (RFS) definition excluded nearly all woody biomass from Federal lands from counting toward renewable biofuels. HR 2454, the American Climate and Energy Security Act passed by the House last year contains so many restrictions on Federal woody biomass that it may prove to be unworkable. My recommendation to Congress is that any woody biomass from the national forests, which conforms to applicable laws, including NFMA and NEPA, and the forest plan, should qualify as renewable biomass under the RES.

Biomass Crop Assistance Program

Title IX of the 2008 Farm Bill established the Biomass Crop Assistance Program (BCAP) to support the establishment and production of crops for conversion to bioenergy and to assist with collection, harvest, storage, and transportation of eligible material, including woody biomass, for use in a biomass conversion facility. This well-intended program didn't help companies that weren't already in the biomass business and in some cases diverted raw materials from panel manufacturers to biomass co-generation facilities. I am concerned that BCAP disrupts the vital relationship between existing infrastructure and national forest management. Using programs designed to encourage green jobs to create new companies has the unintended consequence of generating new competition against the primary infrastructure our forest managers depend on—for land management, hazardous fuel reduction, removal of beetle-killed timber, and other important forest health restoration goals. At a time when lumber prices are at historic lows and threaten the stability of what little industry remains, these programs could hasten the decline of our most vital management tool.

National Forest Advisory Board

In January 2003, the Secretary of Agriculture approved the formation of a National Forest Advisory Board for the Black Hills NF. Fifteen members were subsequently appointed to the Board based on familiarity with national forest issues, ability to represent a particular interest group, and demonstrated skill in working toward mutually beneficial solutions.

The formation of the advisory board was one of the recommendations of an August 2001 Forest Summit, convened by then-Senator Tom Daschle in Rapid City. Since then, the National Forest Advisory Board has become an integral part of the management of the Black Hills NF. The Board's primary duty is to "provide advice and recommendations on a broad range of forest issues such as forest plan revisions or amendments, travel management, forest monitoring and evaluation, and site-specific projects having forestwide implications."

This Advisory Board has made great contributions to management of the Black Hills NF through public airing and constructive discussion of contentious issues by a group representing diverse interests. I believe it could serve as a model for other national forests.

Reforestation

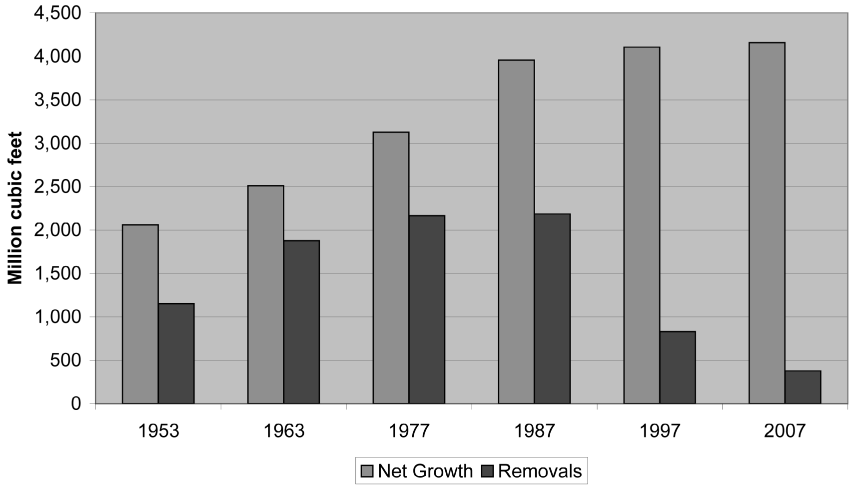
Finally, I'm concerned about the reforestation backlog on the national forests. In April 2005, the GAO reported that national forest reforestation needs are accumulating because of the increased acreage affected by natural disturbances, *i.e.,* forest fires and insect epidemics. I would like to see Congress require the Forest Service to identify reforestation needs, and then develop a strategy to accomplish that reforestation. Reforestation would yield multiple benefits, including water quality, wildlife habitat, and carbon capture and sequestration.

Conclusion

In summary, I want to thank you for the privilege of testifying here today. Management of the national forests is complex and sometimes contentious, and requires capable leadership. My company is committed to sustainable forest management, jobs, families and communities. As I said earlier, I'm the 3rd generation entrusted with running our business, and I started grooming the 4th generation years ago. Of all the variables I deal with, the one that keeps me awake most at nights is the long-term reliability of a national forest timber sale program. Again, I am honored that you asked me to testify today, and I would be delighted to work with Chairman Peterson, Representative Herseth Sandlin, and the Committee in finding solutions to the many issues discussed here today.

ATTACHMENT 1

National Forest Growth and Removals
All National Forest Timberlands—1953–2007



ATTACHMENT 2

Federal Forest Resource Coalition
February 16, 2010

Hon. NORMAN D. DICKS,
Chairman,
Interior, Environment and Related Agencies Subcommittee,
House Committee on Appropriations,
Washington, D.C.

Re: FY 2011 Forest Products Budget

Dear Mr. Chairman:

As representatives of the major forest products organizations in the United States, we have come together to address the crisis facing our national forests and the communities that rely upon them. Millions of acres in our national forests are over-grown, infested with various insects and diseases, and have been neglected for too long. It has hurt the environment, resulted in more intense forest fires, increased the cost of fire suppression, and cost us thousands of jobs. Our nation's forest products infrastructure, which includes sawmills, papermills, skilled loggers, and other wood products manufacturers, faces extreme challenges in the present economic climate, and lacks an adequate and predictable supply of timber from national forests.

We have begun an important dialogue with the Obama Administration about how best to restore the forests, increase active management of more acres and, concomitantly, revitalize the forest products industry. We are hopeful about the course ahead.

At the same time, however, we believe that the Congress must improve upon the FY 2011 budget that was submitted by the Administration and reach more acres more quickly. Chairman Lincoln asked the Administration to increase funding for the forest products line item by $57 million over last year, and you recently joined a number of your colleagues in seeking an increase of $151 million in the forest products account. An increase of $57 million would increase the timber harvest to 48% of the amount allowed under the current approved forest plans (or 3 bbf); an increase of $151 million would increase the timber harvest to 65% of the amount allowed under the current approved forest plans (or 4 bbf). We urge the Subcommittee to adopt a budget that is consistent with these letters, which are attached.

We estimate that an increase of $57 million in the forest products account could produce 6,500 jobs, and an increase of $151 million could produce over 17,000 jobs in some of the most hard-hit rural communities. That is a very efficient ratio between investment and jobs creation.

We support the concept of forest restoration as applied to the national forests; indeed it is vital. Well-managed national forests are critical to America. They provide recreation, clean air and water, as well as jobs, support for local education, and paper and building materials for an expanding economy. We intend to work with the Obama Administration to help rebuild support for the national forests and explain to all Americans the goals and management policy of the forests. To that end, we are continuing our discussions with the Administration to better understand the new Integrated Restoration proposal and how it will improve the health of our national forests, our local communities and the forest products infrastructure. The goal should be to save the remaining infrastructure and then expand the infrastructure to produce more jobs.

We are at a crossroads in the forest products industry with FY 2011 being a critical year. In FY 2011, we believe it is essential to provide additional levels of funding to the forest products program to ramp up meaningful forest management and restoration efforts. It is time to put people back to work in the struggling forest products industry. Thank you very much for your consideration. We ask that this letter be made a part of your hearing record.

Sincerely,

OWEN GRAHAM,
Alaska Forest Association, Ketchikan, AK;

CHIP MURRAY,
American Forest & Paper Association, Washington, D.C.;

TOM PARTIN, ANN FOREST BURNS,
American Forest Resource Council, Portland, OR;

JIM GEISINGER,
Associated Oregon Loggers, Salem, OR;

DAVE BISCHEL, STEVE BRINK,
California Forestry Association, Sacramento, CA;

NANCY FISHERING,
Colorado Timber Industry Association, Montrose, CO;

JIM RILEY,
Intermountain Forest Association, Coeur d' Alene, ID;

WAYNE BRANDT,
Minnesota Forest Industries, Duluth, MN;

KEITH OLSON,
Montana Logging Association, Kalispell, MT;

ELLEN SIMPSON,
Montana Wood Products Association, Helena, MT;

JIM CROUCH,
Ouachita Timber Purchasers Group, Russellville, AR;

TOM TROXEL, *Coordinator,*
Intermountain Forest Association;

MARSHALL MATZ, *Counsel,*
Olsson, Frank, & Weeda.

ATTACHMENT I

Forest Products

USDA Targets, 2011 Proposed Budget

Fiscal Year	Forest Products (bbf) (p. 25 overview)	Salvage Sale (mmbf) (p. 29 overview)	Excess K–V (mmbf) (p. 15–3 budget justification)	Total (bbf)
2006	1.530	974	329	2.833 bbf
2007	1.611	517	372	2.500 bbf
2008	2.484	472	179	3.135 bbf
2009	2.415	294	92	2.801 bbf
2010	2.546	195	168	2.909 bbf
2011 (proposed)	**2.400**	**184**	**132**	**2.716 bbf**

House Coalition/Sen. Lincoln Budget Request

	2010	**2011**	2012	2013
Funding Request (Million)	$382 (President Obama)	**$439 (Request)**	$486 (Request)	$533 (Request)
INCREASE	**Baseline**	**$57**	**$104**	**$151**
New/Retained Jobs	BASELINE	**6,600**	12,100	17,600
Sale Volume (Billion Board Feet)	2.4	**3.0**	3.5	4.0
ASQ	38%	**48%**	56%	65%

Goal: Build upon the USDA targets to reach 3.0 bbf in 2011.

ATTACHMENT II

December 17, 2009

Hon. BARACK OBAMA,
President,
United States of America,
Washington. D.C.

Dear Mr. President:

As members active on forestry issues we write to you today regarding the current state of our nation's forests. Our Federal, state, and private forests have served as an economic and social cornerstone in American history. However, past policies have largely ignored forest health. With your leadership, we have the opportunity to improve management of our forests that benefits clean water, clean air. and rural economies.

Our forests are under extreme stress from drought, insects, diseases, wildfire and poor management. While the recent economic downturn has severely debilitated urban America, rural America has been in a recession for many years. America's forests can and should be managed to maintain healthy forests, provide jobs, produce biomass, sequester carbon, and supply goods and services to help rebuild our rural economy.

With just a modest increase in funding for forest management at the USDA Forest Service we can reverse this trend and put people back to work. Studies indicate that an increase of $151 million in forest management funds for the FY 2011 budget will create over 17,600 jobs. Implementing this level of forest management will also help stunt the steep decline in our nation's forest products industry, which provides our rural communities with a significant source of employment.

Mr. President, it is important to point out that while this forest management initiative will help create jobs, it will not be sacrificing the environment. Indeed this initiative will improve the environment. As proper forest management is expanded to reach more acres there will be greater carbon sequestration and more clean water for all Americans. Increased forest management funding will also help us to begin to reverse the threat posed by growing hazardous fuel levels, insect infestations and disease outbreaks that are fueling record catastrophic wildfires. These wildfires are consuming a growing proportion of the agency's budget and are a major source of CO_2 emissions in many forested states.

The attached charts have also been provided to USDA, OMB and CEQ on how best to restore our forests. We believe it is important to note that this level of funding and expanded forest restoration would still leave the National Forest System far below the approved timber sale levels of the existing USDA forest plans. We hope this information is helpful during your consideration. We stand ready to work with you to improve forest health and management. Together, we can help properly manage our forests and support our rural forested communities at a time when they need it most. Thank you for your consideration.

Sincerely,

Hon. KURT SCHRADER,
Member of Congress;

Hon. STEPHANIE HERSETH SANDLIN,
Member of Congress;

Hon. PETER A. DEFAZIO,
Member of Congress;

Hon. RICK LARSEN,
Member of Congress;

Hon. NORMAN D. DICKS,
Member of Congress;

Hon. JOHN T. SALAZAR,
Member of Congress;

Hon. STEVE KAGEN,
Member of Congress;

Hon. MIKE ROSS,
Member of Congress;

Hon. JAMES L. OBERSTAR,
Member of Congress;

Hon. DAVID WU,
Member of Congress;

Hon. DENNIS MOORE,
Member of Congress;

Hon. CHARLIE MELANCON,
Member of Congress;

Hon. JIM MATHESON,
Member of Congress;

Hon. MARION BERRY,
Member of Congress;

Hon. MIKE THOMPSON,
Member of Congress;

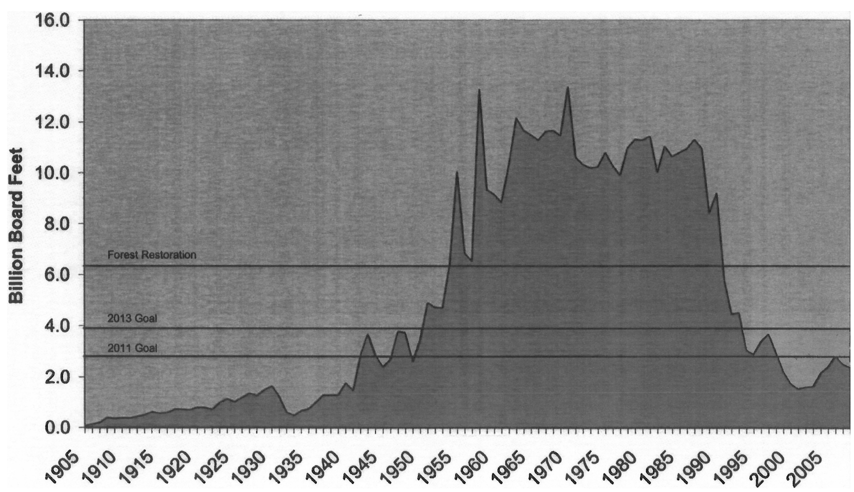
Hon. SAM FARR,
Member of Congress;

Hon. WALT MINNICK,
Member of Congress;

Hon. BETSY MARKEY,
Member of Congress.

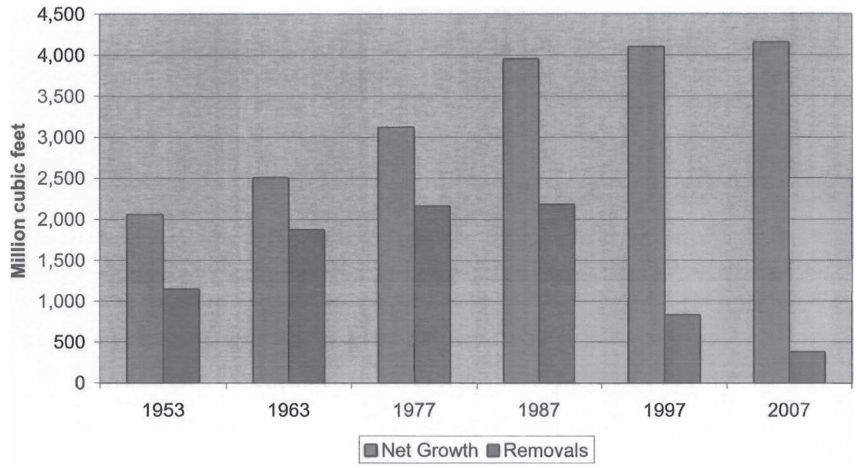
CHARTS

National Forest Timber Sale Volume Sold
Timber Restoration Program

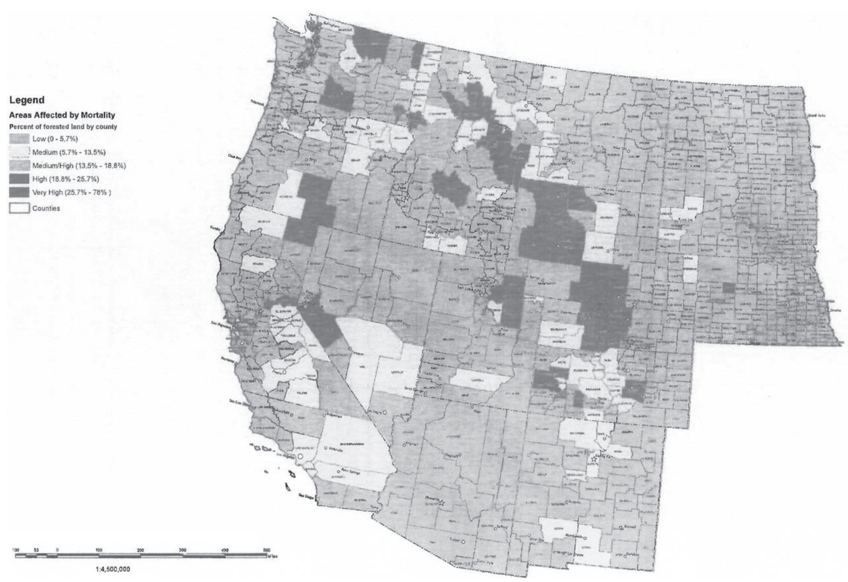


Source: Bureau of Census, FS Cut and Sold Records.

National Forest Growth and Removals
All National Forest Timberlands—1953–2007



Western Bark Beetle Mortality: 2004–2008



Printing Date: July 21, 2009.

ATTACHMENT III

November 20, 2009

President,
United States of America,
Washington. D.C.

Dear Mr. President:

For generations, Americans have depended upon the health of our forests for outdoor recreation and to maintain livelihoods. The health of our rural communities and the health or our National Forests are inextricably linked. Unfortunately, many or our national forests are literally dying.

I take great pride in the long success our National Forest service workers have had in managing and conserving our national forests. However, with limited resources, our forest supervisors race considerable challenges in accessing and managing all of the forest. Consequently, we are losing millions of acres of National Forests to disease, infestation, and more frequent and intense forest fires. The results are detrimental for our rural communities and our ecosystems in which water quality, carbon sequestration, and wildlife habitat are all negatively impacted.

Additional funds are desperately needed and I am writing to encourage you to consider a very modest increase in forest management funds for the USDA Forest Service as a part of the 2011 budget. With an increase of just $57 million in forest management funds in 2011 budget we can create over 6,000 jobs. It is important to note that with this level of restoration it would still leave the national forest program far below the approved USDA forest plans.

Improved forest management will help the environment by restoring forest health, increasing carbon sequestration, improving wildlife habitat and producing more clean water for all Americans. What's more, implementing this level of forest management will help arrest the steep decline in the nation's forest wood, pulp, and paper products industry, which provides a vital source of employment in many rural communities.

The attached charts and information on how best to restore our forests have been provided to USDA, OMB and CEQ. I found them so powerful, however, that I felt they should be included in this letter.

Thank you for your consideration. I look forward to working with you to improve forest health and management. There is not a moment to waste.

Sincerely,

Blanche L. Lincoln

Hon. BLANCHE L. LINCOLN,
Chairman.

ATTACHMENT 3

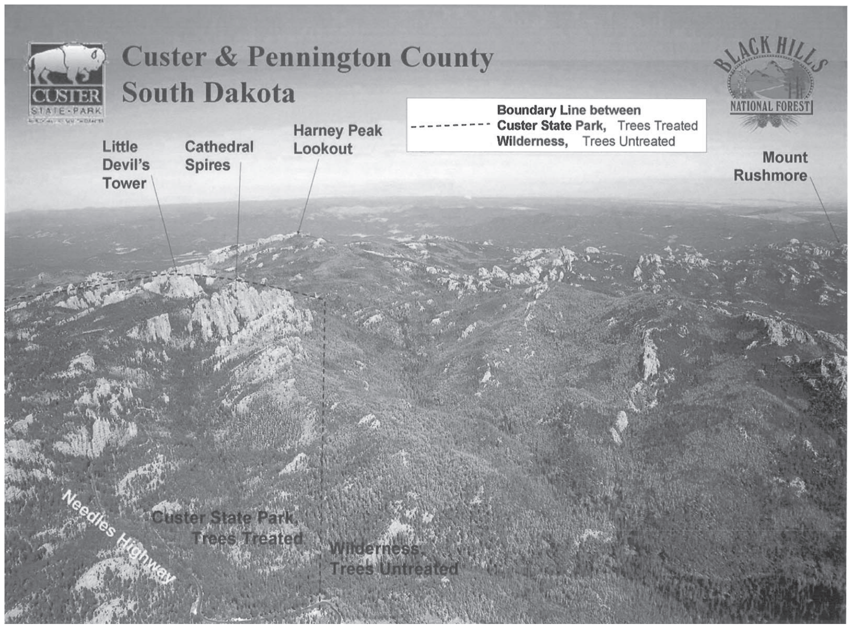


Photo looking north September 10, 2009.

The CHAIRMAN. Thank you very much, Mr. Neiman.
Dr. Kephart, welcome to the Committee.

STATEMENT OF KEVIN D. KEPHART, PH.D., VICE PRESIDENT FOR RESEARCH, AND DEAN, GRADUATE SCHOOL, SOUTH DAKOTA STATE UNIVERSITY, BROOKINGS, SD

Dr. KEPHART. Thank you. I wish to thank Chairman Peterson, Representative Herseth Sandlin, and the other distinguished Members of the House Committee on Agriculture for the opportunity to appear today.

I'm Kevin Kephart, Vice President for Research and Dean of the Graduate School at South Dakota State University. I'm also the national chair of the Sun Grant Initiative.

Through Title VII of the farm bill, land-grant institutions generate intellectual synergy, leverage resources and expertise, and have a track record of solving problems for American agriculture. The 2008 Farm Bill brings important changes to USDA. Section 7511 creates the National Institute of Food and Agriculture, or NIFA, and replaces the Cooperative State Research Education and Extension Service. NIFA is elevating scientific rigor and is establishing a national institute on par with the National Institutes of Health and the National Science Foundation.

As a hallmark, NIFA has established the Agriculture and Food Research Initiative, or AFRI. This is a competitive research program to replace the former CSREES National Research Initiative. Implementation of AFRI is currently underway, and addresses the nation's most urgent issues in agriculture, food, and human nutrition. Overall, land-grant college deans and administrative heads indicate to me that they are cautiously optimistic about progress to date in implementing the NIFA.

Title VII also supports land-grant capacity programs, including Hatch, Evans-Allen, Smith-Lever and the McIntire-Stennis funds that serve as the foundation of state agricultural experiment stations and the Cooperative Extension Services. These authorizations link scientists with stakeholders, industry, and Federal agencies to address the issues at local and regional scales. Higher education and public outreach are linked to the land-grant system so that research and education are synergistic.

Title VII authorizations such as AFRI, capacity funds, and specialized programs such as SARE and the Sun Grant represent a balanced portfolio of diverse research resources. The Sun Grant program was reauthorized in the 2008 Farm Bill as Section 7526. The mission of the Sun Grant program is to advance bioenergy and bio-based products in order to enhance national energy security, promote diversification and the environmental sustainability of agricultural production, and promote economic diversification in rural areas.

Five land-grant universities serve as regional Sun Grant centers, including South Dakota State University, Oklahoma State University, the University of Tennessee, Oregon State University, and Cornell. Each center is guided by stakeholder input through their regional advisory councils. The Sun Grant program collaborates with the Department of Transportation and the Department of Energy, as well as USDA. And Section 7526 has attracted agencies to the Sun Grant as a means of facilitating their own goals in renewable energy.

For example, DOE's Office of Biomass Programs is supporting the DOE Sun Grant Regional Feedstock Partnership.

Sun Grant centers have successfully conducted rigorous competitive regional research solicitations. And today, the Sun Grant program has implemented 123 competitively awarded regional research projects in 37 states with DOT and DOE funds, and has implemented 110 field trials in 36 states through the DOE Regional Feedstock Partnership. And I'd refer you to page four in the written testimony to show you how those projects are dispersed across the country.

The White House recently released a plan entitled, *Growing America's Fuel: An Innovation Approach to Achieving the President's Biofuel Target.* The plan calls for setting biofuels production targets and then implementing Federal programs designed to meet the targets. The Administration's *Growing America's Fuel Plan* misses the mark on at least two issues, however. First, the role of EPA in the sustainability segment must be weighed carefully. Environmental issues are only one component of sustainability, and USDA and DOE and the universities could better lead that segment of the plan. Second in the plan is to provide $10 million to establish five regional feedstock centers within the USDA-Agricultural Research Service. The proposed USDA–ARS centers duplicate the Sun Grant program. Congress has already established five regional Sun Grant centers that serve the same purposes that are described in the White House plan.

Title VII of the 2008 Farm Bill enables research that will advance agriculture. Economists at the University of Nebraska recently reported that during the period of 1949 to 1991 the average annual social rate of return on public agricultural research was 27 percent. The average rates of return during this period of time for the S&P 500 and NASDAQ were nine and 12 percent respectively. Title VII also has profound influence on practically every student in agriculture and related fields. The public investment in agricultural research is critical for future social and economic benefits to the nation. I thank you for your hard work and commitment to bringing a better future to the United States through a balanced agricultural research portfolio.

[The prepared statement of Dr. Kephart follows:]

PREPARED STATEMENT OF KEVIN D. KEPHART, PH.D., VICE PRESIDENT FOR RESEARCH, AND DEAN, GRADUATE SCHOOL, SOUTH DAKOTA STATE UNIVERSITY

On behalf of South Dakota State University, I wish to thank Chairman Peterson for the opportunity to address the House Committee on Agriculture. As the Congress evaluates the current farm bill, the nation continues to be at a critical juncture in terms of its energy security. Our future economic and strategic security is eroding because of our nation's excessive dependence on imported petroleum. This has led to much debate and speculation about the role renewable fuels can and should play in our effort to eliminate our dependence on foreign oil, and whether or not the agricultural industry can produce the necessary food, energy, and social services that will be demanded by a world with nine billion people. I think that as Americans we can agree that the continued use of fossil energy merely passes on our current challenges to future generations, including environmental concerns and the issue of long-term energy supply. American agriculture represents an important part of the solution toward reversing these concerns. American farmers, agribusinesses, and agricultural scientists can lead the world in development of renewable agriculture-based energy sources; however, the Congress must enact policies, programs, and funding that empower these sectors.

Through the farm bill, the House Committee on Agriculture has profound influence on higher education and public research in the United States. Title VII (*i.e.,* the Research Title) delivers essential authorizations by which the Land-Grant community carries out their mission. The foundational programs in Title VII make the nation's Land-Grant institutions an international powerhouse. Because of the farm bill authorizations, land-grant institutions communicate with each other, generate intellectual synergy, leverage resources and expertise, and have a track record of solving problems for agricultural producers and rural communities.

USDA–REE Reorganization

The 2008 Farm Bill is reinvigorating agricultural research and the Land-Grant community. Section 7511 creates the National Institute of Food and Agriculture (NIFA). Under this section, NIFA is to replace the Cooperative State Research, Education, and Extension Service (CSREES). The reinvigoration will result from elevating scientific rigor and establishing a national institute on par with the National Institutes of Health and the National Science Foundation. Additionally, NIFA is to be directed by an agricultural or food science scholar of national renown.

USDA-Research, Education and Economics (USDA–REE) has made progress toward establishing NIFA as directed in the farm bill. I have received input from Land-Grant college deans and administrative heads indicating that they are cautiously optimistic about the progress to date. It is clear that NIFA is established as a new administrative entity and that the CSREES structure is being transferred. Last autumn, Dr. Roger Beachy was confirmed as the first NIFA director and I appreciate how he has implemented NIFA programs. As a hallmark for the new agency, NIFA has established the Agricultural and Food Research Initiative (AFRI) to replace the former CSREES National Research Initiative.

The AFRI has been implemented to meet the nation's most urgent issues in agriculture, food, and human nutrition. The AFRI is a competitive program with broad eligibility to Land-Grant institutions, Federal agencies (*e.g.,* USDA–ARS), and other entities (*e.g.,* non Land-Grants and private corporations). The breadth of eligibility stands to redefine public agricultural research.

The AFRI will establish Coordinated Agricultural Projects with relatively high funding levels of $5 million per year and 5 year durations. These large grants will be comprised of multi-institutional teams that integrate research, Extension, and education. The current priority issue areas include:

- ◦ Childhood Obesity Prevention ($25 million with FY 2010 funds).
- ◦ Global Food Security ($19 million with FY 2010 funds).
- ◦ Food Safety ($20 million with FY 2010 funds).
- ◦ Climate Change ($55 million with FY 2010 funds).
- ◦ Sustainable Bioenergy ($40 million with FY 2010 funds)

Implementation of AFRI is currently under way and eligible institutions are actively developing teams, research plans, and proposals. I feel that NIFA has introduced AFRI effectively and that meaningful results are forthcoming.

The 2008 Farm Bill also supports the Land-Grant community through continued support of the capacity programs. These programs include the Hatch, Evans-Allen, Smith-Lever, and McIntire-Stennis funds that serve as the foundation of state agricultural experiment stations, and state Cooperative Extension Services. These authorizations and corresponding appropriations are the heart of what makes the Land-Grant system unique in the world by linking state scientists with stakeholders, industry, and Federal agencies to address problems and opportunities at local and regional scales. Perhaps most important, higher education and public outreach are linked through the Land-Grant system so that research and education are mutually beneficial. The Land-Grant institutions are charged with addressing national problems at a local level and on behalf of local stakeholders. The long-term capacity that is provided by the capacity funds positions the institutions to be immediately responsive to problems. Even in the current budgetary restraints faced by each state, the agricultural experiment stations continue to be supported and Federal appropriations are leveraged several fold with non-Federal funds.

These components of today's NIFA are critical elements of the nation's agricultural research capacity. The several authorizations provided by Title VII, such as AFRI competitive funds, capacity funds, and specialized programs such as SARE and Sun Grant, represent a balanced portfolio of diverse research resources. Diversity is an essential key element of sustainability.

Sun Grant Program

The Sun Grant Program was first authorized in January 2004 in section 9011 as an amendment to Title IX of the Farm Security and Rural Investment Act of 2002 (7 U.S.C. 8109). The program was reauthorized in the 2008 Farm Bill as section 7526 with annual appropriations limits of $75 million. Additionally, Sun Grant is authorized as section 5201(m) under provisions of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users of 2005 [SAFETEA–LU (23 U.S.C. 118)]. These authorizations culminated planning and development since 2001 by Land-Grant universities and the Congress.

The mission of the Sun Grant Program is to:

- Enhance national energy security through the development, distribution, and implementation of biobased energy technologies;
- Promote diversification in, and the environmental sustainability of agricultural production in the United States through biobased energy and product technologies;
- Promote economic diversification in rural areas of the United States through biobased energy and product technologies; and
- Enhance the efficiency of bioenergy and biomass research and development programs through improved coordination and collaboration between the Department of Agriculture and the Department of Energy, and the Land-Grant colleges and universities.

Five Land-Grant universities serve as regional Sun Grant centers, including South Dakota State University, Oklahoma State University, the University of Tennessee, Oregon State University, and Cornell University. The regional centers emphasize research, Extension, and educational programs on renewable energy technologies while promoting biobased industries in rural communities. Each center is authorized to receive base Federal funding to establish them as leading research, Extension, and higher education institutions for the biobased economy. Each center is guided by stakeholder input through their regional advisory councils.

Other key guidelines define how the regional Sun Grant centers function:

- Appropriations are to be allocated evenly among the five regions.
- No more than 25% of regional funds will be used directly for a center's programs.
- The remaining 75% of regional funds are to be allocated within a region to Land-Grant institutions through competitive processes.
- Research, Extension, and educational programs on bioenergy and biobased products will include activities aimed at technology development and technology implementation.

Since passage of the authorization, the Sun Grant Program has developed collaborative working relations and projects with the U.S. Department of Transportation (DOT), U.S. Department of Energy (DOE), and USDA. The farm bill authorization has attracted agencies to the Sun Grant Program as a means of facilitating their own goals toward developing renewable energy. For example, funding for the Sun Grant Program is included in the President's FY 2011 Budget Request in DOE's Office of the Biomass Program (OBP) to support the DOE Regional Feedstock Partnership. The regional centers already facilitate ongoing and proposed federally-funded research, Extension and education programs in their respective regions. These programs embrace the multi-state, multi-function, multi-disciplinary integrated approach that is at the heart of how Land-Grants address national problems. The Sun Grant centers have developed rigorous competitive regional programs to identify excellent projects. Today, the Sun Grant Program has implemented 123 competitively awarded regional research projects in 37 states (*Figure 1*) and has implemented 110 field trials in 36 states through the DOE Regional Feedstock Partnership (*Figure 2*).

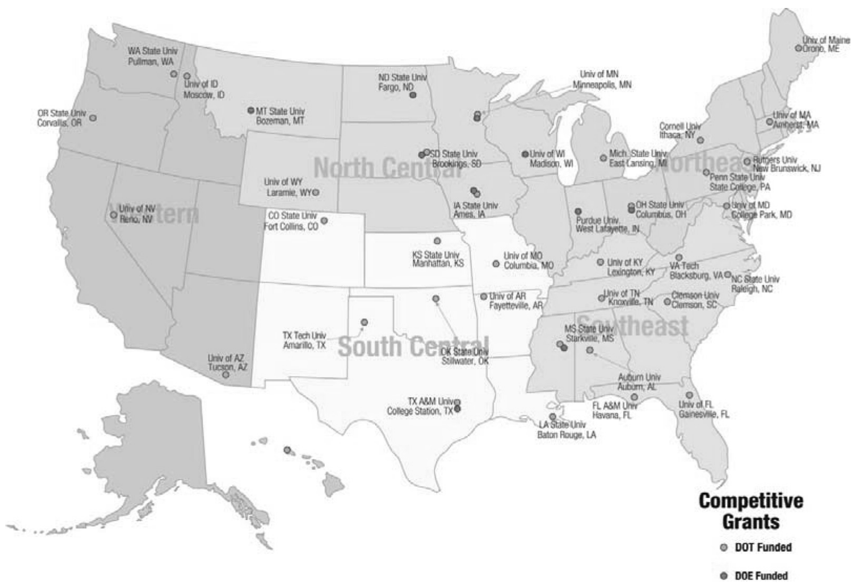


Figure 1. Sun Grant research projects awarded through regional competition. The projects are funded through DOT or DOE funds.

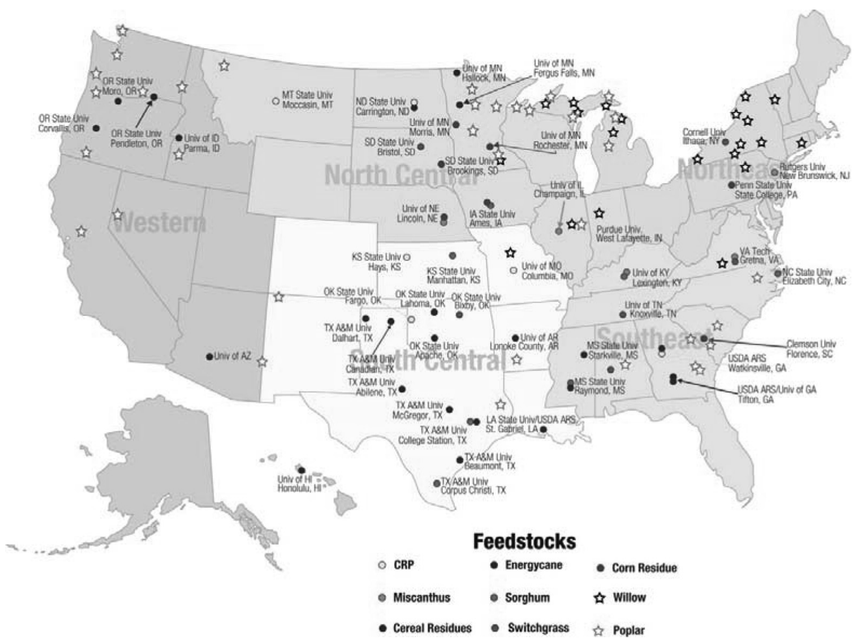


Figure 2. Field trials implemented by the DOE-Sun Grant Regional Feedstock Partnership. Feedstock species were identified by DOE as models to determine sustainability measures and production supply curves.

The scope of Sun Grant research is very broad. Feedstock development includes camelina, palm, eutropha, hazelnut, sorghum, switchgrass, prairie cordgrass, cup plant and many other species. Development of conversion processes includes new pretreatments and organisms for fermentation and includes improved processes for biodiesel, gasification, and pyrolysis. One project is using nanotechnology to recover enzymes so that ethanol production costs can be reduced. Sun Grant-funded work has examined state-based policies in Western states and has developed GIS models to site biorefineries in the Southeastern U.S.

Some examples of outcomes of Sun Grant-supported research include:

Western Regional Sun Grant Center at Oregon State University

- Washington State University is developing a pyrolysis based biorefinery that will process forest residues and will permit production of pyrolysis oils, lipids, or anhydro-sugars that can be fermented to ethanol.
- The University of Nevada-Reno is developing salt basin algae for biofuels production and carbon sequestration. Halophytic algae are an ideal renewable energy resource because they grow on marginal lands with brackish or saline water and have been shown to be 30 times more productive than terrestrial feedstocks. The team is evaluating algae strains and mutants for high production of triacylglycerols under different growing conditions and identify genes related to oil production by microarray analysis. Ultimately, this project will provide an assessment of the potential of algae as a biodiesel feedstock. The lipid and starch contents of 19 halophytic green algal strains of the genus *Dunaliella* were determined for their suitability for use as feedstocks for biofuels.
- Oregon State University is developing camelina as a low-input oilseed crop for the Pacific Northwest. They have determined correct planting dates in environments in which camelina yield performance is likely to be best, but these windows will vary by environment. Fall-planted camelina can withstand cold winter temperatures with little snow cover as well as the combination of cold and wet soil conditions in the region. They found that residual herbicides and slug predation create challenges for camelina survival in the Willamette Valley. Broadcast and drilled seedings showed similar performance levels.

North Central Regional Sun Grant Center at South Dakota State University

- South Dakota State University has plant breeding and genetics projects to identify native perennial plants, such as prairie cordgrass, that can produce lignocellulosic feedstock on marginal land (wet & salty) in amounts equal to or greater than switchgrass on prime farmland in the North Central Region.
- The University of Wyoming has developed nanotechnology to recover and reuse enzymes necessary for converting lignocellulosic feedstocks into second-generation biofuel. Laboratory-scale results indicate the enzymes can be recovered, cleaned and reused several times with limited reduction in enzymatic activity saving the cost of new enzymes which can be up to 25% of the cost of biofuel production.
- The University of Minnesota is developing microwave technology to design, engineer, and test a low capital cost, mobile pyrolysis unit to convert lignocellulosic biomass into bio-oil which can be refined into a drop-in transportation fuel.

South Central Regional Sun Grant Center at Oklahoma State University

- Texas A&M University has developed sorghum lines that optimize the endosperm for ethanol conversion and distiller's grain feed for low rain-fed Texas environments. These lines represented advanced lines that have a wild-type endosperm, the high amylopectin waxy grain trait or the high protein digestible/high lysine grain trait. The combination of these two modified endosperm traits into a single sorghum hybrid will be the optimal endosperm architecture for low energy and high ethanol yield.
- Oklahoma State University has developed a unique downdraft gasifier optimized for low bulk density biomass feedstocks, such as switchgrass, to generate synthesis gas high in carbon monoxide and hydrogen concentrations and low in tar and particulate contents. This gasifier has been demonstrated to potential industries for commercialization.
- Texas A&M University has finalized the design and development of a skid-mounted fluidized bed gasifier that can be relocated using a mobile trailer. Various feedstocks have been gasified including sorghum biomass, animal manure (dairy and poultry litter), switchgrass, wood chips and straw. A patent has been filed and numerous companies have shown interest in commercialization.

Northeast Regional Sun Grant Center at Cornell University

- The University of Massachusetts has collected twenty hyperthermophile bacteria from a geothermal vent off the coast of Washington and Oregon. The bacteria that grow at 200° Fahrenheit and have been observed to convert cellulose to hydrogen and grew on cellulose at a rate approximately 30% faster than any other microbe previously reported. These microorganisms have great potential for industrial applications.
- Rutgers University is developing hazelnut as a potential new oil-producing crop for the northeastern U.S. The Rutgers team has identified some promising cultivars that have resistance to Eastern Filbert Blight, a disease that makes hazelnut production difficult in the Northeast. Initial results suggest hazelnut trees could produce almost twice as much oil per acre as soybeans.
- Cornell University is evaluating the potential performance of a broad range of grasses and production methods for ethanol production capacity to help plant breeders select the best bioenergy grass cultivars. Lignocellulosic ethanol can be produced from sugars in the cell walls of grasses, but not all sugars are the same. The Cornell University research team is evaluating ethanol production capacity in grasses by examining the types of sugars stored in cell walls. Compositional analysis revealed that the grasses could be clustered into two different groups—one with more useful (fermentable) sugars (cellulose, xylose and arabinose) in the cell walls, and a second group with sugars that are not as readily fermentable (rhamnose, fucose and mannose).

Southeast Regional Sun Grant Center at the University of Tennessee

- The University of Tennessee has developed an innovative biomass site assessment tool, known as BioSAT (*www.biosat.net*). As the only model incorporating biomass from both agricultural and forest sectors in the analysis, it covers the 33 eastern states and offers convenient web access for clients. The investment has been leveraged with support from the U.S. Forest Service and other partners to establish a broad-based program addressing the unique information needs presented by bioenergy issues.
- The University of Tennessee has advanced the use of ionic liquids to pretreat woody biomass for greater enzyme access to cellulose. After a 3 day exposure to ionic liquid, 95 percent conversion of cellulose was achieved in 8 hours, while the untreated wood released less than ten percent of sugars even after 72 hours. The dramatic improvement was attributed to both physical (loss of crystalline structure) and chemical changes in the biomass.
- The University of Kentucky is developing *Clostridium thermocellum,* an anaerobic bacterium that can directly convert cellulose into ethanol. Their work has shown that *C. thermocellum* at elevated pressure (7.0 MPa, and 13.0 MPa) increased the ethanol:acetate ratio by more than 100-fold compared to that under atmospheric pressure. In revealing the ability to control product selectivity by environmentally manipulating carbon and electron flows, a novel approach to directing microbial metabolism is being exploited.

Recent Developments from the Administration

The Obama Administration is also working on strategies to address the daunting challenges of agriculture. For example, the White House released a plan last January entitled “Growing America’s Fuel: An Innovation Approach to Achieving the President’s Biofuel Target.” The plan identifies key segments of the bioenergy supply chain and identifies Federal agencies to lead research, development, and policy efforts. The supply chain/agency assignments include:

Supply Chain Segment	Lead Agency
1. Discovery Science	DOE Office of Science.
2. Feedstock Development	USDA REE and Forest Service (FS).
3. Feedstock Production Systems	USDA REE and FS.
4. Pilot Scale Conversion and Biorefinery Facilities	USDA REE and FS.
5. Full-scale and Widespread Deployment of Commercial Facilities.	USDA-Rural Development (RD) and FS.
6. Regulatory Compliance	Environmental Protection Agency (EPA) and USDA.
7. Sustainability	EPA and USDA.
8. Policy Support	All.
9. Dissemination of Best Practices and Technical Assistance	USDA–NIFA.
10. Feedstock Supply Chain Workforce Development	USDA–REE, FS, RD and Universities.

The plan calls for setting biofuels production targets, then implementing Federal programs designed to meet the targets. It also identifies a full complement of feasibility measures to provide guidance on program evolution. There is support for the Administration's *Growing America's Fuel* plan; however, it misses the mark on at least two issues. First, the role of EPA in the sustainability segment must be weighed carefully. Environmental issues are only one component of sustainability and agencies such as USDA or DOE would be better leads because of their research capacities. Second, the President's FY 2011 budget proposes to allocate $10 million to establish five Regional Feedstock Centers within the USDA-Agricultural Research Service (ARS). The USDA–ARS centers are to plan and develop regional supply chain systems that link feedstock development, production, logistics, conversion, co-product production and distribution. Additionally, the proposed USDA–ARS centers are to "coordinate with DOE to enhance work underway through DOE's Regional Feedstock Partnerships and the Bioenergy Research Centers." The proposed USDA–ARS centers duplicate the Sun Grant Program. The Congress has already established five regional Sun Grant centers that serve the same purpose described in the White House report. Moreover, the DOE Office of Biomass Programs contacted the leadership of the Sun Grant Program in 2006 to establish the Regional Feedstock Partnership. The Sun Grant centers have been coordinating the Regional Feedstock Partnership since that time and have included participation of USDA–ARS and private industry scientists.

Return on the Public Investment

Title VII of the 2008 Farm Bill is critical for the nation's future. The authorizations and associated appropriations enable critical research and development that will advance agriculture, feed the world's growing population, sustain the environment, support global commerce, and benefit world peace. These are not exaggerated goals and an analysis of past public investment will likely support these claims. Indeed, economists at the University of Nebraska recently studied the internal rates of return to public investment in agricultural research. During the period of 1949 to 1991, the mean social rate of return was 27% and the mean own-state return was 17%. The average rates of return during this period for the S&P 500 and NASDAQ were 9% and 12%, respectively. The public investment in agricultural research is critical for future social and economic benefits to the nation.

Perhaps more important, the farm bill truly impacts higher education. Each year, the month of May brings celebrations at university commencement events across America. Graduate students at the nation's Land-Grant institutions are being recognized for their accomplishments in original research. Title VII of the farm bill has a profoundly positive influence on the work of practically every student in agriculture and related fields. The research mission is at the heart of the Land-Grant system. Research provides for an advanced curriculum for future generations of students. It assures us that we will have a highly educated workforce and a vast nation of leaders. Research supports continuous education long after students leave their alma maters.

Thank you for the opportunity to visit with you today. Thank you for your hard work and commitment to bringing a better future to the United States through a balanced research portfolio.

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The CHAIRMAN. Thank you very much, Dr. Kephart, and we thank all of the panelists for that excellent testimony. I'd like to recognize someone else that I didn't see out in the audience. It's a little bright up here, but Richard Peterson is here from the Minnesota FSA committee representing Linda Hennen, who does a great job for us in Minnesota. Where is Richard? Is he still around or is he—there he is. My slightly older brother, Richard Peterson.

Who—thank you for what you do.

The gentlelady from South Dakota.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman. Some of our witnesses have identified, in their written testimony, utilization of the BCAP program, Biomass Crops Assistance Program. And like ACRE, this is something that we authorized in the last farm bill. I think, going forward, as it's been implemented how it's working, how it's not working, some modifications will be necessary. So we thank the witnesses for their insights there.

But I would ask my colleagues, if you look at the photos from the Black Hills National Forest, you can see where Custer State Park on the left, compared to wilderness areas on the national forest to the right, the dramatic difference in terms of the beetle infestation, and how aggressive the state has been. We have both the former and acting Secretaries of Agriculture for the State of South Dakota—Mr. Even and Mr. Farris—who have been working with local officials, county commissioners, Federal forest officials, not being concerned with who's wearing what hat, but how to have a strategy to get on top of this problem in the Black Hills National Forest.

And our colleague, Cynthia Lummis, and I have sent a letter to Secretary Vilsack asking for a comprehensive strategy of dealing with the pine beetle epidemic. And I would just request, in light of Mr. Neiman's testimony and some of the others that are here from western South Dakota, ask all of my colleagues here to work with us and ask the Secretary to present that strategy. Because in June of this year, in the last farm bill, we authorized and required states to present plans to identify the problems in the forests in their areas, whether it's private, state, and Federal, to have a comprehensive strategy. This is a crisis.

We have—and then if you see in the second picture the fuel hazard that this presents in our western forests as well as the potential for woody biomass, as Mr. Neiman testified. But we have to change the definition for *renewable biomass* to count towards the RFS. That will create jobs. It will take some of the pressures off— on the BCAP that the BCAP program unintentionally introduced with some of the competition for traditional uses of those products. And I know that Mr. Thompson in Pennsylvania and others have recognized that problem.

I do want to pose a question to Dr. Kephart because Mr. Goodlatte and Mr. Peterson will recall in the 2008 Farm Bill we all worked together to preserve, but make responsible changes to the Sun Grant Initiative. And as Dr. Kephart testified, the Administration has put forward a budget in which we should all be a little bit concerned that we're going to duplicate something that we already have. In circumstances of tight budget environment, we brought this to the attention of the Chairwoman of the Agriculture Appropriations Committee, Ms. DeLauro.

But, Dr. Kephart, could you share with the Committee any conversations you've had with the Administration or USDA about the duplication of the program, and what has been their response. Could you share, kind of enlighten us as to why you think the Administration did duplicate this program based on prior conversations that you had with the Administration last summer and last fall?

Dr. KEPHART. Well, our conversations with the Administration in regard to the Sun Grant began on—nearly a year ago. Dr. Rajiv Shah at that time was the Under Secretary for REE and invited those of us in leadership in the Sun Grant to come to Washington and explain the program to him, and our conversations with him were excellent. We were happy to receive the invitation and go to town to visit with him.

They asked for a—some immediate plans on some steps forward on assisting them to work with us to bring the Sun Grant program forward. So at that point in time, we provided a report in late August to talk about what our priorities are that have been based on our conferences and workshops across the country on stakeholder input, where we saw some of the limitations and needs of cellulosic feedstocks are, and how to advance that. And that's related to white papers that we've written in that regard before.

What happened subsequent to that was Dr. Shah, as you might know, moved on to USAID; and only recently has a new nomination to REE been put forward, and I believe that confirmation is going forward on the Senate side. But the Administration went ahead and moved forward, working with USDA to come up with this *Growing America's Fuel Plan,* which, by and large, I like.

I like it because a lot of the words that are in there are reminiscent of what we put forward in August, including the regional aspect, prioritizing research that's regional and local on feedstocks, because that's what's relevant, but also this need for five centers across the country to coordinate that. The important difference is that they made those five centers under the leadership of USDA–ARS specifically and not the land-grant community. And so that was the primary change that I wanted to alert you to in regard to the plan.

The CHAIRMAN. I thank the gentlelady. I recognize the former Chairman, Mr. Goodlatte, for questions.

Mr. GOODLATTE. Thank you, Mr. Chairman. Mr. Neiman, I was very interested and pleased to receive these photographs. They amply illustrate some of the problems we have in our national forests. And I represent a district in the East that is not dissimilar to many western districts. About ⅓ of the land in my district in the western part of Virginia is owned by the Federal Government in the George Washington and the Jefferson National Forest primarily. We have some of the same issues with wilderness areas and the inability to be able to properly manage them.

I was also interested in your comments about the pressure that is placed on industries that are unable to get an adequate supply of timber for whatever purpose they might make, because of the fact that our national forests are closed off to them. In fact, in my district, about ⅔ of the district is forested; ½ of that is in Federal Government lands and ½ in private lands. And 97 percent of the stock that comes for the five paper mills that are located in my district, the hardwood lumber industry that is significant in my district and other uses, comes off of the private lands and three percent off of the Federal lands in an average year.

We have tried for a long time, but we have been fighting a losing battle with environmental organizations, some of which have taken extreme positions regarding this. As you may know, the Sierra

Club has maintained a position that there should be no commercial timber harvesting on any of our national forest, 191 million acres of national forestland. And I wonder if you have any thoughts on how we can counter that. I think it's both economically and environmentally unsound to maintain that policy, but I wonder what your thoughts are about it. How do we counter that kind of, I don't know, can't see the forest for the trees kind mind-set on the part of some extreme environmental organizations?

Mr. NEIMAN. Thank you very much. Your comments seem to parallel the Black Hills very much. We are fairly fortunate here. We have had extremely strong support from both states and the counties at the local level, which has helped us tremendously. But take a quick snapshot of the Black Hills when, about 25 years after General Custer came through, the very first U.S. Forest Service timber sale in the United States was by Nemo. So this is the oldest managed forest, the Black Hills.

At that time, the forest had 1½ billion board feet of inventory. We have removed, since the first miners hit, around 6 billion board feet of timber. The inventory today reached 6 billion board feet on the Black Hills National Forest about the turn of 2000. Now we've lost a hundred and some thousand acres. It's probably in the 5½ to 5¾ billion inventory. It's overstocked. When you look at the whole forest——

Mr. GOODLATTE. You say you've lost. Is that due to a forest fire or insect infestation or what?

Mr. NEIMAN. Well, the total forest is now being reduced due to bugs. Mother Nature is taking care of itself. It's either going to be properly managed by humans, or Mother Nature is going to take care of it in an indirect way that's going to have devastating consequences to stream flow and water conditions. In our case, a 24 inch ponderosa pine drinks 200 to 300 gallons a day if the water's available. If it's not, it has—it's susceptible to attack from bugs.

Let's look to the big picture on the national forest scene. The growth on—well, first on the Black Hills, the growth is around 150 to 170 million board feet. We're removing about 85 a year, so we're lucky and fortunate compared to your forest to remove half of it. All the forests nationwide are growing 20 billion board feet a year. Twenty billion board feet, and we're allowing the removal of 2½ billion? We wonder why we have health condition problems. You're hitting right in the center of it, so I feel for your area. The disease and bugs are going to keep increasing in your area like it has the Black Hills and, particularly, Colorado and Wyoming.

Mr. GOODLATTE. I agree. Thank you very much. Thank you, Madam Chairman.

Ms. HERSETH SANDLIN [presiding.] Thank you, Mr. Goodlatte. Mr. Walz.

Mr. WALZ. Thank you, Representative Herseth Sandlin. Thank you all for your testimony and your work in this industry. I am very appreciative of it.

Dr. Kephart, I'd like to just compliment and associate myself with your focusing on Title VII. That is very, very important. The research side of things I think is critical. It goes back to our being good stewards, and I think being visionary in how we invest in this.

And as we have this debate on the farm bill, I would go back to what I said earlier with the groups who were here. These investments that can pay off in the long run, and with farm programs costing us a year less than we spend in 6 weeks in Iraq, you have to put these things into perspective on what the long-range goal of these things looks like.

The one thing I want to ask is it's the 800 pound gorilla in this ethanol debate, or I should say the 800 pound hog: How do we work things out with our livestock industry? I know there's not enough time here, but this is an issue that continues to come up. It does not need to be an issue that divides farm country. It's one where we have many overlapping concerns. How would you respond to this? Maybe Mr. Hallberg and Mr. Weishaar first, if you could respond to it from a livestock perspective.

Mr. HALLBERG. Well, it's an excellent question, Congressman. I remember when I sat in front of committees like this 32 years ago with the RFA. We had food *versus* fuel debates then as the industry was just starting up. I think it's unfortunate that we do have the schism that you've just talked about, because as you know, ⅓ of the bushel of corn, which is the starch, goes to ethanol, and another ⅓ to CO_2, and the other ⅓ is a very high value animal feed.

One suggestion I would make, because I think a lot of this is perception, and a lot of it's distorted, frankly, by some of our friends in the PR industry, the Department of Agriculture reports utilization of corn for ethanol, as you know, on a nonadjusted basis. So in other words, if we're going to make 15 billion gallons of ethanol in a year, they'll say roughly 3 gallons per bushel. They say 5 billion bushels of corn have been used for ethanol, and then another 5.65 billion bushels have been used for animal feed.

The fact of matter is, at least a third and, in fact, on a TDN, on a total digestible nutrient basis, up to a half of that bushel of corn goes into the nutrient value of the feed especially for ruminant animals, and it's improving for hogs and poultry. So I think part of this could be a little bit better education of the press. In fact, the CBO reported it wrong when they did the food *versus* fuels study. So we just need to have a little bit more dialogue about what really is happening.

Mr. WEISHAAR. Yes. Yes, thank you, Congressman. And just to add to Mr. Hallberg's comments, I think he hit the real key, is I think the biofuels industry, in particular the ethanol industry, is not given credit for its feed product. It's viewed as a pure consumer of corn, and I think the general populace forgets that from our manufacturing process we have a renewable fuel, but we also have a very highly desirable, protein rich animal feed.

So I think by getting that education and understanding what comes in and what comes out is imperative. So speaking specifically with producing 1.6 billion gallons of fuel, we produced over 4½ million tons of animal feed this last year. And I think, again to Mr. Hallberg's point, that's one thing that sometimes the communication maybe isn't quite as efficient as it should be.

Mr. WALZ. Well, I appreciate that. And I look forward to this discussion of getting this right.

There's no reason this should divide us. Our livestock industry is critically important to this country as well as our biofuel. So thank you both. I yield back.

The CHAIRMAN [presiding.] I thank the gentleman. The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I just have one quick one. Mr. Weishaar, we enjoyed a tour of your plant in Chancellor yesterday. Terrific exposure for me. It's the first time I've been through a plant like that. The use of methane gas coming off the landfill. I mean the goal to do away—you know, to eliminate most, if not all, your need for natural gas. All of those things are really worthy to moving forward.

What I was unable to distinguish, though, was how much of that wonderful plant did the Federal taxpayer underwrite in ways that a normal corporation wouldn't get? In other words, you obviously get to depreciate the equipment and all those kinds of things. That's a standard kind of deal. But I don't—couldn't tell, and I don't necessarily think you need to answer that off the top of your head. But as we look at these things, as I hear words like loan guarantees and production credits, you would want to make them refundable, expanded grants, mandates for flex-fuel cars, all of those things costs money. And we find ourselves having mortgaged our grandchildren and great grandchildren's futures because good-hearted Americans, well intended, have looked to their Federal Government to do things, and have asked their Federal Government, and *i.e.,* the Federal taxpayer, to make those kind of commitments that we can't afford for a lot of variety of things.

You did mention one thing I would like some clarification on. You said that your company will be responsible for 3.2 billion gallons of the biomass. Does that mean if you don't make it, you'll pay some penalty?

What do you mean by the word *responsible?*

Mr. WEISHAAR. Okay. There are a couple of things in there, Congressman. Maybe I'll start with that one and work backwards.

Our company laid out a vision several weeks ago to produce 3.5 billion gallons of cellulosic ethanol in which one segment of that would be a billion gallons of Bolton cellulosic facilities at our own 26 plants. An additional 1.4 billion gallons is where we would license that technology to other grain-based ethanol facilities, again, to produce ethanol in conjunction with their facility, and then 1.1 billion gallons would be nongrain-based ethanol facilities across the nation.

Mr. CONAWAY. Okay. But the word *responsible* means if you don't make it, are there penalties for your company to——

Mr. WEISHAAR. No, sir. I may have misspoken. That's our vision that we're driving the organization toward.

Mr. CONAWAY. Well, I need to continue to have these conversations because I'm not sold yet but appreciate being here. And I yield back.

The CHAIRMAN. The gentlelady from Colorado, Ms. Markey.

Ms. MARKEY. Thank you, Mr. Chairman. Thank you for being here for your discussion on the pine beetle problem, which, as you know, is a very serious problem across the West. We heard in our farm bill hearing in Cheyenne just a couple of weeks ago in Colorado a hundred thousand trees a day are falling. And so, of course, it has huge implications for the environment, for tourism, for the economy, for fire, and it is a crisis. So I'm glad that we're taking this very, very seriously.

But on a different matter, quickly, Mr. Hallberg, as you mentioned in your testimony, the use of plug-in electric vehicles are becoming much more widespread. What do you see as the long-term niche market then for cellulosic ethanol?

And we also know that a huge consumption of fuel is in—is jet fuel, and that will never be electric. Are there—do you see future applications in the aviation industry for biofuels and cellulosic ethanol?

Mr. HALLBERG. Yes, that's an excellent question. The jet fuel market I think is going to be addressed less by ethanol than obviously it will by so-called drop-in fuels or fuels that are more suited for the jet engine characteristics. I think that our fuel—transportation fuel system is obviously enormous. It's the largest in the world. The gasoline side, it's 140 billion gallons a year; diesel, it's 30 billion. The ability for this nation with the choice approach so that there's a flex-fuel vehicle that's also going to morph into a PHEV, a plug-in hybrid, to actually back out imported crude I think is enormous.

And, in fact, the technologies will follow the capital as the market pull, the demand pull develops. I think we're seeing that already, although we're a little disappointed in the timing. So I think wind and—wind-generated electricity, I think the drop-in fuels have a role. Ethanol importance has been overlooked because of the octane component that we're going to need as I mentioned for these higher performance, higher efficiency engines that will be developed post-2016. All those together should get us off the foreign oil barrel I think within the next 15 to 20 years.

Ms. MARKEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you—oh, Dr. Kephart.

Dr. KEPHART. If I could make one comment, Congresswoman Markey. I believe that cellulosic feedstocks have a great future in the sectors that you brought up, both power production and in drop-in fuels. One problem or limitation that we have to keep—be aware of on cellulosic feedstocks is, yes, there's a lot of cellulose there, but there's also quite a bit of lignin, and lignin is not fermentable in a biological system. So there are thermochemical processes that many of us across the country, and many folks across the country in Sun Grant are working on to produce, for example, synthesis gas.

Gasified biomass can generate power. We're working on procedures to produce pyrolysis oil, or a lot like a crude oil that could be used as a low-grade boiler fuel to heat buildings or generate power, or to refine it into jet fuel or diesel or other drop-in fuels. And actually at SDSU, we're working on a cellulosic project for JP8, a military grade of jet fuel. So that is a feedstock source, including these woody biomass issues in public lands could fit well into those types of pools.

The CHAIRMAN. I thank the gentlelady. The gentleman from Nebraska, Mr. Fortenberry.

Mr. FORTENBERRY. Thank you all for appearing today. One quick question regarding the science of this. What's the latest information on the energy output to input equation for ethanol?

Mr. HALLBERG. I think to me the most recent and I think the most thorough that's been peer-reviewed in the *Journal of Industrial Ecology* actually was done by Dr. Ken Cassman of the University of Nebraska-Lincoln. And they have been thorough to the point of actually surveying every facility. And as you know, 75 percent of the capacity of this industry has been added in the last 3 or 4 years. So they've gotten up to speed on the new technology. The new facilities that are being built today are extremely efficient, and those numbers are 2.0 to 1. Actually, that's a little confusing to people because it's actually more dramatic than that in terms of the reduced amount of BTUs in for the output out.

But they're extremely efficient facilities.

Mr. FORTENBERRY. And examples of where the collocation of energy inputs and outputs are taking advantage of synergistic opportunities that greatly increase that equation, where does that bump to? What are the outliers?

Mr. WEISHAAR. Well, I'll talk on two different points. One was from our Chancellor facility where we're actually offsetting fossil fuel. In other words, we're using waste landfill gas or waste wood. That obviously helps the economic model because our fossil fuel use is greatly reduced.

The other segment is the Project LIBERTY in Emmetsburg, Iowa where we'll actually be using the lignin that's an output through anaerobic digestion system. That will displace all of our natural gas use for not only the cellulosic plant, but the existing 50 million gallon corn ethanol plant.

So again, as these technologies from an energy utilization, from water reduction, from a biological standpoint, in other words, the enzymes and the processes themselves become tweaked and more refined, we will see less water, less—less energy utilization and greater yields, which will move it even beyond some of the numbers that Mr. Hallberg shared.

Mr. FORTENBERRY. Well, remember, it was just a few short years ago we had no new energy bill at all, and here we've quickly advanced from a debate about whether this was maybe 1.3 to 1 or so to now being more clear at about two to one. But again, the opportunities for collocation of the synergistic energy input and output uses greatly increase that equation.

Let's go back to the issue of the blend wall. To me it seems like that's, again, a short-term measure that actually would be very beneficial in terms of integrating ethanol and biofuels into the transportation mainstream as it currently exists. But the longer term question is the fuller integration of the transportation infrastructure to accommodate biofuels. Now that doesn't have to be a long-term question necessarily, but clearly it might be a medium-term question. Do I have that pretty well clear? I mean we've got to be able to go to a higher blend immediately. It might, again, fix a certain difficulty right now in the market. But that's within the current confines of the way in which the transportation infrastructure is currently set up.

Mr. HALLBERG. Congressman, I think that's a critical point, and even if EPA gets E15 right, there's going to be litigation that will go on for a long time and there would be a lot of uncertainty. So moving the demand needle is a question mark. The CHOICE Act or something like the Brazilian model, they started that process 6 years ago where they started the flex-fuel vehicle introductions. And it is now, as I said, almost 97 percent of every vehicle sold so—and it's massive.

If you look at the economies of the world that took the oil shock 2 years ago, Brazil is the least affected. And that's on the record. It was so resilient because of its ability to move over and displace the $150 crude gasoline.

So that is where we have to go. Five years from now, hopefully the industry could be at a point where it doesn't have to go to EPA and ask for a waiver for legacy vehicles, because we've turned the fleet over and people can put E30, E40, E50 in.

Mr. FORTENBERRY. I think you make an interesting point as well. This is what is actually holding back capital investment in the industry, this level of uncertainty. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. And the other Members have foregone their questions, so we're going to wrap it up here. We want to thank this panel for their excellent testimony and answers to our questions. We'll look forward to working with you on these issues as we go forward. I want to thank the previous panel, thank all of the folks for being here today, the folks that watched us on the web.

Again, we encourage anybody that has ideas to contact us through our website, *www.agriculture.house.gov.*

And with that, under the rules of the Committee, the record of today's hearing will remain open for 30 calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a Member.

[Whereupon, at 11:51 a.m. (CDT), the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT BY PAUL KIEFFER, ALFALFA PRODUCER, STURGIS, SD

June 14 — 2010.

To whom Concern

Public Comments for the 2012 Farm Bill.

as I'm a farmer.

I do not think the Multi peril Ins is doing anybody any good except the Ins Company it doesn't represent the Consumer which the government picks up the tab; it doesn't Represent nor the farmer for what I pay. except in total disaster than the government picks up the tab with a disaster program, I feel its like this, its not what my insurance can do for me and the consumer its what we as a farmer and the consumer can do for the Ins Company.

Paul Kieffer

[Redacted]

SUBMITTED STATEMENT BY RICHARD W. KIEFFER, ALFALFA PRODUCER, STURGIS, SD

To who it may concern.

for plubic comments for 2012 Farm Bill.

We run 805 acres of alfla Hay we. Buy 8,301" of Fedral crop Insance they pay on 60% of yeild. the problem they protect 63,000 of Hay. if you get Hail weavels or grass Hopper to spray for these cost 11,000^{00} for preventive measurement my stems will way this of 1¼ Hay = 60% = stems if any of these things Hit my Hay Quatiy does matter when we feed 400 Head cattle operations. for winter my point coveing 60% of crop for weavel GrassHopper or Hay there should be a 1000^{00} deductable for spraying for each problem to protect ther' ~~Hail~~ Hay Quatily before stem because stems at 60% of Hay does not feed the cattle at 40 below no protein in stems. theres no proteition for Uncle sams share or mine. when we buy Federal crop. only for a drought which is good but there more in that to make Hay for cattle or to sell Hay

June 14/010.

Richard W Kieffer.

[Redacted]

SUBMITTED STATEMENT BY HON. FRANK J. KLOUCEK, SENATOR, STATE OF SOUTH DAKOTA

Dear House Committee Members:

I wish to thank Rep. Herseth Sandlin for the invitation to attend today's field hearing and am offering this written input. I am Senator Frank Kloucek 20 year legislator and family farmer from Scotland. Key issues and concerns that must be addressed in the farm bill and in other legislation are included in this letter. Thank you for coming to South Dakota!

Ethanol: I strongly encourage raising the Ethanol blend wall from 10 percent to 15 percent for the good of our nation, environment and agriculture. American Coalition for Ethanol {ACE} and Growth Energy {Jeff Broin's group} have much documentation to support this move. An interim 12 or 13 percent may be needed to bridge the gap in the industry. Farm payment limitations are needed. There is no need for payments to non family farm corporations. There is support for a yearly $100,000 cap on farm payments to individuals with no cap on commodity credit loans. There is a need for a grain reserve program.

Conservation Reserve: Both a wetland reserve and regular reserve program are needed and do an excellent job of helping on erosion prevention, water storage, flood prevention and ecosystem system balance. Expanded funding for farmstead shelter belts through EQIP and WHIP is greatly needed.

Crop insurance: The current program is needed and should be left with the private sector. However some type of a cap should be placed on company and top executive profits for these companies that exist because of the government's involvement in the Crop insurance program. We do not want to be in a situation with crop insurance like war profiteers, oil companies Auto manufacturers Home loans, Wall Street and Derivatives. Yearly crop insurance payments to farmers should also be capped at $100,000. Policies should be more uniform and farmer friendly.

Expansion of winter wheat winter kill coverage, crop flooding coverage for more than 2 years, elimination of two crop history for prevent plant coverage, level playing field for all producers to get good information on insurance products, allowing agents more flexibility to give good advice to producers on products available act.

Horse processing: We need immediate reinstatement of Federal horse inspection by USDA and state inspected horse processing plants are allowed to ship interstate and for export. All travel restrictions be lifted on horses going to slaughter. This is a highly emotional issue. Decisions based on factual information must prevail. We can not continue without horse processing without paying a huge economic price.

Food Safety: The need for more Federal meat inspectors to check on safety of imported ground beef pork lamb and chicken is greatly needed. Also imported meat for beef jerky is always a safety concern.

Country of origin labeling and expansion of state inspected meats must continue and is greatly needed. I commend both Rep. Herseth Sandlin and Senator Johnson for there work in this area.

Expansion of Rural Economic Development loans for Small State inspected meat processing plants and beginning farmer loans must continue and is greatly needed. Rep. Herseth Sandlin and Senator Johnson need to be commended for their work in these areas.

Packer ownership of livestock should absolutely not be allowed prior to 14 days before slaughter.

ATTACHMENT 1

Facts on Horse Processing

- The general public is extremely uneducated about livestock, especially horse processing.
- **90%** of the U.S. population has been *off the farm* for **3 generations;** that's approx. 60 years!
- Closing of last **3** processing facilities in 2007 led to more than **100,000** homeless horses annually.
- Over **170,000** unwanted horses are potentially neglected or abused every year.[1]
- Horse processing relieves unwanted horses of needless suffering
- "Unwanted horses" are horses which are no longer wanted by their current owner because they are ill, elderly, lame, uncontrollable, or the owner can no longer afford to properly care for the horse.[1]
- ***Top 5*** reasons horses become unwanted are due to:

1. Economics,

2. Old age or injuries of the horse,
3. Loss of owner interest or use for the horse,
4. Unmanageability of the horse, or
5. A change in the owner's employment status.[1]

- Horses are considered ***livestock*** because they are prey animals, not predators such as cats and dogs.
- Transportation of unwanted horses across Mexican and Canadian borders has *increased* by **300%,** since 2006.[2]
- Horses travel almost ***three times*** the distance to Canadian and Mexican processing plants (Ex: *Lebanon, KS* to *Ft. Worth, TX* = 9 hours, compared to *Lebanon, KS* to *Zacatecas, Mexico* = 25 hours)[3]
- Only **1%** of the total U.S. horse population was processed for human consumption in 2006.[2]
- The largest markets of horse meat are France, Belgium, Holland, Japan, and Italy.[1]
- Average life span of a domestic horse ranges between 25–30 years.
- Approximately **2,700** *new* rescue facilities would need to be built ***each year*** to care for increasing numbers of unwanted horses.[4]
- **$1,000** is the *average* cost to euthanize, render, and cremate a horse.
- Over **$26 million** lost in revenue from Equine Industry, without availability of horse processing.[2]
- Currently, the BLM is overstocked by **10,000** wild horses and burros.[5]
- *Minimum* yearly cost of responsibly owning a horse is **$2,500.**[1]
- The captive bolt is considered **one** of the **three** accepted *humane* ways to euthanize a horse.[6]
- According to the AVMA, responsible breeding and horse ownership is the answer to bringing the numbers of unwanted horses down, not eliminating slaughter.[6]
- States lack the man-power, law enforcement, and financial ability to care for seized horses.[6]
- Horse survey revealed **70%** of all horses at slaughter plants were in good, fat, or obese condition; **72%** were considered "sound of limb"; **84%** were of average age; and **96%** had no behavioral issues.[1]
- Present economic state has declined price of horses at sale barns by *over* **$400.**

References

[1] *2009 Unwanted Horses Survey*—Unwanted Horse Coalition.
[2] Messer, N.T. "Plight of the Unwanted Horse."
[3] *Mapquest.com.*
[4] *AAEP.org.*
[5] *BLM.gov.*
[6] *AVMA.org.* "Unwanted Horses FAQ."

ATTACHMENT 2

District 1 South Dakota Farmers Union Resolutions Adopted Saturday April 17th Meeting Delmont Steakhouse and Lounge Delmont, SD

Resolution I

[Send to Legislators in District 1 & Senate and House Leadership]

We the members of District 1 SDFU strongly encourage our state legislators to reinstate funding for DDN Technology for K–12 Schools, South Dakota State Fair, Cooperative Extension and Experiment Farm yet this year before July 1st. The cuts should be found from across the board state budget cuts from non Federal matching money.

Resolution II

[Send to Governor Rounds 500 East Capitol Pierre and Steve Wegman, South Dakota Wind Energy Association 300 East Capitol Pierre]

We the members of District 1 SDFU encourage development of community based wind development such as South East South Dakota Wind LLC to ensure more money flowing into local communities from wind development.

Resolution III

[Send to Mike Kenyon, Dept. of Revenue, 445 East Capitol Pierre]

We the members of District 1 SDFU support native grass, pasture and bay ground being assessed at lower assessed valuation rates especially land that is underwater at least 2 out of 3 years instead of 3 out of 3 year provision.

Resolution IV

[Send to Doug Hagel USDA Risk Mgt., 3490 Gabel Road Suite 100, Billings, Montana 59102 & Congressional Delegation]

We the members of District 1 SDFU ask that crop ground flooded out 3 years in a row still be eligible for Federal crop insurance. [James River Valley flooding.]

Resolution V

[Send to Dusty Oedekoven State Veterinarian, 411 South 4th Street Pierre]

[Submitted by Terry Sestak]

Whereas: The Human Society of the U.S. is using unethical tactics for their agenda.

Whereas: The HSUS lacks true support for animal care.

Therefore be it resolved that we the members of District 1 SDFU urge that factual information be distributed to dispel allegations of mistreatment of animals in the ranching and farming sectors.

Resolution VI

[Doug Hagel USDA Risk Mgt. ect. same as Resolution IV & Congressional Delegation]

We the member of Dist 1 SDFU support adding winter kill to Federal Crop Insurance Coverage [Wheat insurance for Southeast South Dakota: Yankton, Turner, Clay, Union and Minnehaha Counties.]

Resolution VII

[Send to Dusty Oedekoven State Veterinarian ect. see Resolution V]

We the members of District 1 SDFU request that State Locker Plants be allowed to use their smoke houses on weekends to help insure timely production of a quality product to meet the demand. We also strongly encourage voluntary inspection of custom kill state inspected meats.

Resolution VIII

We the members of District 1 SDFU wish to thank the Delmont Steakhouse & Lounge for the meeting room, excellent food and hospitality, Mayor Ervin Bietz for the Welcome, Douglas County President Greg Putnam for the Response, Lester Vogeli for the Secretary & Treasurers Report, Denis Feilmeier for the Coop Report, Terry Sestak for the State Board Report, Denise Mushitz for the District 1 Education Report, Terry Sestak, Denise Mushitz, Elaine Zirpel, Phyllis Stadlman, & Agnes Pavlin for the state convention report, Lester Vogeli for the noon prayer, Ervin Bietz guest speaker for the update on state inspected meats, & Senator Frank Kloucek for the Legislative Report. We wish to thank Douglas County for hosting and the door prizes and everyone who helped make the April 17th meeting in Delmont a success in any way. [Please send resolution correspondence to Senator Frank Kloucek [Redacted].]

ATTACHMENT 3

Farm Forum

Opinion: First Producer Deserves First Profit

Opinion of Robert Thullner

Farmer and rancher from Herreid, S.D.
Dated: May 14, 2010

The National Cattlemen's Beef Association (NCBA) supported by the American Meat Institute (AMI) are going against its fellow man by lobbying that corn used by the ethanol industry will cause a shortage and price rise for the feed input costs for the feeding of livestock.

As a cattleman and grain producer all commodities deserve a just profit. When the livestock industry could not afford to feed and market product during the 1930s, the excess livestock were destroyed or usable small animals were given to the needy.

We have destroyed the small livestock feeder by employing cheap grains subsidized by the U.S. taxpayers through government payments. It would be nostalgic to think that a smaller industry could return to a time when the feeder fed only his raised livestock and grain and utilized grazing for growth to insure a just livelihood for the family heritage.

The NCBA's cheap input cattle feeders have alternatives, through future pricing of grain by using the futures buy protection with the most accountable program to grow and harvest their own. These same feeders are probably waiting in line to claim the co-products derived from the ethanol industry across the country and are eyeing the future ship loads of imported product available for use in this country.

Will the NCBA also attack the growers of forage when cellulosic ethanol production expands?

We all know that some parts of the Earth surface are only suitable for livestock procreation and must be complimented with areas of fertile, tillable with sufficient moisture to grow grains from sustainable cultivated crop production regions.

A fallacy of the NCBA is that the livestock industry does not rely on our government for enrichment. When compared to crop production agriculture. NCBA livestock producers need to be reminded that they have received many emergency payments over the past decades. Through such programs as meat purchases for the school lunch, export markets secured by our government, public land grazing, rural water and permanent pasture structures complimented with cross fencing, waiting for the release of soil bank and conservation reserve acres to be released for emergency haying and grazing and now annual percentage harvesting of (CRP), feed trucking costs, livestock loss indemnity program, health inspection and grading, price reporting, Packers and Stockyards oversight and making sure that producers pay the USDA check-off for each animal sold so the NCBA can administer the proceeds.

The check-off program is the biggest guaranteed government collected windfall for the NCBA organization with a business objective to feed cattle from around the world in large concentrated and captive sites and adding imported commingled meat at the expense of the grain producers profit.

NCBA and AMI must have it clarified that they do not own the feeder cattle and grain components first, unless these cattle feeding and processing industry memberships are already involved in vertical integration. If this is the scenario then lobbying is meaningless, because the profits are already virtually guaranteed at the meat counter.

SUBMITTED STATEMENT BY KRAIG R. NAASZ, PRESIDENT & CEO, AMERICAN FROZEN FOOD INSTITUTE

Chairman Peterson, Ranking Member Lucas and Members of the Committee, I am pleased to submit this testimony relative to the 2012 Farm Bill on behalf of the American Frozen Food Institute.

The American Frozen Food Institute (AFFI) serves the frozen food industry by advocating its interests in Washington, D.C., and communicating the value of frozen food products to the public. The Institute is comprised of 500 members including producers, growers, shippers and warehouses, and represents every segment of the $70 billion frozen food industry. As a member-driven association, AFFI exists to advance the frozen food industry's agenda in the 21st century.

AFFI believes the U.S. Department of Agriculture's (USDA) child nutrition programs must purchase food mindful of the shrinking purchasing power of the dollar without compromising nutritional value or safety. Frozen foods can help USDA meet this challenge.

As you know, Section 32 is a permanent appropriation that, since 1935 has, contributed the equivalent of 30 percent of annual customs receipts to support the farm sector through a variety of activities. Today, most of this annual appropriation is transferred to the USDA child nutrition account. This is an important appropriation, and AFFI urges the Committee to continue its support for Section 32 funds.

Domestic feeding programs reap numerous benefits from allocation of Section 32 funds. First, much of the Section 32 appropriation transferred to the Food and Nutrition Service (FNS) child nutrition account is utilized to provide cash and commodity subsidies to schools that feed our nation's children. Second, a significant amount of Section 32 funds provide for direct purchases of non-price-supported commodities that are provided to schools and other feeding sites, including soup kitchens, food banks and other organizations serving those in need.

Frozen Fruits & Vegetables in All Feeding Programs

The frozen food industry appreciates the recognition and inclusion of frozen foods in the last farm bill, the *Farm, Nutrition, and Bioenergy Act of 2008.* We applauded the accompanying Manager's Statement on Section 32 Purchases that stated, foods purchased for schools and service institutions "may be in frozen, canned, dried, or fresh form."

Frozen fruits and vegetables have been found to be nutritionally equivalent and In some cases, superior to their raw counterparts. This was acknowledged by an FDA ruling published in the *Federal Register* on March 25, 1998, stating that after reviewing the science, it was determined that frozen and raw produce should be treated similarly In terms of the "healthy" label. Further, the study found ". . . single ingredient frozen fruits and vegetables are nutritionally the same as raw fruits and vegetables. Moreover, these foods can contribute significantly to a healthy diet and to achieving compliance with dietary guidelines." Public health agencies, including the USDA, the U.S. Department of Health and Human Services (HHS), and the Centers for Disease Control and Prevention (CDC), have all recognized the nutritional contribution of frozen fruits and vegetables by recommending their inclusion in the diet. AFFI respectfully requests frozen fruits and vegetables be included in all Federal feeding programs, including USDA's Fruit and Vegetable Snack Program.

Benefits of Frozen Food

Frozen foods offer a number of unique advantages, including nutrition, safety, convenience and economic value, which make them a natural fit for use in Federal programs.

The freezing process naturally extends the shelf life of foods, while locking in nutritional value. Food with extended shelf life always makes economic sense since reduced spoilage means less food is wasted and dollars are saved. Frozen foods can be stored Without nutritional diminishment. Importantly, most frozen foods, including fruits and vegetables, are available year round.

Moreover, frozen foods are safe. In a scientific article for the *International Journal of Food Microbiology,* Douglas Archer, Ph.D., reviewed the positive food safety record of frozen foods. In the paper entitled, "Freezing: an underutilized food safety technology?" Archer wrote, "It also seems clear that there are researchable areas that might lead to an increased use of freezing as a barrier to foodborne pathogens. It seems that freezing may be an underutilized food safety technology that can be enhanced to become a major hurdle for pathogen survival."

Conclusions

For the health conscious, nutrition minded and/or obesity concerned, frozen foods provide attractive nutritional options. For the economically stressed and budget confined, frozen foods provide an affordable option that does not sacrifice nutritional value. For those anxious about food safety, frozen foods provide a secure reliable option that is safe, tasty and healthy. For the highly discriminating food critic, frozen foods provide options that are convenient, nutritious and tasty to the most discerning of palates. For all these reasons and more, 2012 Farm Bill programs should allow for the utilization of frozen foods. AFFI and the frozen food industry look forward to working with the Committee to maximize the benefit of farm bill programs to provide nutritious food for domestic feeding programs.

Respectfully submitted,

KRAIG R. NAASZ,
President & CEO,
American Frozen Food Institute.

SUBMITTED STATEMENT RICHARD RENELT, PORK AND GRAIN PRODUCER, SOUTH DAKOTA

Packer's Rise to Dominance of the Pork Industry—Not Fair It Is Time For A Change of Policy

Dear Representative Peterson:

The need for government regulation of large corporate entities extends beyond the banking industry. I am a 68 year old pork producer who has lived and experienced the transformation of a pork industry that was protected from corporate predatory practices by the Packers and Stockyard Act to an industry in which the Packers and Stockyard Act was circumvented by the stroke of President Ronald Reagan pen in 1980.

From a timing point of view, Packers could not have been granted a better opportunity to pounce, and producers could not have been more vulnerable to corporate looting:

1. Farmer's net income was near zero and had little or no financial cushion even after receiving government subsidies.
2. There was an abundance of cheap consumer subsidized corn.
3. Packer lawyers insured that mandated farmer check-off fees be limited for pork promotion only.
4. Shackle space for spot market hogs could be legally reduced and phased out.
5. The reduction of shackle space as packers grew their breeding herds, would provide multiple opportunities to steal hogs from farmers.
6. Packers capitalized on increasing pork margins and declining spot market prices.
7. Packers were free to use the benefits of farmer mandated promotional advertising to invest in hog production.

It is clear that packers were not the lowest cost producers and used farmers as pawns to enhance their position in the pork industry. It should be no surprise that since 1980, the pork industry has been transformed from farmers owning and caring for the pigs to be processed by packers, to packers owning or indirectly owning their processing needs with immigrants providing the bulk of the labor.

Once again packers are flexing their political muscle in Washington with an all assault in killing the Ethanol Industry. Without the access to cheap consumer subsidized grains and very few spot market hogs to acquire, even with cheap immigrant labor; packers have exhausted all options in squeezing competition from the industry.

Packers, farm producers and rural America would benefit from a policy that in time would limit packer ownership of hogs to no more than 50% of their processing needs. Packers would benefit in that it would reduce their exposure and risk to fluctuating production costs. Farmers would benefit in that they would regain opportunities provided within a free enterprise system and hog ownership. Providing provisions within the new farm bill, which in time would level the playing field for farm producers, should be the final goal.

Submitted Statement by Nestlé USA

About Nestlé USA

Nestlé USA appreciates the opportunity to provide testimony to the House Committee on Agriculture in preparation for the 2012 Farm Bill. Named one of "The World's Most Admired Food Companies" in *Fortune* magazine for thirteen consecutive years, Nestlé provides quality brands and products that bring flavor to life every day. From nutritious meals with LEAN CUISINE® to baking traditions with NESTLÉ® TOLL HOUSE®, Nestlé USA makes delicious, convenient, and nutritious food and beverage products that enrich the very experience of life itself. That's what "Nestlé. Good Food, Good Life" is all about.

About LIBBY'S®

Our comments will deal with an aspect of future farm policy that is important to one of our outstanding brands, LIBBY'S® Pumpkin. A classic American brand for more than 75 years, LIBBY'S® cans 100% pure pumpkin and easy pumpkin pie mix. The design of current U.S. farm policy poses challenges to the farmers who grow pumpkins under contract for us, and we respectfully ask that Congress modify these policies in order to accommodate the needs of pumpkin growers.

Pumpkin Production for the Processing Market

Normally, almost all pumpkins contracted for the processing market are grown within a 90 mile radius of Peoria, Illinois, the region where LIBBY'S® and its major competitor in the pumpkin market maintain processing plants. (LIBBY'S® plant is located in Morton, Illinois, about 9 miles from Peoria.) These pumpkins are fall-harvested and are grown in rotation with corn and soybeans. The processing market does not involve a large number of acres: At most, farmers require about 25,000 acres to fulfill their present and likely future contracts with processing companies.

Last year, excessive moisture in Illinois contributed to a shortage of canned pumpkin because of an inability to harvest the crop. This year, the industry has contracted acres in five additional states in hopes of preventing another shortage.

However, that is an atypical practice: Normally, transportation costs make it prohibitive to contract for production in distant areas.

In addition to weather problems in Illinois, companies' options for building relationships with new growers are severely constrained by U.S. farm policy. As consumers and the media become aware of the pumpkin shortage (*The Washington Post* published an article about the situation on June 2, 2010), they will also increasingly realize that the design of Federal farm programs makes it difficult for farmers to diversify their output and enter into profitable relationships with food companies. In fact, it is not only the weather but also government policy that has rendered grocery shelves nearly bare of canned pumpkin.

Conflict with Farm Programs

Under U.S. farm programs, the calculation of "base acres" is a fundamental factor in the amount of program benefits for which a farm qualifies. Certain restrictions apply to what can be planted on base acres. Notably, fruits and vegetables generally cannot be planted without loss of base acre credit (as to the acres planted to fruits and vegetables) and complete loss of program benefits for the year in which the specialty crop production occurs. There are some limited exceptions to this prohibition, but they have not generally been helpful in addressing the situation of Illinois pumpkin growers.

Particularly after the incorporation of soybean acreage into base acres under the 2002 farm legislation, the program rules have created difficulties for contract pumpkin growers and made it difficult for LIBBY'S® to attract sufficient acreage. Although producers find pumpkins an economically attractive supplement to corn and soybeans, and are in a position to forgo program benefits on those acres they devote to pumpkins, it is not economically viable for them to renounce *all* program benefits on an entire farm, simply in order to plant pumpkins on a relatively small portion of that farm. Farmers who have "extra" productive land not associated with base acres are free to grow pumpkins on these acres, but even so, the amount of suitable land that can be contracted is small.

Pilot Program in 2008 Farm Bill

A pilot program in Sec. 1107(d) of the Food, Conservation, and Energy Act of 2008 was intended to address this problem, as well as similar situations affecting other commodities, primarily contract-grown vegetables for the canning market. The pilot program provides for a reduction in base acres (and hence payments) for the year in which a producer plants the designated specialty crop, with these base acres restored in subsequent years if the producer ceases specialty crop production.

The pilot program is limited to seven Midwest states, and to a designated number of acres within each of these states. The program covers cucumbers, green peas, lima beans, pumpkins, snap beans, sweet corn and tomatoes, all of which must be grown for processing in order to be eligible.

Limitations of the Pilot Program

Because the pilot program for the state of Illinois is limited to 9,000 acres and all the designated vegetables are eligible for these acres, the program does not afford sufficient acres to cover the needs of pumpkin processors. Therefore, we continue to face challenges in attracting enough acres to meet demand for pumpkin at the pre-Thanksgiving demand peak.

The basic structure of the pilot program is sound. We acknowledge that Congress does not wish to lift completely the restriction on fruit and vegetable production on base acres—especially the restriction on production for the fresh market. We understand that an acreage shift that might be minor for corn and soybeans could have a large impact on specialty crop markets. Therefore, we also acknowledge that Congress is likely to place limitations on the number of acres that can qualify for a temporary base-acres reduction without the loss of all payments for an entire farm.

In essence, the problem with the pilot program is that its state acreage caps are too small and it is not available in most states. Modest expansion of these caps, along with an expansion of eligibility to all states, as well as extension of the program for crop years after 2012, could solve the problem for those farmers who produce pumpkins for LIBBY'S®. We believe that an acreage cap of about 25,000 acres should be sufficient to produce the amount of processing pumpkins needed by the industry during the lifetime of the 2012 Farm Bill. However, we believe all states should eligible to contract acres within this cap, for two reasons.

First, as noted earlier, while in practical terms it is likely that the overwhelming majority of such acres will be in the state of Illinois when market conditions are normal, simply because of transportation costs, nevertheless the experience of recent years demonstrates that the industry sometimes needs the flexibility to contract in additional states without jeopardizing program benefits for farmers in those states.

Second, from the standpoint of program design and equity, it seems appropriate to afford similar benefits and opportunities to farmers, regardless of the state in which their farm happens to be located.

(We have confined our comments to pumpkins, since that is the crop of concern to LIBBY'S®. However, we certainly would not object to corresponding expansion of the pilot program with respect to other contract vegetables for the processing market that are covered by the existing program.)

No Harm to Other Growers

Modifying the pilot program to accommodate more contract pumpkin production will not affect the Halloween market for fresh pumpkins. These are grown all over the United States and would be neither penalized nor subsidized by the modification we request.

Neither would a modification of the pilot program harm growers of other specialty crops: The modification we are requesting would apply only to pumpkins for the processing market. (As noted above, we would not object to modifications that might be needed to accommodate other vegetables grown for processing, and such modifications should in turn pose no threat to producers of these commodities for the fresh market.)

Benefits for Overall Farm Program

It is no secret that other countries have become bolder and more litigious in challenging U.S. farm programs at the World Trade Organization. Already, it appears that the Committee on Agriculture will need to grapple with modifications to the cotton program as a result of an adverse WTO finding.

In previous WTO jurisprudence, the "green box" (non-trade-distorting) status of direct payments has been called into question. The case did not invalidate these payments since they were not directly at issue, but it did assert that they failed to meet the test in the WTO Agreement on Agriculture for *bona fide* decoupled payments, precisely because of growers' inability to produce fruits and vegetables on acres receiving direct payments.

While nothing we are proposing would completely lift these planting restrictions, we believe that direct payments should be at least somewhat more defensible in any future challenge, to the extent that the United States can show that it has structured its programs to accommodate the planting of specialty crops. Such structural accommodations would seem to constitute an important part of any defense of the payments against a WTO challenge—something that certainly cannot be ruled out in the years ahead. In that sense, expanding the scope of planting allowances for pumpkins can actually benefit producers of wheat, cotton, rice, corn, soybeans, peanuts and other oilseed crops.

Conclusion

The change we are requesting is modest and limited in scope. However, we believe it represents sound public policy.

1. Pumpkins are a **nutritious vegetable food** whose consumption should be encouraged. Pumpkins are naturally low in calories and fat with no trans fat, saturated fat or cholesterol. One serving is naturally sodium free and is an excellent source of fiber and high in Vitamin A (with 80% as Beta-Carotene, an antioxidant). Pumpkins provide **added value for Midwest corn and soybean producers.** Besides being a beneficial **rotation crop** that enhances corn yields in the year following pumpkin production, pumpkins are normally **more profitable** for farmers on an acre-for-acre basis.

2. Pumpkins are a source of **diversification for farmers.** Many policymakers have recognized the drawbacks of producers becoming dependent on one or two crops. Specialty crops like pumpkins allow diversification, but with an assured market and at a known price.

3. The changes we are requesting will make U.S. farm programs more flexible, more diverse, and better able to accommodate changing market needs and demand trends. At the same time, the requested changes will not have an adverse impact on growers of any commodity, and will—to the extent that payments are forgone—**save money for the Federal Government** in a time of historically high budget deficits.

We appreciate the Committee's consideration of our views, and look forward to working with the Committee in the 2012 Farm Bill to improve U.S. agricultural policy.

SUBMITTED LETTER BY KEITH TREGO, NORTHERN GREAT PLAINS WORKING GROUP

June 11, 2010

House Committee on Agriculture,
Washington, D.C.

RE: Recommendations for Conservation Programs in the 2012 Farm Bill

Dear Sirs:

The Northern Great Plains Working Group (NGPWG) is a local coalition of organizations and agencies committed to the continuance of the wildlife benefits of farm bill initiatives in the Dakotas and Montana, with special interest for the Prairie Pothole Region. The NGPWG believes that unique opportunities exist to provide all agricultural producers an opportunity to strengthen and expand conservation of natural resources in the 2012 Farm Bill. When properly administered, recommended programs and policies hold great potential to stabilize the national farm economy, restore and conserve our natural resources, address the potential for responsible renewable energy production on agricultural lands, strengthen public support for Federal farm policy through responsible expenditure of tax dollars, and assure long-term strategic production of food and fiber through the implementation of sustainable agricultural practices.

The NGPWG would like to have the recommendations found on the following pages to be included in the House Committee on Agriculture's farm bill field hearing record:

Conservation Compliance (Swampbuster)

The NGPWG recommends that Wetland Compliance, better known as Swampbuster, should be retained with one modification. Swampbuster has been effective in protecting hundreds of thousands of acres of wetlands since its inception in the Food Security Act of 1985. Coupled with several wetland conservation programs, such as CRP and WRP that provide incentives and alternatives to producers who experience difficulty with farming in and around wetlands, Swampbuster provides a balanced approach to wetland protection. However, one important form of Federal assistance, crop insurance, is no longer included as one of the Federal program benefits that landowners would be ineligible for if found in violation of Swampbuster. When Swampbuster was first enacted in 1985, crop insurance **was** included as one of the Federal program benefits that a person would no longer be eligible to receive **if** found in violation. In the Food, Agriculture, Conservation and Trade Act of 1990, crop insurance was removed from the list of ineligible Federal program benefits. Crop insurance (and disaster assistance) is an important part of the safety net that helps producers manage risk on their farm, but should not provide incentive to convert marginal lands, including wetlands, to cropland.

Conservation Compliance (Sodsaver)

The Highly Erodible Land compliance provision, better known as Sodbuster, has done very little since its inception in the Food Security Act of 1985 to slow conversion of grassland to cropland. Data from the USDA National Resources Inventory illustrate that more than 7 million acres of rangeland have been converted to other uses, primarily cropland, from 1997–2007 (USDA–NRI 2007). In the Dakotas and Montana, data from FSA indicate that more than 500,000 acres of native prairie were converted to cropland from 2002–2007. Conversion of native prairie creates marginal cropland at best and contributes to the continued steep decline in grassland birds, which are the most significantly declining group of species in North America. Marginal cropland is prone to failure, requiring disbursement of an ever increasing portion of the Federal budget for crop insurance and disaster payments. A 2007 GAO report found that Federal crop insurance and disaster assistance payments are providing an important incentive to expand crop production on native prairie. Stronger compliance provisions are needed to stem conversion of grasslands. We recommend enactment of a "Sodsaver" provision that requires ineligibility for Federal crop insurance and disaster assistance payments on acreage of native prairie without a previous cropping history that is converted to cropland.

Conservation Reserve Program (CRP)

Reauthorize CRP and expand the current acreage cap to the originally-authorized level of 45 million acres. CRP remains an extremely popular program with producers and continues to provide significant benefits to wildlife, water quality, and soil conservation. Maintain co-equal CRP objectives of reduced soil erosion, water quality, and wildlife habitat. Require USDA to regularly review and update CRP rental rates to ensure that CRP rental rates are competitive with cash rental rates.

Reauthorize the Farmable Wetlands Program (FWP). Require USDA to prioritize the following in both the general sign-up EBI and the Continuous CRP sign-up: (a) wetlands; (b) unique habitats that benefit the conservation of at-risk or state/national species identified in state wildlife action plans; (c) habitats of national significance; and (d) State Conservation Priority Areas (CPA).

Ensure expiring CRP contracts with wetlands and CPA's are prioritized for re-enrollments. Require management appropriate for the location that preserves soil, water, and wildlife habitat quality values for the duration of the CRP contract. Cropping history dates from the 2008 Farm Bill should be maintained to prevent recently converted grasslands from being eligible for CRP. Increase involvement of state, Federal, and nongovernmental fish and wildlife agencies in the administration and management of CRP, especially in matters relating to the Primary Nesting Season and vegetation management cycles, by establishment of state Habitat Technical Teams (HTTs). Increase acreage allocations for CP–38 (State Acres for Wildlife Enhancement) to 50,000 acres.

The NGPWG recommends that Congress consider the establishment of a pilot conservation practice that dedicates a subset of CRP acres in the Northern Great Plains to long-term, grass-based agriculture in order to create a "working lands" component within the program. Such a program would provide longer-term contracts of 20–50 years with more frequent use (haying and grazing) allowed and reduced rental payments to offset the allowed use. Grazing shall be allowed annually throughout the year under an approved NRCS grazing plan. Haying will be allowed annually, but only 50 percent of a field can be hayed each year, and it must be restricted to time periods outside of the Primary Nesting Season.

Wetland Reserve Program (WRP)

Changes in the 2008 Farm Bill made the Wetland Reserve Program more effective in protecting, restoring, or enhancing wetlands. The program can now target potential participants who wish to maintain the WRP easement as part of an agricultural operation under compatible use permits. However, additional streamlining would allow NRCS to further implement the intent of Congress in establishing WRP, one of which was to remove marginal croplands from production to alleviate annual expenses related to cropping. The NGPWG recommends that NRCS be allowed to delegate to the State Conservationist the authority to approve the 7 year ownership waiver. This would expedite the easement acquisition process. Additionally, in order to achieve the benefits of WRP, including restoring wetlands and their functions, NRCS should be allowed to provide 100 percent financial assistance to restore wetlands and associated habitat for 30 year easements.

Environmental Quality Incentives Program (EQIP)

Reauthorize the program and allocate a minimum of 10 percent of EQIP dollars for wildlife habitat creation, restoration or enhancement. Assign co-equal status for fish and wildlife concerns with soil and water concerns in EQIP. In order to achieve co-equal status, Habitat Technical Teams (HTTs) need to be formed to develop, review, and recommend fish and wildlife habitat criteria related to USDA and NRCS conservation programs. HTTs can provide NRCS with the needed guidance to allocate funds toward specific conservation practices to effectively and efficiently meet EQIP fish and wildlife objectives. This process would move fish and wildlife into co-equal status with other resource concerns and assure that all states consider and promote wildlife habitat along with other priorities for EQIP. State, regional, and other conservation plans are readily available to strategically implement the program under EQIP (*i.e.,* National Fish Habitat Action Plan, state wildlife action plans, *etc.*).

Wildlife Habitat Incentive Program (WHIP)

As the need to focus more attention on declining and at-risk wildlife species becomes increasingly apparent, WHIP's role among farm bill conservation programs becomes all the more essential. The program, specifically established to help landowners develop and enhance fish and wildlife habitat on their property with both financial and technical assistance, has the ability on its own or in concert with conservation partnerships to address important management needs identified in national, regional, or state plans (*i.e.,* state wildlife action plans). In order to accomplish this goal effectively, however, WHIP needs to be authorized to provide incentive payments or some level of replacement of foregone income, in addition to cost-share payments the program currently provides. Materials and input costs are only a portion of the price tag required to implement beneficial wildlife habitat improvement projects. Initiation of wildlife habitat projects often requires modifications in the use of the property which can result in temporary lost income. An incentive payment, in addition to cost-sharing, would make the transition of production land to wildlife habitat a more feasible venture.

The flexibility of this program is its hallmark and should be continued to provide for the complex needs of diverse suites of species in a wide array of habitats. To best custom fit the features of projects to meet the complexities of species and habitat requirements, readily available technical assistance for the landowner at the local level is crucial. This can be achieved with additional technical assistance funding for NRCS, as well as the establishment and use of Habitat Technical Teams (HTTs), a cadre offish and wildlife professionals to advise NRCS on implementation of WHIP projects. The program should also continue to be available to non-producers, as it has been in the past.

Conservation Stewardship Program (CSP)

Continue the Conservation Stewardship Program requiring fish and wildlife habitat as a criterion for participation. CSP can provide an avenue for participants to provide fish and wildlife habitat on enrolled land. Habitat Technical Teams (HTTs) can provide NRCS with needed guidance in the development of regionalized quality wildlife enhancement activities.

Grassland Reserve Program (GRP)

The NGPWG recommends that Congress reauthorize GRP and expand the acreage cap to 10 million acres, with up to 30 percent of the acres dedicated to protection of native grasslands in the Northern Great Plains, and at least 20 percent of the acres dedicated to protect grasslands (both native and tame) currently in existence under CRP. A minimum of 60 percent of GRP funds should be used for purchasing permanent easements. The 2012 Farm Bill should authorize a minimum of 3.0 million acres for enrollment annually during FY 2013–2016. Payments for easements limited by state law to 99 years should be calculated at 90 percent of the value of permanent easements. The GRP was originally authorized in the 2002 Farm Bill with a statutory spending cap of $254 million and an acreage cap of 2 million acres. For FY 2003–2006, only $217 million was provided and 909,000 acres enrolled. The 2008 Farm Bill authorized an additional 1.22 million acres. GRP is a voluntary conservation program designed to assist producers in protecting, restoring, and enhancing grassland, including rangeland, pastureland, shrub land and certain other lands. GRP emphasizes support for working grazing operations, enhancement of plant and animal biodiversity, and protection of grassland and land containing shrubs and forbs under threat of conversion to other uses. GRP is an agriculture land protection program and is one of the few farm bill benefits offered to grassland agriculture producers. GRP funding and acreage authorization have been woefully inadequate. Landowner demand for the program far exceeds the funding provided. A well-funded GRP has the potential to positively stabilize land use and secure the future of sustainable agriculture in the Northern Great Plains.

Farmland Protection Program (FPP)

While the Farmland Protection Program has been used sparingly in the Dakotas and Montana, it remains an important tool for protection of agricultural land and associated conservation benefits. In a state such as North Dakota where the duration of conservation easements is restricted by state law, the NGPWG recommends that the Secretary require the inclusion of an additional statement that clarifies the Federal right in FPP and assures the permanent nature of the easement, thereby safeguarding the Federal investment and ensuring participating landowners ability to claim a charitable donation or qualified conservation contribution as defined by section 170(h) of the Internal Revenue Code of 1986. In the case of existing FPP easements in states with such easement restrictions, FPP easement language should be amended to add the referenced clarifying language to assure the permanent nature of any easement purchased using FPP funds. We also recommend that the funding aspect of FPP be enhanced by allowing more flexibility. We suggest changing the eligible entity's share of the cost of purchasing a conservation easement or other interest in eligible land from the requirement of "an amount not less than 25 percent" to "an amount up to 35 percent" of the acquisition purchase price. At the same time the participating private landowner should be allowed a charitable donation or qualified conservation contribution "of up to 35 percent of the acquisition purchase price."

Biomass Crop Assistance Program (BCAP)

The NGPWG supports the concept of renewable energy production from dedicated perennial energy crops produced on agricultural lands. In general, we also support the establishment and purpose of BCAP as outlined in the 2008 Farm Bill and associated legislative intent outlined in the Statement of Managers.

We offer our support, scientific expertise, and collaborative spirit to work with all partners to ensure renewable energy opportunities also translate into sound natural resource management for the region. With proper planning, research, and input from diverse stakeholders, we are confident that acres planted to dedicated biomass energy crops may serve the dual purpose of providing energy feedstock and provide multiple conservation benefits such as fish and wildlife habitat, reduced soil erosion, and flood water retention.

The NGPWG supports identified exclusions of lands eligible for BCAP including Federal or state-owned land, land that is native sod as of the date of enactment of the 2008 Farm Bill, and land enrolled in CRP, GRP, or WRP. Existing conservation programs, most notably the CRP, which provide undisturbed cover for wildlife, forage and pasture reserves to livestock producers in times of drought or flood emergency, and a host of societal benefits, have already proven themselves successful and cost effective. They not only provide landscape benefits, but also save tax dollars on lands that would otherwise be recipients of various agricultural support programs. For these and other reasons, we advocate that no lands under CRP contract be converted to biomass production, but rather that active cropland acres be converted to biomass production using pilot, plant-siting criteria and landscape planning in combination with appropriate producer incentives to ensure necessary supplies of biomass deliverable in a cost effective manner. Existing, successful conservation program lands should remain in their current use. However, if a pilot conservation practice designating a "working lands" component of CRP were established, as suggested in earlier comments, we would wholeheartedly support and encourage use of cover harvested from those acres be utilized for BCAP.

We advocate that the 2012 Farm Bill incorporate best management practices for production, harvest, transportation, and conversion of biomass for energy production based on the best science available.

As the Northern Great Plains Working Group, we appreciate the opportunity to provide our recommendations to be included in the House Committee on Agriculture's field hearing record.

Sincerely,

KEITH TREGO,
Northern Great Plains Working Group.

CC:

ND Senator KENT CONRAD,
ND Senator BYRON L. DORGAN,
ND Congressman EARL POMEROY,
SD Senator TIM JOHNSON,
SD Senator JOHN THUNE,
SD Congresswoman STEPHANIE HERSETH SANDLIN,
MT Senator MAX BAUCUS,
MT Senator JON TESTER,
MT Congressman Denny Rehberg.

HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

MONDAY, JUNE 28, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Fayetteville, NC.

The Committee met, pursuant to call, at 9:36 a.m., in Section A, Crown Expo Center, 1960 Coliseum Drive, Fayetteville, North Carolina; Hon. Mike McIntyre [Member of the Committee on Agriculture] presiding.

Members present: Representatives McIntyre, Kissell, Etheridge, and Thompson.

Staff present: April Slayton, Liz Friedlander, Scott Kuschmider, John Konya, Claiborn Crain, Michael Dunlap, and Sangina Wright.

OPENING STATEMENT OF HON. MIKE McINTYRE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Mr. McINTYRE. The hearing of the Committee on Agriculture of the United States House of Representatives is now called to order.

We come together to review the U.S. agriculture policy in advance of the 2012 Farm Bill, a bill which will include not only many issues involving farming and the farming community, but also agribusiness and many of our rural economic development enterprises and concerns, small business and how it also affects other entities such as law enforcement, emergency personnel, fire departments, broadband access—a number of other things that affect economic opportunities in rural America. So the hearing is quite a broad one in terms of how the farm bill is not only, of course, about our farms and farmers, but also much more than that when we consider energy, conservation, credit, all of the concerns that affect rural America. And in our case, here in North Carolina as the host state, 85 percent of North Carolina is classified as rural. So we are talking about policies that will affect 85 percent of North Carolina today—85 of our 100 counties are classified as such. So the math is easy when we say 85 percent of our state is affected.

I am Mike McIntyre, I am happy to be hosting this today and serving at the request of our full Committee Chairman Collin Peterson to be able to chair this hearing of the full Committee today. As many of you know, I also serve as Chairman of the Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture. So I am privileged today that we would have this here in southeastern North Carolina. I am also privileged to be joined by colleagues from right here who also represent the Fayetteville area. Larry Kissell, a Member of the full Committee, and Bob Etheridge, who is of course a former Member of the full Committee, but also now serves us so well on Ways and Means Committee. And then, of course, Glenn Thompson, who has come to be with us today and is serving in the capacity as Ranking Member. I will let each of them have the opportunity to make some brief comments as we begin the meeting.

Let me first of all apologize, many of you know I do not normally sound this raspy, I have had a few issues today with some illness involving my father who was in the hospital over part of the weekend. He fell again last night when he went home, and I have also been dealing with laryngitis myself. So hence, the unusual start to this morning for me. But we will try to go right ahead and stay on schedule. We do go into session in Washington tonight, so we are going to follow the scenario as scheduled so that we can complete this hearing in a timely fashion this morning.

I want to thank all of you for coming today. We already have a full house and they are literally bringing in more chairs with the standing room only crowd. It is a great testimony to the commitment we have here in not only the 7th Congressional District but also in the host community of Fayetteville and Cumberland County, and also for all of North Carolina. So we are honored to have this hearing for this part of the country right here in North Carolina today.

I would like to remind Members to speak directly and closely to the microphone, as well as our witnesses today, to make sure that everyone can hear what is being said.

Now I would like to call on Mr. Thompson, who is here, and he has traveled the farthest to be with us, to introduce himself and to make any opening comments. Mr. Thompson.

OPENING STATEMENT OF HON. GLENN THOMPSON, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

Mr. THOMPSON. Thank you, Chairman McIntyre—thank you for inviting me to attend this hearing today and being a part of it. I also would like to extend my gratitude to the Crown Expo Center, a wonderful facility, and the good folks in Fayetteville who welcomed the Committee here today.

I represent Pennsylvania's 5th Congressional District, but I will tell you that a very important part of my education came from Chapel Hill, so it is good to be back in North Carolina.

Over the past few months, the House Agriculture Committee has been on a tour of America's heartland holding hearings in more than five states, and over a 4 day period in May, I attended field hearings in Georgia, Alabama, Texas and South Dakota. It has really been a wonderful experience for me to hear the stories of a large cross section of the various agricultural industries and to hear from those whose livelihoods are most affected by Federal agriculture policy.

Equally so, it is always refreshing to leave Washington, D.C., especially with the Agriculture Committee which, by and large, is a great bipartisan working group. And in the current environment, this is just something you do not hear about.

I believe the 2008 Farm Bill is a good representation of that spirit of consensus, and I look forward to continuing our information gathering sessions. This will allow the Committee to craft policies that will better serve our agricultural sectors and provide long-term stability to our farmers and our ranchers. There is a big world out there and we must ensure that the United States is fully equipped with the tools that it needs to compete in the global market.

Most farms are small businesses and remain the backbone of the strength of the economy in rural America. Moving towards 2012, the Committee must do everything in its power to alleviate burdens on these family businesses and create an environment that will foster positive economic growth.

I look forward to the testimony of the witnesses today and I thank all the witnesses in advance, and I yield back.

Mr. MCINTYRE. Thank you so much, and thank you for traveling all the way from northwestern Pennsylvania to be with us today, Mr. Thompson. It is good to have you here and also as close as we can get you to Chapel Hill.

Before I make a full opening statement and trying to save my voice some, I am going to go ahead and yield to my good friends and colleagues from North Carolina. First, Larry Kissell.

OPENING STATEMENT OF HON. LARRY KISSELL, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Mr. KISSELL. Thank you, Mr. Chairman; Mr. Ranking Member. Welcome, everybody here today and of course, greetings from the 8th District of North Carolina that begins just a little ways from here and goes west to Charlotte. So all the good folks from wherever you came from, especially the 8th District, we welcome you today.

I do have a brief opening remarks I want to read into the record.

I am very pleased that the Agriculture Committee has decided to hold this hearing today. I am proud to serve as a Member of the Agriculture Committee where we work to protect and assist our nation's ranchers, farmers and rural citizens. We all know the farm bill affects various regions of the country in very different ways. While certain programs may work well for farmers in the West or Midwest, those same programs may not be as effective in the South and *vice versa*.

I am confident that the panelists today will provide the Committee with a southern perspective and information that will enhance the next farm bill, and will allow us to work even better to bring a cross section of the country into play for the farm bill.

As many of you know, agriculture is North Carolina's number one industry, responsible for over $70 billion in economic activity. North Carolina is one of the top states in the production of tobacco, cotton, soybeans, poultry and hogs. While we continue to be a leader in these traditional commodities, North Carolina has quickly become the nation's third most diverse agricultural economy.

While the agriculture community has grown ever more diverse in its scope over the years, so has the farm bill. Aside from the protection of traditional farms and ranches, the farm bill also greatly affects renewable energy, rural development and Federal nutrition programs.

With that in mind, I want to thank all the panelists for agreeing to appear before us today and I feel that the panelists also represent a large part of the broad population affected by this farm bill legislation.

Thank you so much, Mr. Chairman, I yield back.

Mr. MCINTYRE. Thank you, Mr. Kissell. Mr. Bob Etheridge.

STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Mr. ETHERIDGE. Mr. Chairman, thank you and to the Ranking Member and to Chairman Peterson and Ranking Member Lucas. I appreciate them allowing a field hearing to be held here and Mr. McIntyre taking the lead in it.

I am going to be brief, Mr. Chairman, and actually submit my statement for the record. The only thing I want to say is that to all of you, we call it a food bill, but actually in the last farm bill, it was the first one that we actually called a nutrition and energy bill, simply because that better states what we are about.

Agriculture is important, it is the biggest industry, but it reaches—as the Chairman has said already, the title and responsibilities are so much greater than they have ever been. For the first time, in the last legislation, we actually have an energy title, a substantial part, looking to the future of how the folks who till the soil, the people who utilize agriculture can really be a part of the answer to America's energy needs for the future.

As the Chairman said, I sit on the Ways and Means Committee, I am proud to be the first North Carolinian there in over 50 years, but more importantly, I sit on the Trade Subcommittee that deals with all the trade treaties and other stuff we deal with in agriculture. It is an important piece with other areas and I am very pleased that we have just, with the White House's help, opened up for poultry and slowly coming with pork, the trade opportunities with Russia and with China again. That will have a significant impact on rural North Carolina. And I would encourage all of you as you leave, if you are from Robeson County or over in that area, offer up a prayer for rain, we need some rain.

I yield back.

Mr. MCINTYRE. Thank you so much, Congressman Etheridge.

Thanks again for all of you all coming here today. I particularly, before anything else is said, want to thank the House Agriculture Committee staff who has done yeoman's work in preparing and making sure everything was in order for this trip down to North Carolina. So thanks to you all. And I want to thank the local Congressional staff, from my office especially, but also from our other local Congressional offices. If you will join me in giving these wonderful staff people a big hand.

[Applause.]

Mr. MCINTYRE. The Agriculture Committee has traveled around the country listening to farmers and ranchers about the current farm bill, what parts are working well and what needs to be improved. And today, of course, it is our turn, not only for this part of North Carolina, but to speak on behalf of all of North Carolina and this region of the country. And that is why I am especially thrilled that Congressman Thompson would come down from Pennsylvania, because we realize that local problems also can have significant impact on what we do nationally with regard to farm policy, and with affecting economic opportunity in rural America.

We know North Carolina plays an important role in our nation's agricultural economy, and here we can set a great example for the entire nation. We have an agriculturally diverse state and we have been a leader in agricultural biotechnology and research in particular, which I mentioned earlier is under the Subcommittee that I chair. I have been particularly thrilled to give national examples of things like the agricultural biotechnology associate degree, the first offered in the nation is right down the road at Southeastern Community College in Whiteville, for example. And when we look at biofuels and the opportunity for bioenergy research, algae being converted into bioenergy just a little further down the coast in Brunswick County at Brunswick Community College or the Bio-Ag Network for the entire State of North Carolina being centered out of Robeson Community College just 30 miles south of here down I–95 at Robeson Community College in my home county. Or when we look at the great work that is being done in marine biotechnology at UNC-Wilmington with the new Marine Biotechnology Center that is getting ready to have ground broken in just a few weeks, and how that ties in specifically with what we are doing in aquaculture as well as agriculture in conjunction with the bio-ag network out of Robeson Community College. But the list goes on and on. Our great community college network in North Carolina, those are but some examples, there are many more.

And we know between NC State University and the great research in particular that they have been doing in agriculture, not only currently but through the years, as well as the other great universities in our state university system, we are very grateful for the example North Carolina can set on a national level. From commodities to livestock, from renewable energy to rural broadband and helping small business and rural entrepreneurs, we want to keep North Carolina moving forward and as a positive national example.

What we hear from our witnesses today will be invaluable as we work to achieve that goal of making sure that this new farm bill coming up in the year as we look ahead now will be something that, for years to come, will continue to make positive inroads for rural economic development, for biotechnology and for, of course, doing the right thing by our agribusinesses and definitely by our farmers and farming communities.

The popular safety net many producers are familiar with is just one part of a bill that affects nutrition and conservation programs, rural economic development, farm and forest-based renewable energy, fruits, vegetables and organic and local agricultural promotion. If there are ways to strengthen the farm safety net, promote renewable energy, grow the rural economy given the resources that are already available to the Agriculture Committee, then that is the direction we should consider moving toward.

Getting a farm bill enacted into law is never easy, and we know it is not an easy proposition with so many different types of interests and concerns. We all are committed to working together in a bipartisan fashion, as we have always sought to do through this

Committee, to make sure we get the best possible bill crafted with the best policies possible. We would far rather you say today here is what we suggest, here is an idea we would like you to hear, here is a problem that we have a suggested way of fixing rather than wonder why did they not think of this, why did anybody not say anything about that issue. Well, say it. Today is the opportunity to do it.

We hope our witnesses will be straight-forward and candid about what is working so that we do not take that for granted and think well, nobody talked about it, so let us move on. If it is working and you like it, tell us. If it is not working and you do not like it, I am sure you will tell us too. But we need to know then what do you suggest, what is your suggestion, because you are on the front lines. That is why we have these hearings so that no one is second-guessing what you actually think is best.

For all those who are joining us today in the audience, thank you again for taking time to come. I want to also say thank you particularly to the 7th Congressional District Advisory Committee on Agriculture and Jimmy Pate is our great Chairman. I know many members of this advisory committee that I work with regularly are here today as well. Thank you for your constant work on agriculture issues, and thank you for constantly giving me the opportunity to work with you on these ground-level issues that affect what you do every day.

For those who may be watching on the Committee's live webcast, we welcome you for joining us as well. We have a survey posted on the Committee website, please note this so that if you are not testifying today, but think of an answer or think of a solution or suggestion, you can contribute. The website is *agriculture.house.gov*. It is that simple, *agriculture.house.gov*. You can send in your suggestions. And we invite all those watching by webcast, or those who may later read about this in the newspaper or hear about it through other media, to join us in giving us your suggestions.

We also have cards available with the web address so that everyone has a chance to tell the Committee what is working and what new ideas you would like us to consider for the next farm bill. All comments received via the web form before July 28, which is 1 month from now, will be included in the Committee's farm bill hearing record. So it will not just be a nice thought that you happened to send in. It will be included in the official record if you get it to us by July 28, so please take advantage of that opportunity. We want everyone to know this is America's opportunity to help us move forward in the places that we love and are so endeared to, and for many that we call home.

So thank you for coming today to help us improve that quality of life. Due to the scheduling commitments of some of our witnesses on the first panel and wanting to make sure that we have time to hear the witnesses on the second panel, and that we all have time to still get back to Washington to vote this evening since we go into session at 6:00, I remind our witnesses that we will adhere to the 5 minute time limit. If you choose to read your testimony, make sure you can read it in 5 minutes or we will have to stop it. If you cannot read it within 5 minutes, then please highlight the most important points so that you can get those out within the 5 minutes that you have. And then we will proceed in a timely fashion allowing Members to also adhere to the 5 minute limit for questioning. That way, we can make sure that every witness is heard, every Member has a chance to ask a question, and that way we can proceed to the second panel to do the same and therefore finish in a timely fashion.

With that said, we now call our first panel to begin testimony. And for those who still need a seat, we are still bringing in chairs. Our first panel of witnesses today includes Mr. Ronald Allen, who is representing row crops, timber, pork, poultry and beef and is a producer in all of those areas. And Ronald, we welcome you today.

Mr. Steven Burke, who is the biofuels representative from Oxford, North Carolina; thank you for joining us.

Mr. Frank Lee who represents corn, cotton, wheat, soybean and beef cattle production from the Raleigh area.

Mr. Allen McLaurin, cotton producer from Laurinburg.

Thank you all for joining us today. Ronald Allen was the only one I did not say where he was from, but Ronald has worked in Lumberton, he has lived in Bladen County, and also holds a position with one of our great farm organizations and credit organizations here in Cumberland County. Thank you all for being with us today. I would now like to call upon our first witness to proceed and that would be Mr. Ronald Allen.

STATEMENT OF RONALD J. ALLEN, ROW CROP, TIMBER, PORK, POULTRY, AND BEEF PRODUCER, FAYETTEVILLE, NC

Mr. ALLEN. Thank you, Mr. Chairman. Today I am representing Farm Credit and Farm Credit Administration.

I would like to thank, number one, the Committee for conducting this hearing to begin the early discussion of the 2012 Farm Bill. And I appreciate the opportunity to testify. My name is Ronald Allen and I am a farmer-rancher from Bladenboro about 40 miles south of the Crown Coliseum. I have been involved in farming for over 23 years and my operation consists of row crops, timber, eight swine nurseries, 12 poultry houses and the Allen Brothers Hunting Preserve. I also have a 150 head cow/calf operation. For the past 5 years, I have served as board Chairman of Cape Fear Farm Credit, an agricultural lending cooperative headquartered here in Fayetteville. I am testifying today as a farmer-rancher and a Director of Cape Fear Farm Credit and I will share some of the issues that affect the Farm Credit System's ability to provide credit for American farmers.

As you are well aware, agriculture is an extremely capital intensive business and Cape Fear Farm Credit has been instrumental in the success of my family's farming operation and our ability to expand over the years.

At this time, I will forego reading the testimony but I will cover some of the major, important bullet points.

A little background on Cape Fear Farm Credit; Cape Fear Farm Credit is part of the Farm Credit System with nearly 500,000 members which serves every county in America and has loans in excess of $160 billion. Cape Fear Farm Credit is an agriculture lending cooperative locally owned by member borrowers who elect a board of directors. Cape Fear Farm Credit's annual volume is nearly $1 billion. Cape Fear Farm Credit has approximately 3,000 members. We are the dominant ag lender in our chartered territory which consists of 12 counties in southeastern North Carolina.

The patronage program: Member borrowers share in profits of the cooperative. This helps reduce the cost of borrowing money. Patronage paid since 1988 totals more than $158 million. This shows Cape Fear Farm Credit's financial strength and commitment to ag.

Rural America Bond Program: This creates a flow of money to rural areas. Several projects that Cape Fear Farm Credit has financed include the North Carolina Future Farmers of America dining hall, a nursing home and a charter school.

Commitment to agriculture: During the recent recession, we continued to make credit available and did not turn away any farmers due to the lack of funding. Cape Fear Farm Credit worked with troubled borrowers, family farms and homes. We are the lead lender in North Carolina's only ethanol plant.

The Farm Credit System: Thanks to the Agriculture Committee for being aggressive in efforts to ensure the Farm Credit System is not caught up in the financial regulatory reform legislation. The Farm Credit System already has borrower's rights more stringent than commercial banks. A big thank you would go to the Agriculture Committee; we already have a strong regulator in the FCA.

Reforming housing GSEs: The Farm Credit System is a cooperative. This sets us apart from any other GSE such as Fannie Mae or Freddie Mac. Please exclude the Farm Credit System in the GSE reform legislation.

Young, beginning and small farmers: Cape Fear Farm Credit is committed to providing credit to young, beginning and small farmers. To help us in this mission, we would like your help in increasing the guaranteed loan program limit through the Farm Service Agency, the FSA, to $3 million. Presently it is at $1,112,000. We would ask for an increase.

Crop insurance: It is an important risk management tool for farmers. It is important that our customers have adequate coverage.

In closing, I am proud to be a farmer-rancher from North Carolina. Ag is the number one industry in North Carolina. Ag contributes over $70 billion annually to the state's economy, it employs over 17 percent of the workforce.

I would like to thank you for the opportunity to testify on behalf of Cape Fear Farm Credit, Farm Credit Service and I appreciate the work that the Committee is doing to support ag and rural America.

[The prepared statement of Mr. Allen follows:]

PREPARED STATEMENT OF RONALD J. ALLEN, ROW CROP, TIMBER, PORK, POULTRY, AND BEEF PRODUCER, FAYETTEVILLE, NC

Good morning. I'd like to thank the Agriculture Committee for conducting this hearing to begin early discussions on the 2012 Farm Bill, and I appreciate the opportunity to testify. My name is Ronald Allen, and I am a farmer from Bladenboro, North Carolina, about forty miles south of the Crown Coliseum. I have been involved in farming for 23 years, and my operation consists of row crops, timber, eight swine nurseries, twelve poultry houses, and a hunting preserve. I also have a 150 head beef cow/calf operation. For the last 5 years I have served as Board Chairman of Cape Fear Farm Credit, an agricultural lending cooperative headquartered here in Fayetteville, North Carolina. I am testifying today as a farmer and director of Cape Fear Farm Credit, and I will share some of the issues that affect the Farm Credit System's ability to provide credit to American farmers. As you are well aware, agriculture is an extremely capital intensive business, and Cape Fear Farm Credit has been instrumental in the success of my family's farming operation and our ability to expand over the years.

Farm Credit System

To give you a brief background, the Farm Credit System was established in 1916 to provide a dependable source of credit for farmers and rural America. Today the System provides more than ⅓ of the credit needed by those who live and work in rural areas. It provides more than $160 billion in loans, leases and related services to farmers, rural homeowners, agribusinesses, and agricultural and rural utility cooperatives. These people depend on the Farm Credit System's funding to provide high quality food and products enjoyed in the United States and around the world. The Farm Credit System has nearly 500,000 members, and there is a Farm Credit office that services every county in the United States.

Cape Fear Farm Credit

Specifically speaking of our local cooperative, Cape Fear Farm Credit has close to $1 billion in loans outstanding to approximately 3,000 members, making it the dominant agricultural lender across its twelve-county chartered territory in southeastern North Carolina. Our cooperative structure is important to member-borrowers giving them a say in how Cape Fear Farm Credit operates, and allowing them to share in the profits. Earnings are retained each year by Cape Fear Farm Credit, and a portion of these earnings are often returned to its member-borrowers, in the form of a patronage dividend, effectively reducing the customers' cost of borrowing money. Since 1988, Cape Fear Farm Credit has distributed $158 million to its member-borrowers through the patronage program. The ability to distribute this level of patronage demonstrates Cape Fear Farm Credit's financial strength and commitment to agriculture and rural development in southeastern North Carolina.

Cape Fear Farm Credit utilizes its Rural America Bond Program to help create a flow of money to rural areas for community revitalization and development projects, rural infrastructure, and essential community services just to name a few. Several specific projects include the financing of the North Carolina FFA dining hall at the FFA Center, a nursing home, and a charter school.

During the downturn in the economy and throughout the recession, Cape Fear Farm Credit continued to make credit available to agriculture and our rural communities. With 52 percent of Cape Fear Farm Credit's loan portfolio in poultry and swine, you can imagine the tremendous amount of stress contract growers faced during the last 2 years with several major poultry and swine integrators filing bankruptcy causing a loss of integrator contracts. Due to its strength and employees' knowledge of these industries, Cape Fear Farm Credit was able to work with these troubled borrowers to create restructure plans ensuring the borrowers' did not lose their homes and farms that had been in the family for generations.

I would like to thank the Agriculture Committee for being aggressive in its efforts to ensure the Farm Credit System is not caught up in the financial regulatory reform legislation. The System is currently working closely with Chairman Peterson and Ranking Member Lucas to ensure we are not included in the legislation, and we appreciate your leadership in this regard as well as the support of the entire Committee.

Over the years, the Agriculture Committee has worked to ensure the System has borrower rights in place and a strong independent regulator, Farm Credit Administration, which oversees the safety and soundness of the System. The wisdom of the Committee in these actions ensured the Farm Credit System was not part of the problem in the recent financial crisis and is continuing to provide essential credit and financial services to those who work and live in rural North Carolina. During the recent financial crisis, the Farm Credit System did not turn down a simple customer due to lack of financing. The market had a great deal of confidence in the Farm Credit System, so we were able to continue to serve our customers from a funding standpoint.

The Farm Credit System is aware that Congress has an interest in reforming housing GSE's as quickly as next year. The Farm Credit System is a cooperative which sets us apart from the other housing GSE's such as Fannie Mae and Freddie Mac. The System is also the oldest and longest serving GSE in the country and focuses exclusively on serving the nation's agricultural and rural sectors. Please be watchful of efforts that may include the Farm Credit System in conversations concerning Fannie Mae and Freddie Mac as Farm Credit does not need to be included in these efforts.

Young, Beginning, and Small Farmers (YBS)

According to the 2007 Agriculture Census, the average age of a farmer in the United States is 57 years old. Another alarming statistic is that while most age segments have increased from 2002 data, those principal operators less than 45 years of age have decreased by 21 percent which is a testament that fewer young farmers are becoming involved in production agriculture. In planning for the 2012 Farm Bill, we need to ensure that adequate programs are in place to assist in making it feasible for young, beginning and small producers (YBS) to enter into production agriculture.

Cape Fear Farm Credit often utilizes the Guaranteed Farm Loan program through Farm Service Agency. The FSA Guaranteed Loan program assists Cape Fear Farm Credit in extending credit to young, beginning and small farmers that have a limited net worth or may not qualify under its standard loan programs. Cape Fear Farm Credit often runs into roadblocks with the current loan size of $1,112,000 as many of the loan requests exceed the current limitation. I would urge the Committee to consider increasing the guaranteed loan amount to $3 million.

Crop Insurance

Crop insurance is one of the most vital risk management tools for American farmers today. The Farm Credit System believes in a strong, vibrant program to ensure we can continue to finance farmers in rural America. It is extremely important that our customers have adequate coverage.

As a farmer from North Carolina, I am proud that agriculture is the number one industry in our state, contributing over $70 billion annually to the state's economy and employing over 17 percent of the workforce. I'd like to thank you for allowing me to take part in this initial discussion on the 2012 Farm Bill, and I appreciate all the work that the Committee is doing in support of agriculture and rural America.

Mr. MCINTYRE. Thank you very much and thank you for your testimony that you have submitted in writing, which is very, very helpful.

Mr. Steven Burke.

STATEMENT OF W. STEVEN BURKE, BIOFUELS REPRESENTATIVE, OXFORD, NC

Mr. BURKE. Mr. Chairman and Committee Members, I am Steven Burke, President and CEO of the Biofuels Center of North Carolina, a private nonprofit corporation. The Center was established by the legislature in 2007 to implement a policy, strategic and agricultural imperative to gain large internal capacity for alternatives to petroleum-based liquid fuels.

The Center is located on North Carolina's Biofuels Campus in the Granville County town of Oxford. The 426 acre campus is a former USDA tobacco research station turned over to the state in 2005.

North Carolina's goal is ambitious. By 2017, ten percent of the state's liquid transportation fuels will come from biofuels grown and produced internally. By current estimates, up to 600 million gallons will be required.

The goal is not impossible if a key recognition underlies policy and activities—development of large biofuels capacity must be seen as landscape changing, actually and figuratively; and as such, must be judged nothing less than a societal and civic imperative.

That changed landscape is manifest 19 miles due west of this room in the small town of Raeford, in one of North Carolina's three most economically disadvantaged counties. The newly opened Clean Burn Fuels production facility, the largest ethanol site on the East Coast, will soon yield over 60 million gallons annually. How do we think about the value and duplication of this facility across North Carolina? I address the question under two large headings:

First, North Carolina's nationally unique biofuels endeavor. Strong in agricultural heritage and capabilities, this state is well prepared to shape and expanded the role for its land with growth in production of biofuels. Six factors shape North Carolina's approach to biofuels development.

One, biofuels development is technology development. Biofuels must be seen and shaped as a technology. Like any new technology, this one will take time, prove expensive, yield risks and solve problems.

Two, a comprehensive approach is required. Our approach is comprehensive, based on the recognition that piecemeal attention to resources and tasks yields less success. The nation's only state-based agency constituted with a comprehensive mandate, the Center addresses over time research, growing, agronomic analysis, pilot and large-scale production, company development, distribution, land and land use, environmental and policy issues, sustainability and public preparation. No other Federal-state models appear to have assumed the task of identifying all such components in a comprehensive framework. Encouraging such models can prove valuable for USDA.

Three, sustained commitment is required. Technologies, a landscape changing sector and visionary goals do not come about quickly or easily.

Four, the endeavor is civic in scale and responsibility. Biofuels both springs from and shapes large societal imperatives—science, technology, agriculture and growers, crops and forests, policy and strategy, public behaviors and even car culture, land and land use, energy, comprehensive energy policy, economic gain, production and distribution, climate, verified and functional sustainability. As such, biofuels is nothing less than a civic endeavor.

Five, feedstocks and biomass must be sustainable. Sustainability of varied crop- and tree-based resources over time must be ensured, for the feedstock requirements and drawdowns will be staggeringly large in North Carolina and beyond. Environmental, agricultural, and economic imperatives must be simultaneously served and balanced.

Six, the imperative is unquestioned. Smart places and leaders now understand that gaining alternatives to petroleum-based fuels is requisite for our future.

Second, gaining from current and future farm bill provisions.

The 2008 Farm Bill purposely strengthens the agriculturally-based biofuels sector and verifies the value of purposeful biofuels development to rural economic gain, energy independence and the agricultural endeavor.

My submitted testimony highlighted those areas in which we have found success to be manifest and encouraged. The 2012 Farm Bill can well build on these appropriate strategies with new thinking or thrusts in several areas. I highlight two contained in my submitted testimony.

One, evaluate the national agricultural biofuels status. Analysis of outcomes, learning, and experience for feedstocks, growing and production can funnel new programs into targeted areas.

Two, force attention by mandate and bully pulpit if not by programs and innovative activities to comprehensive models at the state and regional levels.

Thank you, Mr. Chairman and Members for the opportunity to share our experience.

[The prepared statement of Mr. Burke follows:]

PREPARED STATEMENT OF W. STEVEN BURKE, BIOFUELS REPRESENTATIVE, OXFORD, NC

Mr. Chairman and Committee Members: I am Steven Burke, President and CEO of the Biofuels Center of North Carolina. A private nonprofit corporation, the Center was established by the North Carolina Legislature in 2007 to implement a policy, strategic, and agricultural imperative: to gain large internal capacity for alternatives to petroleum-based liquid fuels.

The Center is located on North Carolina's Biofuels Campus, in the Granville County Town of Oxford. The 426 acre Campus is a former lead USDA Tobacco Research Station established in 1910 and turned over to the state in 2005. The movement from tobacco to biofuels nicely symbolizes evolutionary changes in state and national agriculture.

North Carolina's goal is ambitious: by 2017, 10% of the state's liquid transportation fuels will come from biofuels grown and produced internally. By current estimates, up to 600M gallons will be required.

The goal is not impossible, if a key recognition underlies policy and activities: development of large biofuels capacity must be seen as landscape changing, actually and figuratively, and as such must be judged nothing less than a societal and civic imperative. Such thinking shapes North Carolina's approach and, as a result, our response to farm bill and USDA programs.

Meeting so ambitious a goal requires long-term strategic thinking as well as varied partnerships, each based on shared commitment to gain from the state's biofuels endeavor. Collaborations include obvious partners, such as USDA, the North Carolina Department of Agriculture, the Farm Bureau, and others in the agricultural sector. New partnerships also create innovative solutions, some unconventional. For example, the Center is shaping with the NC Military Growth Task Force a project to highlight the connection between our state's military bases and regionally grown biofuels. Like other partnerships, it will reveal the non-standard thinking required for a landscape-changing new sector.

That changed landscape is manifest 19 miles due west of this room in the small Town of Raeford, in one of North Carolina's three most economically disadvantaged counties. The newly opened Clean Burn Fuels production facility, the largest ethanol site on the East Coast, will soon yield over 60M gallons annually. How can we think about the value and duplication of this facility across North Carolina's land?

Human life has been shaped by dependency upon the land—for food, for key materials, and for much energy. Although the last century was shaped by non-land based energy sources for most vehicular transportation, common sense and strategic reality now impel movement from carbon-emitting, variably available, politically destabilizing, and environmentally intrusive petroleum. Costly by many measures, that about-to-end-era freed the land unrealistically and only temporarily from its place in energy production.

Agriculture and the land are, so to speak, *back and strengthened* . . . for energy production. Both must provide expanding capacities to fuel our vehicles as well as our diets and materials for daily life.

Are we equipped to gain so much from our land and our agriculture, both crop- and tree-based? What approaches and policies will enable our doing so?

The questions are key for the sustained survival, under favorable terms, of our societies and way of life. They are also necessarily important to the thinking of both this Committee and North Carolina.

I address the questions under two large headings:

- **North Carolina's Nationally Unique Biofuels Endeavor.**
- **Gaining From Current and Future Farm Bill Provisions.**

North Carolina's Nationally Unique Biofuels Endeavor

Strong in agricultural heritage and capabilities, North Carolina is well prepared to shape an expanded role for its land. By policy and by establishment of its Biofuels Center, the state has committed to enrich its agricultural sector with growth and production of biofuels. Because doing so also enriches our economy, our energy security, and those rural areas most in need of vitalization, the commitment is the best juncture of policy, persons, and societal gain.

Six factors and recognitions shape North Carolina's approach to biofuels development:

1. ***Biofuels Development is Technology Development.***

Biofuels must be seen and shaped as a technology—demanding and complicated, exploratory and entrepreneurial. Despite large production of ethanol in the Midwest and Brazil, the technology is new and unfolding, at an early stage comparable to main-frame computers. Like any new technology, biofuels will take time, prove expensive, yield risks and setbacks, and necessarily solve its problems. As technologies must, it will engage our best thinking, arouse entrepreneurial imagination, trigger new governmental programs and policies, yield large economic return, force leadership, and make the place better. Although based on agriculture—the first technology around which human societies formed—biofuels is as technologically complex as the devices in our pockets. Failure to understand this complexity lessens the speed and effectiveness with which programs and funding move biofuels along the process of technology development, from societal need and research to outcome and change.

2. ***A Comprehensive Approach Is Required.***

North Carolina's approach to biofuels development is comprehensive, based on the recognition that piecemeal attention to resources and tasks yields less success. A dovetailed framework of strategy and activities must integrate every aspect of biofuels, from societal policy to new fuels enthusiastically placed in vehicles. The nation's only state-based agency constituted with a comprehensive mandate, the Center addresses over time: research, growing and agronomic analysis, pilot and large scale production, company development, distribution, land and land use, environmental and policy issues, and public preparation. Specific requirements are varied: farmers and landowners must commit to new feedstocks and new uses of biomass; economic analyses must verify that money can be made in growing, production, and distribution; consequential issues must be addressed, for large impact will be seen on land, biodiversity, water, and the environment. Credibly addressing issues will in fact likely prove crucial in coming years to sustained growth of the biofuels sector; addressing them is a responsibility as well as the task of a life-based technology. Problems must be solved; models for sustainability must be crafted. While few would argue that these are the tasks of biofuels development, no other Federal or state models appear to have assumed the task of identifying, funding, and addressing them in a comprehensive framework.

Encouraging such models can prove valuable to the USDA, and will perhaps prove necessary for the success and survival of a national biofuels endeavor expanding in feedstocks, geography, and strategic importance.

3. ***Sustained Commitment Is Required.***

North Carolina grants that a long-term commitment is required. Technologies, a landscape changing sector, and visionary goals do not come about quickly or easily. As such, a sustained endeavor, over 15+ years, will yield daunting tasks and developing groundwork in the short term but verifiable and large return in the long-term.

4. ***The Endeavor is Civic in Scale and Responsibility.***

Biofuels both springs from and shapes large societal imperatives: science and technology, agriculture and growers, crops and forests, policy and strategy, public behaviors and car culture, land and land use, energy and comprehensive energy policy, economic gain, production and distribution, climate, verified and functional sustainability, and something of daily survival in a changing world. As such, biofuels is nothing less than a civic endeavor. Smart places, agencies, and policy leaders should include it among imperatives for deliberate civic attention. Synthesis among the imperatives is challenging but required. As with any civic and societal mandate, the key framing question is constant and large: *how can this endeavor make better our place and our future?*

5. ***Feedstocks and Biomass Must Be Sustainable.***

Sustainability of varied crop- and tree-based resources over time must be ensured, for the feedstock requirements and drawdown in coming years—particularly if petroleum is constrained more quickly than expected—will be staggeringly large in North Carolina and beyond. Environmental, agricultural, and economic imperatives must be simultaneously served and balanced. While farmers are accustomed at thinking in such terms, not all parties seeing gain from biofuels necessarily will be, particularly in the short-term.

Leadership in the sustainability of this sector, through new programs and policies as well as model projects, will be increasingly needed. The USDA and the farm bill can be visible and forceful.

6. ***The Imperative Is Unquestioned.***

Smart places and leaders understand now that gaining alternatives to petroleum based fuels is not just desirable, not a luxury, and not just a useful addition to the agricultural sector. Biofuels are requisite for our future. Our best problem-solving and most targeted programs must be shaped to ensure their availability and benefit.

Gaining From Current and Future Farm Bill Provisions

The 2008 Farm Bill purposefully strengthens the agriculturally based biofuels sector and verifies the value of purposeful biofuels development to rural economic gain, energy independence, and the agricultural endeavor.

Key biofuels-directed emphases and programs have proven soundly useful:

- High priority for research and funding for cellulosic feedstocks, such as switchgrass and woody biomass, targets both national and North Carolina development.
- *Title VII Research* programs for research, development and demonstration of biomass-based renewable energy and biofuels are increasingly essential. Steadily expanding needs will be inevitable in coming years, particularly if fuel crises intrude.
- *Title IX Energy* programs usefully trigger and support a new sector with grants, loans and other incentives. The valuable Biomass Crop Assistance Program, supporting the production of dedicated crop and forest cellulosic feedstocks, will grow in importance and can be expanded to even more innovative new crops and new kinds of contract growing. The earlier mentioned Clean Burn Fuels facility gained from Title IX loan guarantees.
- *Title XV Trade and Taxes,* continues appropriate biofuels tax incentives, but also appropriately reduces those for corn-based ethanol as it expands tax credits for cellulosic ethanol.
- Other programs—in total yielding as close to a comprehensive framework as can be expected of a complicated Federal bill—each contribute and should be maintained if not strengthened, including: increased emphasis on cellulosic ethanol production through blender tax credits; promotion of cellulosic feedstocks production; grants and loan guarantees for biofuels research, development and production; studies of the environmental impacts of increased biofuels use; expansion of the biobased marketing program to encourage Federal procurement of bio-based products; and research on the use of low-value forest biomass for energy.
- The required joint study by USDA, DOE, EPA and DOT on the infrastructure needs and approaches for expanding the domestic production, transport and distribution of biofuels can prove imperative if the nation is to comprehensively, with minimal agency overlap and maximum national impact, shape a years' long biofuels mandate.

The 2012 Farm Bill can well build on these appropriate programs with new thinking, expansion, or thrusts in eight areas:

1. Evaluate the national agricultural biofuels status. Analysis of outcomes, learning, and experience for feedstocks, growing, and production can funnel new programs into targeted areas of emphasis—accelerating both economic and strategic gain.

2. Force attention, by mandate and bully pulpit if not by programs and innovative activities, to comprehensive models at the state and regional levels.

3. Strengthen by every means the application of core agricultural capabilities, programs, and research to a new and still unfolding sector.

4. Increase loan guarantees and other incentives for a growing number of production facilities varying in type and technology.

5. Develop and implement bold and practical strategies, policies, and programs to match a new and expanding sector to ever more land—and, in doing so, ensure that new biofuels working lands are exemplars of environmental, agricultural, and community stewardship.

6. By mandate and programs, catalyze and support programmatic, policy, and behavioral attention to the imperative for sustainability. Research, data, and models will necessarily be developed, monitored, and evolved over time.

7. Envision and develop, with national urgency, a program to brand technologically-based agricultural biofuels as an innovative and remunerative sector worthy of compelling both equivocal and new farmers.

8. Initiate leadership in identifying the international issues of crop- and tree-based agricultural biomass. In time, as for any resource of international importance and survival, new policies will be required. Forward-thinking farm bill provisions can benefit the American biofuels endeavor and also catalyze smart policy thinking in an increasingly competitive new sector worldwide.

Mr. MCINTYRE. Thank you very much. Thank you for being at the cutting edge of biofuels research and work.

I would like to call on Mr. Kissell to introduce our next speakers, if you would do that.

Mr. KISSELL. I am glad to introduce to you Frank Lee. And I am going to relocate Frank from Raleigh, where he is speaking on behalf of Farm Bureau today. He is also a very diverse farmer from Norwood in the beautiful Stanly County. He will be speaking to us. So, Frank.

STATEMENT OF FRANK LEE, CORN, COTTON, WHEAT, SOYBEAN, AND BEEF CATTLE PRODUCER, NORWOOD, NC

Mr. LEE. Good morning, Mr. Chairman and Members of the Committee.

My name is Frank Lee. I am a corn, cotton, soybean, wheat, timber and beef cattle producer from Norwood, North Carolina. I have been farming for 35 years and I served—started out in the ASCS Committee, I was a county committeeman, and then became a FSA county committeeman for 18 years, so I have a fair understanding of how the farm programs work. I would like to make a comment that over my career, I have noticed that farm programs have gotten more and more complex, and I hope you will work to simplify the farm programs under the new farm bill.

I am a proud constituent of Congressman Larry Kissell who represents the 8th Congressional District. I am a member of the Stanly County Farm Bureau Board of Directors and it is an honor to testify before you today.

North Carolina Farm Bureau is a general farm organization with over 500,000 family members across the state. North Carolina has the nation's third most diversified agricultural economy and the number one industry in North Carolina is agriculture.

North Carolina farmers are generally pleased with the current farm bill. We are extremely grateful to the Agriculture Committee for all the hard work that went into putting together the last bill. We know it was no easy task due to the budget, and we understand it will be more of a challenge as we move forward with the new bill, given the budget outlook for 2012. However, as Congress begins to focus on writing the next version of this important law, it is more vital than ever that you all craft a bill that will continue to give us the market-based tools we need to succeed and provide an effective financial safety net, so the American public can continue to have a safe and abundant food supply.

North Carolina farmers support the direct and countercyclical payments program that was included in the last farm bill. Farmers understand the programs and they work well. We also support the marketing loan program.

The ACRE program has not been widely utilized by North Carolina's farmers. If ACRE is part of the 2012 Farm Bill, we would like to see improvements that make it more useful for diversified farming operations.

Cotton farmers are very concerned about the WTO cotton dispute with Brazil and how that will impact us in the next farm bill. We certainly understand and support the need to comply with our international trade agreements, but it is crucial that the cotton program in the next farm bill still include a viable safety net for North Carolina farmers.

Trade is critically important for North Carolina agriculture. Huge trade deficits exist in other segments of the economy but agricultural products have a trade surplus of $22 billion for the U.S. economy. North Carolina alone contributes $3 billion to our agricultural exports.

We need to comply with our international trade agreements, but it is vital to give strong consideration and support to any programs, such as the Market Access Program, that assists with increasing agriculture exports as we move forward.

The 2008 Farm Bill extended or created several key farm energy provisions. These programs, such as the Rural Energy for America Program, have incrementally improved our utilization of renewable resources to power our farms and communities and help to make our farms more energy efficient. These initiatives are critical to decreasing our reliance on foreign sources, as well as reducing the impact energy costs have on our family farms.

Dairy farmers have continued to suffer and unfortunately the number of North Carolina dairy producers has continued to decline due to tough economic times. Drastic swings in milk prices have devastated dairymen in the Southeast. We must continue to develop dairy policies that keep production in line with consumption and help these farmers stay in business.

Farmers continue to need an affordable and reliable crop insurance program. It is critical that Congress works to maintain a crop insurance initiative that is affordable and allows farmers to manage risks associated with production agriculture.

As we move forward with the next farm bill, it is important that we continue to educate the public that the farm bill is not just about a price support system for farmers, it is about an investment in rural America and America as a whole. The authorities in the farm bill, particularly in the rural development title, are crucial to economic development and help address rural community needs such as schools, hospitals, housing and local infrastructure. The public and private partnerships that are created through USDA Rural Development and folks like the NC Rural Center help capitalize on every dollar spent and invested in rural North Carolina. There is no doubt that a strong rural development title in the next farm bill will continue to assist with local infrastructure, economic development and increase the quality of life for folks who live in rural communities.

To summarize, the North Carolina Farm Bureau believes that the 2008 Farm Bill is working well. We understand that you have budget constraints while developing the 2012 Farm Bill; however, I cannot stress to you how vital it is that the overall bill provide an adequate safety net for producers who continue to provide food, feed and fiber to the world. We look forward to working with the Agriculture Committee as this process moves forward.

Thank you, Mr. Chairman, for allowing me to testify.

[The prepared statement of Mr. Lee follows:]

PREPARED STATEMENT OF FRANK LEE, CORN, COTTON, WHEAT, SOYBEAN, AND BEEF CATTLE PRODUCER, NORWOOD, NC

Good morning Mr. Chairman and Members of the Committee.

My name is Frank Lee. I am a corn, cotton, soybean, wheat, timber and beef cattle producer from Norwood, North Carolina. I am a proud constituent of Congressman Larry Kissell who represents the 8th Congressional District. I am a member of the Stanly County Farm Bureau Board of Directors and it is an honor to testify before you today.

North Carolina Farm Bureau is a general farm organization with over 500,000 family members across the state. North Carolina has the nation's third most diversified agriculture economy. In fact, agriculture is North Carolina's number one industry accounting for over $70 billion in annual economic activity and just under ⅕ of our state's jobs.

North Carolina farmers are generally pleased with the current farm bill. We are extremely grateful to the Agriculture Committee for all the hard work that went into putting together the last farm bill. We know it was no easy task due to the budget and we understand it will be more of a challenge as we move forward with a new bill given the budget outlook for 2012. However, as Congress begins to focus on writing the next version of this important law, it is more vital than ever that you all craft a bill that will continue to give us the market based tools we need to succeed and provide an effective financial "safety net" so the American public continues to have a safe and abundant food supply.

North Carolina's farmers support the direct and countercyclical payments (DCP) program that was included in the last farm bill. Farmers understand the programs and they work well. We also support the marketing loan program.

The ACRE program has not been widely utilized by North Carolina's farmers. If ACRE is a part of the 2012 Farm Bill, I would like to see improvements that make it more useful for diversified farming operations.

Cotton farmers are very concerned about the WTO cotton dispute with Brazil and how that will impact us in the next farm bill. We certainly understand and support the need to comply by our international trade agreements, but it is crucial that the cotton program in the next farm bill still include a viable safety net needed by North Carolina farmers.

Trade is a critically important issue for the future of North Carolina agriculture. Huge trade deficits exist for many segments of the economy, but when it comes to American agriculture products, we have a trade surplus that actually provides over $22 billion to the U.S. economy. For North Carolina alone, agriculture exports exceeded $3 billion in 2008, which is an increase of over 70 percent from 2004.

Again, we need to comply with our international trade agreements, but it is vital to give strong consideration and support to any programs, such as the Market Access Program, that assist with increasing agriculture exports as we move forward.

During the course of your hearings and debates on the next farm bill, the issue of limiting farm bill payments will continue to be raised. The North Carolina Farm Bureau opposes payment limits and means testing to determine eligibility for farm programs. The size and scope of farming operations is often driven by economics and capturing economies of scale and not greed as many would have you to believe.

We are supportive of the conservation programs that were included in the 2008 Farm Bill. It is important to keep in mind the balance of funding levels for conservation and making sure we have a strong commodity safety net in place as you all move forward with changes in the farm bill.

The 2008 Farm Bill extended or created several key farm energy provisions. These programs, such as the Rural Energy for America program, have incrementally improved our utilization of renewable resources to power our farms and communities and helped to make our farms more energy efficient. These initiatives are critical to decreasing our reliance on foreign energy sources as well as reducing the impact energy costs have on our family farms.

As you all know, the dairy industry continues to suffer and unfortunately the number of North Carolina dairy producers continue to decline due to tough economic times. Drastic swings in milk prices have devastated dairymen in the Southeast. We must continue to develop dairy policies that keep production in line with consumption.

The 2008 Farm Bill contained—for the first time—a title dedicated to specialty crops. It also funding for states for various programs through the Specialty Crop Block Grant Initiative. These important programs help expand opportunities for direct producer-to-consumer marketing, improve farmers markets, roadside stands and community-supported agriculture initiatives and help fruit and vegetable producers address food safety, pest and disease management issues.

Farmers continue to need an affordable and reliable crop insurance program. It is critical that Congress works to maintain a crop insurance initiative that is affordable and allows farmers to properly manage the risks associated with production agriculture. The program should be based on realistic estimates and information.

As we move forward with the next farm bill, it is important that we continue to educate the public that the farm bill is not just about a price support system for farmers, it's about an investment in rural America and American as a whole. The authorities in the farm bill, particularly the in the Rural Development title, are crucial to economic development and help address rural community needs such as schools, hospitals, housing and local infrastructure. The public and private partnerships that are created through USDA Rural Development and folks like the NC Rural Center help capitalize on every dollar spent and invested in rural North Carolina. There is no doubt that a strong Rural Development title in the next farm bill will continue to assist with local infrastructure, economic development and increase the quality of life for folks who live in rural communities.

To summarize, the North Carolina Farm Bureau believes that the 2008 Farm Bill is working well. We understand that you have budget constraints to manage while developing the 2012 bill; however, I cannot stress to you enough how vital it is that the overall bill provide an adequate safety net for producers who will continue to provide food, feed and fiber to the world. We look forward to working with the Agriculture Committee as this process moves forward.

Thank you, Mr. Chairman, for allowing me to testify before the Committee. I look forward to your questions.

Mr. MCINTYRE. Thank you very much, Mr. Lee, and thank you for traveling here to be with us.

Mr. Kissell, would you like to introduce the next one?

Mr. KISSELL. Another constituent from the 8th District, Allen McLaurin from Scotland County, he works with the Z.V. Pate Company in Laurel Hill, North Carolina. The Z.V. Pate Company represents a lot of agricultural interests as well as other interests, commercial interests. And Allen is here today to talk primarily about the cotton industry in terms of agriculture. Allen.

STATEMENT OF ALLEN MCLAURIN, COTTON PRODUCER, LAURINBURG, NC

Mr. MCLAURIN. Thank you, Congressman Kissell, Congressman Etheridge, McIntyre, thank you for the opportunity of being here and especially Congressman Thompson for taking time to come down from Pennsylvania to be part of this panel and listen to what we have to say, and hopefully you will realize there is life outside of Chapel Hill in this great state.

My name is Allen McLaurin. I am a cotton farmer primarily, but also grow peanuts, corn, soybeans down in Scotland County on a personal farm of my own plus a family operation farm known as Z.V. Pate's down in Scotland County.

As mentioned earlier, as Congressman Kissell and Mr. Lee and others mentioned, agriculture is still the largest industry here in North Carolina, and we feel that cotton continues to be the cornerstone of this industry with a lot of history right here in our great state. We have a large number of producers, ginners, warehouse and textile mills in operation here today.

In the Southeast cotton region consisting of Virginia, North Carolina, South Carolina, Georgia, Alabama and Florida, the ripple effect from cotton alone is responsible for over 173,000 jobs and generates an economic activity surpassing $47 billion annually.

Our overall thoughts regarding sound farm policy: Our industry maintains that sound farm policy is essential for the viability of the cotton industry in the Southeast region and the United States.

Effective farm policy should adhere to several principles. It should be market-oriented with a goal of promoting quality, efficiency and domestic competition; it should allow for full production to meet market demand; and due to uncertainty of weather and markets, farm policy should provide for an effective financial safety net for farmers without regard to farm size or structure.

I believe the 2008 Farm Bill meets most of these principles and has worked well for the cotton industry. And I commend this Committee for the work they did on this legislation for the 2008 Farm Bill.

The centerpiece of the upland cotton program and traditional commodity programs has been without question an effective marketing loan program. It provides a safety net for producers, but does not harm the competitiveness of U.S. commodities. It is a program component that makes sense, that works and that serves many critical purposes. Because it is well-understood and a fundamental part of commodity policy, the marketing loan gives rural banks the confidence they need to make critical operating loans available that farmers depend on to operate.

I believe the USDA has overstepped the intent of Congress in key payment eligibility provisions and issued regulations that are overly complicated and restrictive. Sound policy provisions are of little value if commercial size farm operations are ineligible for benefits. The vast majority of these are true family farm operations and have expanded in size with the intent to lower cost per unit of production. In other words, getting closer to economies of scale. I will give you an example. Back in the 1980s, early 1980s, when I started farming, a two-row cotton picker we would go out and buy would handle right at 300 acres of cotton, a typical family sized farm in the state, and it would run about $35,000. Today, you go out and buy a six-row cotton picker, it runs about $550,000 or more plus it is capable of harvesting 1,800–2,000 acres. So our sizes have increased on our family farms, and of course commodity prices for the most part have not.

While I oppose any artificial payment limitations, I advocate administering the current provisions within the intent of Congress and strongly oppose any further restrictions.

In summary, our industry believes the cotton provisions of the 2008 Farm Bill are working well. If policy changes are inevitable as part of the 2012 Farm Bill, the cotton industry remains ready to work with the Agriculture Committee to explore alternative programs that can provide the needed safety net to our industry in a manner that is consistent with our international trade obligations and within budget constraints.

I thank each and every one of you for the opportunity and will be willing to answer any questions you may have. Thank you.

[The prepared statement of Mr. McLaurin follows:]

PREPARED STATEMENT OF ALLEN MCLAURIN, COTTON PRODUCER, LAURINBURG, NC

Chairman Peterson, Congressmen McIntyre and Kissell, other Members of the Committee and guests, my name is Allen McLaurin. I am cotton, peanut and grain producer from Laurinburg, North Carolina. I am also farm manager for Z.V. Pate, Inc. a diversified agriculture entity located in Scotland County. Thank you for hosting this hearing and for the opportunity to testify before you regarding farm policy issues.

Agriculture is far and away the single largest industry in North Carolina with cotton being the cornerstone in our region and throughout the Cotton Belt. Its scope and economic impact extends well beyond the approximately 19,000 farmers that plant between 9 and 12 million acres of cotton each year in the 17 cotton-producing states. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year.

Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home-furnishings are located in virtually every state with much of this infrastructure located right here in North Carolina. Beyond the farm-gate, the distribution and processing of cotton includes cotton gins, independent merchants and cooperative merchandisers, warehouses, cottonseed distributors and processors, and textile mills. Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200,000 workers and produce direct business revenue of more than $27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420,000 workers with economic activity well in excess of $100 billion.

In the six-state region of Alabama, Florida, Georgia, North Carolina, South Carolina and Virginia, the cotton industry's ripple effect is responsible for over 173,000 jobs and generates economic activity surpassing $47 billion annually.

Sound farm policy is essential for an economically viable agriculture. Effective farm policy should adhere to several principals:

(1) It should be market-oriented with a goal of promoting quality, efficiency and domestic competition;

(2) It should allow for full production to meet market demand; and

(3) Because of the uncertainty of weather and markets, farm policy should provide for an effective financial safety net for farmers without regard to farm size or structure.

I believe the 2008 Farm Bill meets most of these principles and has worked well for the cotton industry. We are very grateful to the Agriculture Committee for the work done on this legislation.

The centerpiece of the upland cotton program and traditional commodity programs has been without question, an effective marketing loan program. It provides a safety net for producers but does not harm the competitiveness of U.S. commodities. It is a program component that makes sense, that works, and that serves many critical purposes. Because it is well-understood and a fundamental part of commodity policy, the marketing loan gives rural banks the confidence they need to make critical operating loans available. This foundational program has also been the lever to move other important reforms, such as standardized bales and bale packaging for cotton, electronic warehouse receipts, and heightened standards for storage and elevator facilities for cotton and for other commodities.

With respect to cotton, while the 2008 Farm Bill maintained the marketing loan and several other program components from prior law, the bill also made many reforms, such as a revision in the calculation of cotton premiums and discounts on the USDA loan schedule, placing a ceiling on the payment of storage credits for cotton under loan, and an economic adjustment program for the U.S. textile industry.

Fundamentally, we continue to support the 2008 Farm Bill's approach to the cotton program and all of its components, from the marketing loan to direct and countercyclical payments. Each component serves a distinct purpose that is extremely beneficial to North Carolina farmers.

The 2012 Farm Bill debate, however, will take place with several new and increased points of pressure. Record budget deficits will put intense pressure on funding. The WTO Brazil Case puts cotton's marketing loan and countercyclical programs under special scrutiny even though the cotton program, as revised by the 2008 bill, has never been evaluated by a WTO Panel. Ongoing negotiations in the Doha Round of trade negotiations could result in a dramatically altered landscape for domestic commodity support. If circumstances arise that make it impossible to maintain a reasonable safety net using existing delivery mechanisms, the cotton industry will look at alternatives.

As evidenced by recent sign-ups, the ACRE program has not been a very attractive alternative for cotton farmers in our region or across the Cotton Belt. The support mechanisms within ACRE do not provide an adequate safety net for cotton farmers when compared to the traditional DCP program. If a revenue-based approach is to find support among cotton producers, a more reasonable revenue target would have to be established. I applaud Chairman Peterson's recent statements that he would support changing the current ACRE calculations from a state wide to a county wide basis. This is definitely a step in the right direction.

Even as our industry commits to an in-depth review of the structure of the cotton program, I must emphasize our commitment to the principles I outlined earlier in my statement. One of those principles is that effective farm policy must maximize participation without regard to farm size or income. The 2008 Farm Bill contained significant changes with respect to payment limitations and payment eligibility. In general, the limitations were made more restrictive, and the adjusted gross income test was substantially tightened.

In addition to the legislative changes, I believe that USDA over-stepped the intent of Congress in key payment eligibility provisions and issued regulations that are overly complicated and restrictive. Sound farm policy provisions are of little value if commercial-size farming operations are ineligible for benefits. A new model six row cotton picker costs approximately $550,000. This picker can reasonably be expected to harvest roughly 18 to 2,000 acres. In order to justify purchasing a second picker, a grower would basically have to double the size of his operation. Unlike a grain combine, this machine is capable of doing only one thing and that is pick cotton. The vast majority of these commercial-size operations are true family farms that have expanded in size in an attempt to lower per unit cost of production (economy of scale).

Conservation programs were strengthened in the 2008 Farm Bill. The Conservation Stewardship Program and similar conservation programs can lead to improved environmental and conservation practices but should not serve as the primary delivery mechanism for farm program support. The Conservation Stewardship Program has also been hampered by overly restrictive payment limitations contrived by USDA regulators—restrictions that I do not believe are supported by the statute. USDA's unilateral decision to exclude commercial-size farming operations dramatically limits the environmental and conservation benefits to North Carolina that are possible with this program. In an effort to improve the effectiveness of these programs, I recommend that all conservation payments and other administrative responsibilities be turned over to the Farm Service Agency. In other words, let FSA do the paper work which in turn will enable the Natural Resources Conservation Service to devote all their efforts and expertise towards providing technical assistance. Furthermore, lack of consistency between county offices is often an issue. For example, a producer who farms in more than one county may or may not qualify for a like conservation program or practice and often times at varying levels of support.

I support a permanent natural disaster program as part of the farm bill, but my understanding so far with the SURE program indicates it cannot provide an effective level of natural disaster assistance. I understand that some growers have yet to receive assistance for disasters that occurred back in 2008. This is hardly reassurance to the banks that must grapple with the decision to continue to make production loans to these growers. I recognize the challenge facing Congress to make improvements in this program. Without increased baseline spending authority, there will be no funds to even continue the program in the next farm bill much less make the necessary improvements for it to be an effective disaster relief mechanism. However, I would oppose reallocating existing spending authority from current farm programs to apply to SURE.

Crop insurance is an essential risk management tool for cotton producers in our region. As a matter of fact, over 87% of all cotton acres in North Carolina purchase buy-up coverage. Our industry continues to examine concepts that improve the various cotton crop insurance products. Revenue coverage, enterprise policy rates and group risk products are examples of improved products that can provide a menu of risk options for growers. However, as you are well aware, the profit margin in agriculture is very narrow. In other words, a 10% to 15% loss would jeopardize whether or not I as a farmer will be able to service my debt let alone make a profit. Being able to insure my crop at a higher buy-up level would be of real benefit. Another change I do support would be to allow separate enterprise units for irrigated and non-irrigated practices in the same county. Some growers do not opt for the enterprise unit deal (with the additional subsidy) because it throws their irrigated and non-irrigated units together. However, we continue to view the current insurance products as complements to traditional commodity programs but do not consider those programs as a replacement system for delivering farm program support.

While the cotton industry supports a viable biofuels industry, it must be recognized that benefits are not equally shared by all commodity producers. Renewable fuels mandates and other policies regarding biofuels have changed the competitive balance between commodities, placing severe pressure on cotton infrastructure in certain parts of the Cotton Belt. Mandated demand can result in excessive and harmful market distortions. The support given to biofuel crops must be taken into consideration when comparing relative levels of support across commodities, when evaluating payment limitations and before trying to mandate a one-size-fits-all farm program for biofuel and non-biofuel commodities.

In summary, our industry believes the cotton provisions of the 2008 Farm Bill are working well. If policy changes are inevitable as part of the 2012 Farm Bill, the cotton industry remains ready to work with the Agriculture Committees to explore alternative programs that can provide the needed safety net to our industry in a manner that is consistent with our international trade obligations and within budget constraints.

Mr. Chairman, thank you for holding this hearing in North Carolina and for allowing me to be a part of the discussion.

Mr. MCINTYRE. Thank you so much, Mr. McLaurin. Thanks to all the panelists. We do have an opportunity now for questions.

To Mr. Allen, I would like to ask you if you have first or second hand knowledge about the lack of credit availability for producers. And if so, is this problem more specific to banks or to Farm Credit itself?

Mr. ALLEN. I do not have it, sir.

Mr. MCINTYRE. Can you tell us what the credit situation has been here in North Carolina following the economic downturn, particularly in rural communities and how that has affected Farm Credit?

Mr. ALLEN. Yes, sir. Credit conditions are extremely good for the background that Farm Credit has done. We have had some issues in the poultry side, we have had some in the swine and we have had some downturn in other areas. But at this point, we are strong and it looks like we will have a very good year for Farm Credit.

Mr. MCINTYRE. Mr. Burke, with your leadership and ground breaking in the area of biofuels, do you propose a way to evaluate the national biofuels status as you put it in your testimony?

Mr. BURKE. Yes, sir, this is a new technology that is taking shape throughout the nation. Experience has been gained in different states and different institutions and different companies. When we are in the business of shaping new technologies, we often are unable to take stock of what we have learned. As a result, in many cases, the policies under which both state and Federal programs are developed are at best very indecisive, and sometimes lag behind what we have learned. I would suggest that the USDA, in partnership with other organizations, which has been suggested in the current farm bill, undertake an incisive, multi-part study, a status report, a snapshot of the biofuels sector across this country. That will be a useful foundation for the agricultural energy components of the 2012 Farm Bill. It will be a large task, it will be a demanding task, it will require diminished territory on the part of agencies, it will also require that most difficult of precedents for policy—synthesis of what we have learned.

Mr. MCINTYRE. We have heard in Washington from various constituencies regarding the impact that the use of biomass for bioenergy is going to have on existing woody biomass users from building materials to mulch. What are your thoughts on balancing new uses like bioenergy against existing uses?

Mr. BURKE. Throughout human history, we have mostly been dependent on the land and what it yields for fueling ourselves, for fueling our energy and for the materials for daily life. Emerging biofuels as well as other new sectors shows us that once again, we must grapple with and understand how the land can support ever so many of the requirements of our survival. New sectors and existing sectors will require drawdown of our agricultural resources and, in particular, trees. We count four in North Carolina—the traditional forest and forest products sector; second, biofuels; third, the utilization of biomass for electric energy products; and fourth, new sectors barely emerging including the developing and shipping of wood pellets to Europe and other countries.

To enable sustainable, environmentally and economically useful drawdown of these materials will trigger our best resources for thinking and for new policies. It is possible under intensive management and good sustainable mandates to yield outcome for all four of these sectors. Doing so, however, will neither be easy, it will yield some contention, some overlap. It should require our best thinking.

Mr. MCINTYRE. Can you say what you think would be the single biggest thing we can do to spur investment in biofuels?

Mr. BURKE. Continue with and increase some of the absolutely necessary financial imperatives underlying a new technology. First, self-evident, increase and continue funding for science and research. Second, increase the loan guarantees and other incentives for new facilities. The Clean Burn Fuels facility that I referenced in my testimony benefited from loan guarantees in Title IX of the current farm bill. Third, more subtle, lead with attention to environmental and sustainability and related issues for what we will possibly find in coming years, that science will move along well, growing will move along well, and production facilities can be funded. However, there will be uncertainty about funding production facilities if in fact we fear or find that environmental issues and insufficient attention to sustainable biomass truncate investment. So lead also with policies.

Mr. MCINTYRE. Thank you very much.

Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman, and thanks to the panel for your testimony.

Mr. Allen, in your testimony, you referenced the 2007 Census of Agriculture and the average age of farmers, which obviously is graying. You also noted that the principal operators less than 45 years of age have decreased by 21 percent, which adds to the testimony of fewer young farmers. I wanted to just kind of talk about that a little further. What are you observations, why is that occurring, and what are the barriers for young farmers to go into the industry?

Mr. ALLEN. Well, obviously the capital investments are what we have to work on. And what I have asked you for was an increase from $1,112,000 to $3 million for the young beginning farmers from FSA. That would give them a jump start. You know, back in our lifetime, capital was not as big an issue as it is today. Of course, the price of the commodity has not changed as much, so you have to get more out of an acre and you have to find ways to cut costs.

For young and beginning farmers, it is a tremendous risk now more than it has ever been before. And what we try to do through the Farm Credit System is to make sure that we educate and we partner with these young guys to make sure they are on the right and narrow road, because what you do not want to do is get them involved and then some type of bankruptcy or whatever occurs. So just working with them, but the increase from the jump start from the $1.112 million to the $3 million would help a lot.

Mr. THOMPSON. The legacy of passing along the farm operations to the next generation, any additional thoughts there?

Mr. ALLEN. Yes, that is a troubling aspect because in the nature of the 1950s and the 1960s, it was a tradition you were going to farm in your father's footsteps. That is certainly changing because of real estate encroachment from, in our case encroachment from Fort Bragg and neighboring real estate continues to climb, and obviously it is easier to make the sale than it is to farm. So there are a lot of challenges for the generations to come.

Mr. THOMPSON. Thanks. Mr. Lee, you mentioned the critical role exports play in supporting North Carolina's agriculture. Do you feel that the free trade agreements that we currently have pending would help to expand the industry, your industry's ability to sell your products abroad?

Mr. LEE. I am really not competent to comment on that. I will say that I am in favor of free trade, and the economics I understand is that any free trade agreement, any time there is a change, there is going to be winners and losers. But the net effect on both ends is a good one. So we are in a global economy and free trade is just a fact of life, and we have to adapt to it and work with it.

Mr. THOMPSON. One of the first hearings we had, somebody described it I thought pretty cleverly, they said there are 303 million stomachs in the United States and six billion or something like that worldwide, so the market for the agriculture community with trade is pretty positive.

Do you support the current system of marketing loans, direct payments and countercyclical, or would you support a complete change?

Mr. LEE. I think our present system, there is room for improvement. I would support a complete change if I knew what the change was. I think there certainly could be improvements on it.

Mr. THOMPSON. I appreciate your service and role within Farm Bureau and you mentioned dairy, I know the dairy in my district— well, dairy across the country is really bleeding to death financially today, and I think as part of the 2012 Farm Bill, we have a commitment, we have a Dairy Caucus that was restarted and is really looking at that system. The current dairy policy focuses mainly on the final price dairy farmers receive but pays little attention to profitability. As we consider new farm policies, I guess the question is to see what discussion perhaps is taking place within your Farm Bureau leadership, should we emphasize profit over price?

Mr. LEE. Well, a farmer has got to make a profit if he is going to stay in business. My family used to be in the dairy business 40 years ago. We had a small dairy, and in my home county 40 years ago, there were over 30 dairies and I think there are two left now.

Mr. THOMPSON. Wow.

Mr. LEE. Dairy is like everything else, those that have stayed in it have gotten bigger, but the price has gotten so low that even the most efficient producers could not make any money. With the nature of the dairy industry and the nature of their products which are perishable—and this is just my opinion, it is not Farm Bureau's opinion—but in my opinion, you need some type of supply management to allow the dairy industry to be viable.

From what I understand in Canada, they have a pretty strict system. You cannot just go out and get in the dairy business, you have to—it is essentially like an allotment or a permit system to own dairy cows. And my understanding is that works—there are limits into entering the business and how the farmers that are in the business can grow, but there is a stability in price and supply and the farmers—from what I understand, the Canadian farmers have survived much better than American dairy farmers.

Mr. THOMPSON. Thank you. Thank you, Mr. Chairman.

Mr. MCINTYRE. Thank you, Mr. Thompson.

Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman.

Mr. Allen, I would just like to thank Farm Credit, the members and administrators for the great job you all do in supporting agriculture interests. You talked about the financial packages that have gone through and that you all have been able to stay exempt from a lot of this. It is because you do a great job and we appreciate that.

Mr. ALLEN. Thank you, sir.

Mr. KISSELL. Allen, we had hearings this week and it was mentioned we are having hearings about the safety net and how can we have the risks for our farmers be covered. Mr. Allen pointed out we need for that to be covered. But one of the things that came up too, Mr. McLaurin, was talking about the Brazil case with our cotton interests and how we are basically holding off for the next farm bill to make adjustments there to be WTO compliant.

What might be the interest of our cotton farmers in terms—what would you like to see in terms of that Brazil case, and what you know about that that would be good for our cotton folks?

Mr. MCLAURIN. Congressman, I agree with Mr. Allen down on the end of the row that we as farmers need to have a safety net in the farm bill. The marketing loan program has worked exceptionally well for the cotton industry, the DCP program, in particular direct payments and countercyclical payments. I do know last week, as you are aware, Brazil came up and they tentatively reached an agreement, we think, on all this negotiation that has gone on for a couple of years. And of course it has been translated now I think from Portuguese to English so we can understand what is going on.

But we hope this next farm bill will have some sort of safety net. It is awfully hard to farm and make capital expenditures not knowing next year what might hold with commodity prices. Not only would we like to see the continuation of the existing bill similar to what we have today, but possibly, a 10 year farm bill or something we can plan out in the future. But we are willing to work with you any way we can, because I know there will be some changes made regarding decisions made in the Brazil case.

Mr. KISSELL. Mr. Lee, continuing along this line of the safety net for farmers, one of the programs introduced in the last farm bill was the ACRE program. From your standpoint, Farm Bureau's standpoint, how has this program been received by farmers, the implementation of it in terms of—we have heard in some places that it just has not been as easy to implement, taken a lot of time to do the paperwork on this. Do you have any thoughts on this?

Mr. LEE. I think for most farmers in North Carolina where we are very diversified, it is just too complicated. I think this program was designed for the Midwest. I think it may work well where there is a corn, soybean farmer in the Midwest. But for most North Carolina farmers, it is just not a good fit.

Mr. KISSELL. And Mr. Lee and Mr. McLaurin both, a lot of conservation programs, new programs put into the last farm bill, some of which we have heard about, may have been good programs, but were not adequately funded; any particular aspects of the last farm bill that you would like to highlight as good or bad and maybe a quick reason why? Allen, you want to go first?

Mr. MCLAURIN. The Conservation Stewardship Program is a good program. There are some inconsistencies in the program from county to county and what may work in one county, the other county interprets maybe differently. There is some talk possibly of allowing the FSA to kind of administer the funding part of these programs and let the district, Soil Conservation, actually do the technical services like we did years ago. But anyway, it is a pretty good program.

As far as going back to the farm bill, you asked about what we could do better for the farm bill, and there again, I think something along the lines of the Marketing Loan Program that you had in this farm bill, if there is some way we could add stability, it is going to be very important.

Mr. KISSELL. Frank.

Mr. LEE. I agree with Allen, the Conservation Stewardship Program is a good program. It is not a perfect program, but it encourages farmers to move in the right direction because conservation—soil is our basic resource and we have to take care of that for the next generation.

Mr. KISSELL. I thank the gentleman.

Mr. Chairman, I think the red light is on. If we get a chance, I have one more quick question for the second round.

Mr. MCINTYRE. All right, thank you.

Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Mr. Lee and Mr. McLaurin—let me thank all of you for your testimony, but a quick question because you both sort of touched on it. In my capacity, as I sit on Ways and Means Subcommittee on Trade, we are in constant struggle on issues brought up in the WTO Brazil case. And it was really brought up under the old farm bill, not on the current one, but they are ongoing battles. And as you know, last week, thanks to pressure from the farm community and a variety of other groups and many of my colleagues here at this hearing today, Russia agreed to open up their poultry market after a long delay over issues that I will not get into.

However, we are going to keep the pressure up because there are a lot of issues we have to deal with as it relates to having a viable cotton program for our communities. If we do not have a good source of markets here in the United States, I greatly fear that growing cotton is going to be a tough job because of the market purchases here, and the current farm bill has a WTO-compliant provision in it that was negotiated by the gin folks, by the manufacturers and by the cotton growers.

So my question is this—for economic assistance, it provides assistance for gins, it provides assistance for the manufacturers and it really is tied up, some pieces that we did this past week are tied up in what is called the extenders, are tied up in the Senate. That did not pass last week to give some credit for our shirt manufacturers and others, and I hope that gets done soon. But what are you hearing from industry or growers as a possible scenario if we continue to fall short on these negotiations, if we do not get them through? And are you or any of the farmers, if this should happen, we do not have domestic markets and all we find ourselves is on the international market selling raw materials, what does that do to our farmers as we look at a new farm bill for the future of commodities?

Mr. MCLAURIN. That is a good question, I will let my friend Mr. Lee answer that first.

[Laughter.]

Mr. LEE. Thank you.

Well, as cotton—I started growing cotton in 1995 and at that time, ⅔ of the cotton roughly was used domestically, and now I think the last figure I heard is maybe ⅓ of it is used domestically. So as cotton farmers, we are dependent upon the export markets. It is a difficult situation, I can argue both sides of it.

I have been to Brazil and been to some Brazilian cotton farms where they have thousands of acres. From what I saw in Brazil, most of the cotton production is on those large farms. It is going to be hard for me to compete with them because they have cheap labor and cheap land. Of course, we have some advantages of infrastructure in this country, but we are just going to have to do whatever it takes to market our cotton on the world market if we are going to have a viable cotton industry.

Let me make a comment on agriculture in general. I think we need to do whatever it takes to protect our agricultural base in this country, because agriculture is such a vital—vitally important for our national security. It is one thing to import automobiles and consumer electronics and petroleum, but you do not want to import all your food and fiber. You want to be—even if it costs you a little more, you want to—I think we can justify and I know this is somewhat protectionist, but I remember something I read years ago about Europe. In Europe, they do not mind spending some money to subsidize farmers because there are people there that can remember when you could not buy food at any price.

Mr. ETHERIDGE. Thank you. I think you are absolutely right and they do theirs under the guise of conservation.

[Applause.]

Mr. ETHERIDGE. And I do believe, and I agree with you, that our food policy has to be a national defense policy. And sometimes we tend to forget that as we start these negotiations.

I hope I have enough time, Mr. Chairman, to get to Mr. Allen. And out of full disclosure, I am—I borrow money from Farm Credit. So let me ask this question. Given your loan portfolio currently is heavy in poultry and in pork, as you and I both know, as we look down the road, what are you thinking in terms of the challenges for adequate credit and an adequate crop insurance program for those areas that benefit producers, poultry and pork. We do it in other commodities.

Mr. ALLEN. Well, we hope we can. I hope you guys look to that to help us, again a safety net. You know, pork prices have been tanking for some time, and obviously the bankruptcy of Pilgrim's Pride has had a big impact in our neck of the woods, as you well know. But we are coming out of that and thanks to the exports from Russia, maybe opening up, and other places. You know, we have the greatest farmers in America in the world, but we just need you guys up in Washington to stay in touch with us and see how we can—if you see something coming, get with us, and we will help you any way we can. And we just need to keep that dialogue open to make that happen.

Mr. ETHERIDGE. Thank you. And thank you, Mr. Chairman. And I would only say in closing on this, when we talk about export markets, we really have to be vigilant because we can see what happens when one country decides they want to just stick it to us and stop imports. All of a sudden we find ourselves in a tough situation negotiating out of it, and our farmers pay the price.

Thank you and I yield back.

Mr. MCINTYRE. Thank you so much, Congressman Etheridge.

Congressman Kissell, I believe you had another question you wanted to ask?

Mr. KISSELL. I would like to ask Mr. Burke a question. Mr. Burke was nice enough, along with several other people, to come to Raeford, North Carolina, which is home of the ethanol plant that he referenced a couple of times, for a biofuels summit back earlier this year. And incredible research taking place, incredible opportunities for our part of North Carolina and agriculture in general.

Mr. Burke, it was mentioned at another farm hearing I went to in South Dakota where the ethanol may be even more advanced into flex fuel pumps and infrastructure that they have in place. It was mentioned that if government just got out of the way, that with biofuels we could handle all our transportation energy needs with biofuels and not have to have any foreign oil coming in.

With regards to resource availability, what would be your comment on that statement?

Mr. BURKE. I would characterize that as desirable and highly unlikely. An increasing population and an increase in needs of different sorts, even with increase also in efficiency, will require that in coming years we have a range of different ways to propel our vehicles. The task will be to determine what is the balance between conventional petroleum fuels, biofuels, electric vehicles, hybrid vehicles and different combinations of all of those.

Those estimates that posit that we could in time support from our land and from our agricultural resources all of our transportation needs seem at present unfeasible.

Mr. KISSELL. Thank you, sir. Thank you, Mr. Chairman.

Mr. MCINTYRE. Thank you very much.

I would just like to ask Mr. Lee and Mr. McLaurin. I know you, Mr. Lee, in particular mentioned tough choices in your testimony that would have to be made in the context of writing the next farm bill. In this day of budgetary concerns and everyone is concerned about the deficit and making sure we do not run up more national debt, what programs would you regard as the most essential out of all in the farm bill that you think are absolutes, that absolutely have to be preserved in the farm bill? I would like you and Mr. McLaurin to each name the very top things you consider the most essential.

Mr. LEE. I will go ahead and pass that on to him.

Mr. MCLAURIN. I think, Congressman, safety net in the program is going to be most important. The Marketing Loan Program has worked exceptionally well for us, and as we move forward with cotton and addressing the WTO agreements and what they may address with our international trade, our marketing program—Congressman Etheridge asked earlier about cotton in the future in particular, and I think that we are very fortunate right here in North Carolina with some of our textile manufacturers. Congressman Kissell has been involved in that industry, but some of them right now are fairly profitable in spinning cotton. Hopefully we can bring this industry back to life in the state. We have drastically reduced our acres of cotton down to a little over 10 million acres across the U.S. this year, so there is a future for cotton here and a safety net is all we ask for. But how you create that in 2012 Farm Bill, I do not know.

Mr. MCINTYRE. Thank you. Mr. Lee.

Mr. LEE. I agree the safety net is critically important for farmers so we can weather the tough times. Agriculture is a business that is subject to the whims of weather and nature, and market swings and things beyond our control. So there are times we all need a little help.

I think rural development money is important to help maintain rural communities and the quality of life there. I think the nutrition program is important, because I do not think we want to see anybody hungry in this nation with the greatest agricultural system in the world.

But I will say that I see a crisis in our country, a budget crisis and we are fighting two wars and a deep recession. We have young men and women and military families making terrible sacrifices, and speaking for myself, I am willing to make a sacrifice in my program benefits and I think it is necessary when you write the farm bill. And I am not going to be mad at you if you cut my benefits, because I see that we are going to have to cut benefits across government spending to bring our revenue and spending levels in line with what they should be.

Thank you.

Mr. MCINTYRE. Thank you. Anybody else have a burning question?

[No response.]

Mr. MCINTYRE. If not, I would like to thank our first panel, thank you for your patience, thank you for your expertise and if you do have additional comments other than what you may have submitted already in writing, you have 30 days from now to add any additional comments if you would like to submit them to the record.

With that, we will excuse the first panel and welcome the second panel to please come forward. If you want to stand up and stretch for just a moment in the audience, we will take literally about 2 minutes and we will proceed.

[Recess.]

Mr. MCINTYRE. We will resume the hearing after a short momentary break. We will welcome panel two. And as folks are resuming their seats, I wanted to make a few comments.

First of all before our friends from the North Carolina Biofuels Center leave us, one of the persons here on behalf of the Biofuels Center is Ashley Jones, who is the daughter of Congressman Walter Jones. Congressman Jones was going to attempt to be here today and was unable to do so, but I particularly want to thank Ms. Jones in her dual capacity, not only on behalf of the Biofuels Center but also being the daughter of Congressman Jones. Thank you, Ashley.

And I also want to thank Congressman Butterfield's office, who is represented here today as well. Without objection, I would ask the panel that we allow Congressman Butterfield's full statement to be entered into the record.

Today also, I would like to note that there are several local and state elected officials that are here that will be in and out and will be among you. I hope you will take time to speak to our local and regional and state elected officials. We also have a lot of state and local organizations that we work with constantly and have a great respect for. Many of their officers are here today. Thank you for your commitment. I know that the EMCs both individually and through their statewide organization as well as our friends from Cape Fear Farm Credit, from telephone co-ops and from other entities that work constantly on a regional or statewide basis to improve rural economic development as well as agribusiness and opportunities for agriculture, are here today. So thank you all for making the concerted effort that you have to join us today.

Today we also have representatives of state directors from the USDA. Aaron Martin is the State Executive Director of the Farm Service Agency. J.B. Martin, Jr. with the Natural Resources Conservation Service is the State Conservationist. They each have representatives here today. But the man himself is here, who is our State Rural Development Director, Randall Gore. Mr. Gore, stand up and thank you, a native of Brunswick County. Thank you for being with us today.

[Applause.]

Mr. McINTYRE. So thanks to all of you. Everyone here is important and for the farmers and citizens and others involved in private industry and business as well, thank you for what you bring to this forum. I remind everybody once again that there are cards for distribution that you can pick up that allow you to participate in the web-cast. We want to make sure that your statements are sent in so everybody can give us some ideas and comments to participate today. Even if you are not technically at the table to testify, you can still send in your comments. *www.agriculture.house.gov.* So please do that and do it no later than literally 1 month from today, July 28, so that we can have your comments as part of the official record.

With that, I am pleased that we are moving right along on schedule. As indicated earlier, we allow witnesses up to 5 minutes to testify, and then questions up to 5 minutes to be asked by the panel members, in order to keep us on a timely schedule.

With that, we now welcome our second panel today and would like to invite each of them to testify. I know we have a slight change. On behalf of Billy Ray Hall, the rural economic development representative from the North Carolina Rural Center, who had an unexpected situation in his family with health as well as I did with mine. I want to thank Mr. Patrick Woodie, Vice President for Rural Programs at the North Carolina Rural Center for being with us today.

Our good friend Randall Jones from just down the road in Robeson County represents the electric co-ops and he particularly will be speaking with regard to those concerns, and is here from Red Springs, North Carolina.

Mr. Tommy Porter, pork, beef and poultry producer from Concord, North Carolina.

And Mr. Dan Ward just down the road from Clarkton, North Carolina, who has worked very valiantly on behalf of our peanut producers.

With that, we welcome the second panel and we will ask Mr. Woodie to please begin.

STATEMENT OF PATRICK WOODIE, RURAL ECONOMIC DEVELOPMENT REPRESENTATIVE, RALEIGH, NC; ON BEHALF OF BILLY RAY HALL

Mr. WOODIE. Thank you, Chairman McIntyre and Representative Thompson, Representative Etheridge and Representative Kissell for this opportunity to speak today about the rural development needs of this country and the great opportunities that lie before us.

My name is Patrick Woodie, Vice President of Rural Development Programs for the North Carolina Rural Economic Development Center representing our President Billy Ray Hall today.

The Rural Center has worked to make life better for people in rural North Carolina. As a statewide nonprofit organization, the center has developed, promoted and implemented sound economic development strategies to improve the quality of life of all rural North Carolinians. Throughout these 2 decades, the Center has had a very productive partnership with USDA Rural Development working together on ventures that brought new jobs and businesses, infrastructure improvements, innovative technology and community facilities to many of our rural communities.

First let me begin by underscoring that rural is important in North Carolina. There are five states that account for 25 percent of the rural population. North Carolina is one of those five and generally ranks second behind Texas. Depending on whose definition you use, the population of rural North Carolina is as high as 4.6 million people. That is larger than the populations of half the states in this country.

North Carolina also has the distinction of having the highest number of rural school children. That does not mean they all graduate. Fewer than seven in ten finish high school, and it does not mean they will not move away for better jobs. But in farm vernacular, we have good seed corn and plenty of it.

And to every extent possible, North Carolina takes care of its own. We have a very strong philanthropic sector. We have a Governor who, when the economic chips were down this year, found a way to put dollars into rural development. And we have a General Assembly that has never flagged in its commitment to rural people, and has fully supported the work of the Rural Center for more than 22 years.

I repeat, rural is important in North Carolina.

Yet, along with these assets, we face many challenges and our rural people are struggling at the economic edge. Some live in places where poverty is a legacy, 24 counties in North Carolina had a poverty rate of over 20 percent in 2008. Altogether, there are more than half a million rural North Carolinians who now live in poverty.

The economy of rural North Carolina has undergone seismic change as you well know. For years, nearly every small town in our state had one or several manufacturing facilities that are now gone. Manufacturing employment hit its peak in 1995 and after the recession of 2001, we thought we could not bleed any more. Then the recession of 2008 struck. In the period of 2000–2008, rural North Carolina lost 34 percent of its manufacturing jobs, for a total loss of 134,440 jobs.

In fact, unemployment did not hit its high in rural North Carolina until this past February of 12.7 percent, and today, five of our rural counties still have unemployment rates over 14 percent.

The hardship is serious, it is widespread and it will not be resolved quickly. To address these needs, we must move on several fronts simultaneously. And we have five areas we would like to emphasize.

First, we must continue large-scale investments in rural infrastructure. In Fiscal Year 2008, the Rural Center joined in a partnership with USDA using our state appropriations combined with USDA resources and funded a combined $250 million to address basic water and wastewater needs in rural areas. Thirteen of our rural communities currently have applications pending for USDA grants and loans totaling $8.3 million. That will leverage total investment of $36 million.

The most recent recession has affected available revenues. Between 2008 and 2009, total state and Federal assistance for water and wastewater infrastructure in North Carolina declined by $20 million in spite of the ARRA investment during that same time period.

Second, we must stimulate small business growth and entrepreneurship development. North Carolina was among the first to recognize the importance of home-grown jobs. Rural communities will become increasingly dependent on risk-taking and innovative individuals to create jobs.

At the Rural Center, we have responded to the challenges facing rural businesses with the North Carolina Micro-Enterprise Loan Program along with a venture capital program that together have made over 1,400 business loans valued at nearly $11 million.

Small business is the key to this recovery and your continued investment in funding USDA programs aimed toward small businesses is extremely necessary.

Third, we must stimulate deployment of broadband technology.

Fourth, as you heard from Steven Burke, we must invest in the opportunity to supply renewable energy for all America.

Fifth, we must never fail to address economic innovation across rural America.

And finally, in closing, let me offer just a few observations:

I hope that we can soon get beyond the clashes of opinion over large-scale agriculture *versus* local food systems. Rural communities need both and they have much to learn from each other.

Federal dollars from the Recovery Act have been critical at a time when rural communities were suffering, at perhaps their lowest point. We would be truly in desperate straits were it not for that.

Rural America needs at most a mandatory ongoing water and sewer program with predictable funding streams and favorable terms with your consideration of increasing the number of grants available over loans.

And we believe that we could have no greater partner at the Rural Center than USDA Rural Development, and we believe that our partnership is a model that other states should consider.

Thank you for the invitation to speak today and for your presence here at a time when so many rural communities need your attention to be focused on them. Thank you.

[The prepared statement of Mr. Hall follows:]

Submitted Statement by Billy Ray Hall, Rural Economic Development Representative, Raleigh, NC

Thank you Chairman McIntyre and Representative Thompson for this opportunity to speak today about the rural development needs of this country and the great opportunities that lie before us.

I am Billy Ray Hall, President of the North Carolina Rural Economic Development Center (Rural Center). For more than twenty years, the Rural Center has worked to make life better for people in rural North Carolina. As a statewide nonprofit organization, the Rural Center has developed, promoted, and implemented sound economic strategies to improve the quality of life of rural North Carolinians. Throughout these two decades, the Rural Center has had a very productive partnership with USDA Rural Development, working together on ventures that brought new jobs and businesses, infrastructure improvements, innovative technology, and community facilities to rural communities.

First, let me underscore that *rural* is important in North Carolina.

- There are five states that account for 25 percent of the rural population. North Carolina is one of those five and, in fact, is generally ranked second behind Texas. Depending on whose definition you use, the rural population in North Carolina is as high as 4.6 million people. That's larger than the populations of half the states in this country.
- North Carolina also has the distinction of having the highest number of rural schoolchildren. That doesn't mean they all graduate—fewer than seven in ten finish high school. And it doesn't mean that many won't move away to find jobs. But, in farm vernacular, we've got good seed corn and plenty of it.
- And, to every extent possible North Carolina takes care of its own. We have a strong and active philanthropic sector that's been a friend to rural people for many decades. We have a Governor who, when the economic chips were down this year, found a way to put dollars into rural development. We have a General Assembly that has never flagged in its commitment to rural people, including its full support for the North Carolina Rural Economic Development Center for more than 22 years.

I repeat . . . rural *is* important in North Carolina.

Yet, even with these assets, too many of our rural people are struggling at the economic edge.

- Some live in places where poverty is a legacy passed from one generation to another. Some are newly poor. In 2008, 24 rural counties in North Carolina had poverty rates over 20 percent. Together, these 24 counties—concentrated in eastern North Carolina, near the coast, and in south-central North Carolina—are home to more than 250,000 rural poor. Altogether there are more than a half million rural North Carolinians who now live in poverty.
- The economy of rural North Carolina has undergone seismic change. For years, nearly every small town in North Carolina was home to one or more manufacturing facilities. These manufacturing jobs, often in textiles and other traditional industries, have been on the decline since a peak in 1995. The recession of 2001 hit, and we found ourselves on the front page of nearly every paper in the nation because of our massive job losses. Just when we thought we couldn't bleed any more, the recession of 2008 struck. In the period 2000–2008, rural North Carolina lost 34 percent of its manufacturing jobs for a total loss of 134,440 jobs. And we know those numbers continued to worsen as the recession wore on.
- In fact, unemployment in our 85 rural counties did not peak until February of this year—at 12.7 percent. That figure dropped to 10.6 percent in April, but five rural counties still have unemployment rates of over 14 percent.
- It is no surprise that North Carolina leads the nation in trade-affected layoffs.

The hardship in North Carolina is serious, it is widespread, and it will not be resolved quickly. To address current needs, we must move on several fronts simultaneously. We look to USDA to continue as our strong Federal partner.

First, we must continue large-scale investments in rural infrastructure.

The partnership with USDA's Rural Development Office is essential to our rural areas' efforts to provide safe drinking water and environmentally sound waste disposal at rates that our rural citizens can afford.

- In (Federal) FY 2008, the Rural Center joined North Carolina's Rural Development Office in a memorandum of agreement to combine our resources to meet more of the water and wastewater needs of rural North Carolinians. We were able to gain the support of our General Assembly, and together the Rural Center and USDA targeted a combined $250 million to address basic water and wastewater needs. For example, 13 of our rural communities currently have applications pending for USDA grants and loans. Their approval will trigger a Rural Center investment of $8.3 million and total investments of $36 million in critically needed water and sewer projects. We have a wonderful joint record of accomplishment, but we still have an estimated $16 billion in unmet water and wastewater infrastructure demand. Unfortunately, neither the Rural Center's special state funding nor the USDA money we were able to tap is a recurring appropriation.
- The recent recession affected available revenues. Between 2008 and 2009 total state and Federal assistance for water and wastewater infrastructure in North

Carolina declined by $20 million—that's despite the significant infusion of ARRA money during that time period.

- Recently we calculated the unmet water and sewer needs in the most distressed rural areas of North Carolina. A total of 150 water and sewer projects in those most economically distressed rural counties were deemed "ready to proceed" but exceeded the ARRA allotment for our state's revolving loan funds by more than $200 million. In fact, only a quarter of all rural eligible projects could be funded, leaving more than half a billion dollars in shovel-ready projects in need of financial assistance for construction to begin. This unfunded amount far exceeds the total amount of state and Federal assistance for water and wastewater infrastructure for all of North Carolina.
- The USDA's Rural Water and Waste Disposal Grants and Loans have helped the rural communities in our state meet many critical water and sewer challenges. Our partners in Rural Development have responded to challenges that threatened the health of our rural people with failing septic systems and contaminated wells, to the emergency need to keep the water flowing during the extended drought of 2007–08, and to the necessity of finding alternative water supplies when the level of groundwater aquifers dropped dramatically. The continued authorization and increased appropriations for that program are vital to protecting the health and well-being of rural citizens and the economies of their communities. This appropriation should be mandatory under the farm bill and re-establish a more generous allocation to grants rather than loans for distressed communities.

Second, we must stimulate small business growth and entrepreneurship development.

As a result of plant closings and job losses suffered by our rural communities, North Carolina was among the first to recognize the importance of homegrown jobs. In the economy of the future, rural communities will become increasingly dependent on risk-taking and innovative individuals to create jobs and grow businesses.

- Small business is already a powerful force in the rural areas of our state. Rural North Carolina has 87,000 businesses with at least one but fewer than 50 employees. These small businesses account for more than 95 percent of all businesses in the state's 85 rural counties. In addition, there are nearly 288,000 self-employment businesses in rural areas. North Carolina's small businesses added more than 125,000 jobs during the period 2001–08 while companies with more than 100 employees lost 40,000 jobs over that same period. A survey in 2005 showed that more than 60 percent of rural businesses are started by individuals who grew up in rural North Carolina and most indicate no intention of selling or relocating their businesses.
- Yet small business owners cite serious concerns. These include a sense of isolation, lack of knowledge about emerging markets, lack of access to capital, limited understanding of available business support services, and the need for more training and education programs tailored for different sectors and levels of experience.
- The Rural Center began responding to these needs nearly 20 years ago with the creation of the North Carolina Microenterprise Loan Program. We now also operate a venture capital fund that enables the growth of existing businesses in our most economically distressed communities. Together these two programs have made over 1,400 business loans valued at nearly $11 million. Through two loan-loss reserve programs, we have leveraged another $104 million in private lending, leading to the creation or retention of more than 27,000 jobs. With the creation of the Institute for Rural Entrepreneurship in 2003, we intensified efforts to serve the needs of entrepreneurs and develop statewide policies in support of entrepreneurship and small business growth. Just last year, we joined with several state partners to launch a new project helping laid-off workers hone the skills that can lead them to become successful, self-employed entrepreneurs. So far that program, funded by the U.S. Department of Labor, has resulted in the creation of 60 small businesses. In these and other ways, we have created a model for the nation in how to fuel rural economic growth, and we know that with determination and resources, we can do more—and so can other states.
- To support the emergence of a dynamic, growing small business sector in rural North Carolina and rural America, we encourage USDA to expand its investments in rural entrepreneurs. The Rural Center participated in the discussions that led to Federal funding for qualified intermediary organizations such as

ours to provide technical assistance under the rural entrepreneurship and microenterprise assistance program (RMAP). We support increased funding for RMAP in general and specifically propose an increase in funding levels for non-lending technical assistance providers. We also support continued and expanded funding for the Rural Business Opportunity Grant to improve entrepreneurship infrastructure.

Third, we must stimulate deployment of broadband technology.

Broadband connectivity is vital to local economic development and job creation, standing in importance alongside water, sewer, roads and electricity. Communities that lack adequate broadband access will fail to retain existing business or create new commerce through entrepreneurship—plain and simple.

- North Carolina has had a nationally recognized state broadband authority since 2001 and has served as a national model for efforts to expand broadband access. Yet, approximately 17 percent of the households in North Carolina still have no high-speed Internet service available to them.
- We are encouraged by the renewed focus on broadband for our country and for North Carolina, as demonstrated through the American Recovery and Reinvestment Act programs of the U.S. Department of Agriculture and the U.S. Department of Commerce and with the March release of the National Broadband Plan from the Federal Communications Commission.
- We applaud the goals of the National Broadband Plan, but ask that Washington not forget the focus on rural solutions. The National Broadband Plan calls for increased broadband speeds for all households, but targets just a fraction of the population for ultra high-speed broadband. The possibility exists that rural America will be left out of the quest for higher speeds and that pockets of underserved or even unserved areas will remain. Rural America needs the same broadband access and speeds that urban America needs.
- Adequate broadband service is critical to building the base for a competitive economy across all of America. Research shows that a higher percentage of rural citizens in North Carolina operate home-based businesses than do urban North Carolina citizens. Broadband is the platform that enables them to operate these businesses. We expect that is true all over rural America.
- We look to you, and the USDA, to continue to focus on solutions and funding sources for broadband deployment to rural areas. North Carolina recently produced 40 competitive applications for funding consideration by the Rural Utilities Service for the ARRA-funded Broadband Initiatives Program (BIP) to build out last-mile broadband infrastructure in our state. We ask that the Rural Utilities Service implement any lessons learned from the BIP program and update and expand its historical grant and loan programs, traditionally geared toward telephone service, to offer continued assistance for broadband deployment.
- We also encourage the USDA to consider the benefit of funding for Web applications. In Rutherford County, the Foothills Connect Farmers Fresh Market program has provided enhanced incomes to more than 60 local farmers. Using an online platform that connects local farmers to chefs in neighboring metropolitan areas, these farmers have learned to use computers, to bar code their products and to grow foods that chefs in our major cities wish to buy. Broadband Internet is the platform that enables this network of growers and chefs to operate. The Farmers Fresh program is now expanding into other areas of the state. With support at the early stage, other Web-based applications can lead to new and expanded business opportunities across rural America.

Fourth, we must seize the opportunity to supply renewable energy for all of America.

Rural areas offer many advantages to the renewable energy sector that can translate into opportunities for farm businesses. Utilities and renewable energy brokers are seeking and finding sites in rural areas where the availability of land and exposure to sun and wind create potential for electric generation. North Carolina farmers who once supported their families and communities by growing tobacco are now exploring business ventures that can tap into the emerging interest in renewable energy sources, including biofuels.

- Like many states, North Carolina has set a renewable energy portfolio standard calling for private electric utilities to obtain 12.5 percent of their power from renewable sources and efficiency measures by 2021. (Electric cooperatives have a standard of 10 percent.) But the market price for renewable energy certificates is far from stable and hard to predict as utilities strive to meet their first targets in 2012.

- Many farmers in North Carolina also are looking for profitable ways to grow feedstock for the emerging biofuels industry. Working with farmers, universities and agricultural leaders, the North Carolina Biofuels Center has set a goal of having 10 percent of liquid fuel sold in North Carolina come from locally grown and produced biofuels. North Carolina has over 17.6 million acres in underutilized timberland, which makes woody biomass a significant resource with great potential for advanced biofuels development.
- Programs under the farm bill are contributing to North Carolina's ability to move forward with the development of renewable energy, and they have the potential to do even more. For example, by supporting farmers producing biofuel feedstocks, the Bioenergy Program for Advanced Biofuels has assisted three North Carolina energy projects. Development is under way on several other projects that we hope will qualify for the Biorefinery Assistance Program. And the Rural Energy for America Program has funded 60 North Carolina projects, addressing both renewable energy generation and energy conservation. As we witness the ongoing catastrophe in the Gulf of Mexico, we receive daily confirmation of the critical importance of the continued emphasis on these measures.
- Similarly, USDA's Rural Energy for America Program (REAP) has attracted tremendous interest from rural businesses and farms seeking to make their operations more efficient and renewable energy generation feasible. The number of REAP projects approved by USDA has grown steadily over the past four years and is expected to reach 100 this year in North Carolina alone, with a dollar value exceeding $13 million in loans and grants.
- This year we are hopeful the North Carolina General Assembly will fund the Agricultural Efficiency and Innovation Cost-share Program, which will assist farmers with energy audits that will identify ways to save energy and prove the feasibility of energy-efficient technologies and equipment. With energy audits in hand, more farmers will be able to apply for REAP loans and grants and leverage Federal assistance for their energy improvements.
- I know that this year's REAP funding deadline is Wednesday, but looking to the future, we encourage you to increase REAP appropriations from the current $100 million to meet more of the demand. Additional benefits will accrue if you will extend more energy technical assistance to farmers, businesses and communities in the most distressed areas, to help them recognize the best energy opportunities and make sound investments.

Fifth, we must invest in economic innovation across rural America.

Rural North Carolina has many challenges. But opportunities abound and can be realized through the application of creative ideas and resources.

- In Carteret County, a marine scientist, on his own time and dime, is testing a new way of raising oysters that could significantly increase production, jobs and income for fishing families.
- In Burke and Cleveland counties, small and mid-size manufacturers are implementing new ways to increase energy efficiency and improve the bottom line.
- In Bertie County, biotechnology is taking root through efforts to create a pilot extraction facility that will explore new farm-raised plants for use in the pharmaceutical industry.
- Secretary Vilsack clearly recognizes the critical role of innovation. In fact, he said recently: "This country has got to get serious again about a strong, vibrant, creative, innovative rural America. And I can guarantee you the USDA is committed to making that happen." USDA's continued investments are vital to encourage and seed rural innovation, whether that innovation is the idea that will create a profitable niche for local agriculture or the regional partnership that will enable more efficient use of resources while enhancing the rural quality of life. With that help, rural Americans and rural communities can thrive.

In closing, I would like to make a few brief observations:

- Open debate over important issues is critical. It is one of the great privileges of living in this country. It's what helps us to get things right. But I hope that we can soon get beyond the clashes of opinion over large-scale agriculture versus local food systems. We need both, and they have much to learn from one another. I also hope we can rise above the conflicts over agriculture funding versus rural development funding. One cannot survive without the other. We must put less time into debates about who gets a piece of the pie and work together to create a bigger economic pie.

- Federal dollars from the American Recovery and Reinvestment Act have provided a lifeline for states during the recent recession. Without this money, we would be in truly desperate straits. But I would like to stress today, to USDA and to Members of Congress, that what rural North Carolina and rural America need most are mandatory, on-going programs with predictable funding streams and terms. Small, rural, understaffed communities simply do not have the capacity to compete in a fast-moving, ever-changing funding environment.
- USDA Rural Development in North Carolina has been a great partner to the North Carolina Rural Center. We have successfully combined resources from the Federal and state levels to serve the rural communities of this state in ways that far surpass what either of us could have done individually. We believe we have a model for other states to consider. We ask that as Congress and USDA consider future funding, you remember that there are highly capable intermediary organizations that can and should be viewed as valued partners at the state level.
- Finally, we live in an urbanizing nation. Today, by some measures, more than 80 percent of the population lives in urban areas. It is therefore natural for "rural" to be viewed through an urban lens as the place where "our" food is produced, the place where "our" water supply comes from, the place "we" go for recreation as a break from the city and the suburbs. We depend on USDA to maintain the rural lens. We applaud the new focus on cross-agency collaboration at the Federal level, and we look to USDA to carry the rural message into these partnerships.

Thank you for this invitation to speak today. Your presence here—at a time when matters of the nation are so urgent and consuming—speaks to your commitment to rural people and to rural places.

Mr. MCINTYRE. Thank you, and please give our best wishes to Mr. Hall.

Mr. Jones.

STATEMENT OF RANDALL JONES, ELECTRIC COOPERATIVE REPRESENTATIVE, RED SPRINGS, NC

Mr. JONES. Congressman McIntyre, Congressman Kissell, Congressman Etheridge and also Congressman Thompson; thank you for being here today for your farm bill hearing.

I am going to be speaking a little away from the electric utility industry side, to speak about another important entity of what we feel is very important to rural America and that being broadband access.

So again, I am Randall Jones, President and CEO of Lumbee River Electric Membership Corporation in Red Springs. Also, I am a resident of Robeson County.

Lumbee River Electric Membership is an electric cooperative that provides electric service to some 4,000 to 6,000 members living in Cumberland, Hoke, Robeson and Scotland Counties. We have been a part of our communities since 1940. From the very beginning, we have been committed to providing electric and other value-added services that provide the quality of life in the communities we serve.

Over the last 2 years, there has been much conversation on the national level about the need for a network across the entire country that can bring broadband access to all Americans. In many respects, this need to expand broadband access across America is very similar to the experience we had related to electric back in the late 1930 and 1940s. At that time, electric was quickly becoming available in most urban areas of the United States. Unfortunately, rural America was unable to fully participate in the economic benefits that having electricity available could bring. Just like back in the 1930s and 1940s when Lumbee River EMC, along with other cooperatives across this country, came together to bring electricity and the resulting economic prosperity to rural America, we are here to support this effort.

To this end, Lumbee River EMC has put together a proposal that would bring advanced fiber-to-the-home broadband access via high speed fiber optic network to end-users in our rural service area. Our last mile infrastructure project will provide high speed broadband services that are urgently needed in rural communities by directly connecting homes, businesses, public service agencies and key community institutions.

To put this in perspective, once approved, this advanced fiber-to-the-home network will provide broadband access to over 11,000 homes as well as 95 critical community facilities and public safety entities. This includes everything from health care facilities to libraries and schools. In addition, it is anticipated that more than 50 new jobs will be created as a direct result of this effort.

We feel that cooperatives are uniquely positioned to help lead this effort. First, we have vast experience in providing cost effective services to rural America that require significant financial investments. Lumbee River EMC has for years balanced improving the electrical infrastructure in rural southeastern North Carolina while controlling the cost that our membership has to pay.

Second, we have certain components of the necessary infrastructure already in place. By taking advantage of the poles that are in place to provide electric service, we can minimize the duplication of facilities and more effectively manage them.

Third, in the case of Lumbee River EMC, we already have some experience with fiber optics. We are currently using a much smaller network to connect our substations to help facilitate various technologies that we are implementing.

We are certain that everyone agrees that the need for expanding broadband networks into rural America is the only way that we can ensure the future economic health of these regions. This will not happen without the commitment of our Federal Government. In addition, we believe that the electric cooperatives are uniquely positioned to participate as a significant contributor to this implementation. We at Lumbee River EMC would appreciate any support you can provide our efforts to bring this critical service to our membership.

And also, Mr. Chairman, I would like to say speaking of broadband, we also would like to ask for your continuing support from RUS in the financing of our infrastructures that we have in place for rural America.

Thank you for being here and thank you for allowing me to testify.

[The prepared statement of Mr. Jones follows:]

PREPARED STATEMENT OF RANDALL JONES, ELECTRIC COOPERATIVE REPRESENTATIVE, RED SPRINGS, NC

Good morning. My name is Randall Jones and I am the CEO for Lumbee River Electric Membership Corporation located in Red Springs. Also, I am a resident of Robeson County.

As you may know, Lumbee River EMC is an electric cooperative that provides electric service to some 46,000 members living in Cumberland, Hoke, Robeson, and Scotland counties. We have been a part of our communities since 1940. From the very beginning, we have been committed to providing electric and other value-added services that improve the quality of life in the communities we serve.

Over the last 2 years there has been much conversation on the national level about the need for a network across the entire country that can bring broadband access to all Americans. In many respects, this need to expand broadband access across America is very similar to the experience we all had related to electricity back in the late 1930s and early 1940s. At that time, electricity was quickly becoming available in most urban areas of the United States. Unfortunately, rural America was unable to fully participate in the economic benefits that having electricity available could bring. Just like back in the late 1930s and early 1940s when Lumbee River EMC, along with other cooperatives across this country, came together to bring electricity, and as the resulting economic prosperity to rural America, we are here to support this effort.

To this end, Lumbee River EMC has put together a proposal that would provide advance fiber-to-the-home (FTTH) broadband services via a high speed fiber optic network to end users in our rural service area. Our last mile infrastructure project will provide high speed broadband services that are urgently needed in rural communities by directly connecting homes, businesses, public service agencies and key community institutions.

To put this in perspective, once approved, this advanced fiber-to-the-home network will provide broadband access to over 11,000 homes as well as 95 critical community facilities and public safety entities. This includes everything from health care facilities to libraries and schools. In addition, it is anticipated that more than 50 new jobs will be created as a direct result of this effort.

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We are certain that everyone agrees that the need for expanding broadband networks into rural America is the only way we can insure the future economic health of these regions. This will not happened without the commitment of our Federal Government. In addition, we believe that electric cooperatives are uniquely positioned to participate as a significant contributor to this implementation. We at Lumbee River EMC would appreciate any support you can provide our efforts to bring this critical service to our membership. Thank you.

Mr. MCINTYRE. Thank you. Thank you for your timely testimony and I know you have also traveled to Washington to testify, and thank you for your effort you give, Mr. Jones.

Mr. Kissell, do you want to introduce our next panelist?

Mr. KISSELL. With pleasure; thank you, Mr. Chairman. I will introduce Tommy Porter from Cabarrus County. It is good to hear all these North Carolina names and you do not have to worry about and wonder where they are, you know. And it is just very good. Tommy, we appreciate you being here today. Tommy is more in the livestock end of the agriculture, and we are looking forward to hearing your testimony.

STATEMENT OF THOMAS "TOMMY" E. PORTER, JR., PORK, BEEF, AND POULTRY PRODUCER, CONCORD, NC

Mr. PORTER. Thank you, Congressman Kissell. Mr. Chairman, Members of the panel, it is an honor for me to be here today and thank you for listening to us.

Again, my name is Tommy Porter, I am a livestock producer from Cabarrus County here in North Carolina. My operation consists of a 2,200 sow farrow-to-wean operation; approximately 300 cow/calf momma cow operation and also a poultry operation.

My understanding of the farm bill, it is a comprehensive piece of legislation and as far as it pertains to farming, it would be to enhance competitiveness for American farmers in a global market. Two important parts of this bill would be the conservation and trade part.

In the conservation part, there are programs in there that are vital to livestock producers that would pertain to water quality. We keep hearing more and more about are we going to fall under air emissions controls as far as livestock are concerned.

In the conservation part of it and the air part of it, an example is the EQIP part of the farm bill, that presents money, cost share programs, that greatly help livestock producers.

Moving on to trade, we all know how important trade is, especially for the pork and poultry industry in this country. We know what naming a disease, for example H1N1—and I am hesitant to say swine flu—what great economic impact that had. I think there was a ban of 27 countries that banned U.S. pork, which cost American pork producers somewhere around $861 million, just from a simple naming of a disease.

Also, livestock producers, we greatly need an abundant, steady and affordable supply of feed grains as we are the largest consumer of feed grains produced in the U.S.

No doubt in these hearings and in the past, you have heard from well-funded animal extremist groups, from other well-funded groups that the ultimate goal, they would like for there to be no animal agriculture in this country. I ask that you be very aware of this and do not allow unintended consequences to come from decisions put forward by these groups.

Simply put, a national farm policy that provides stabilization of food and fiber production is a benefit to everyone, the consumer and the American farmer. And I would like just to sum up, which keeps it very simple for me. There are two things in this country that we must keep in this country at all cost. The first is a very strong and viable military for our national defense; the second is a food supply, a domestic food supply. And without the second, we could not have the first.

Again, I thank you for listening to me; thank you for being here.

[The prepared statement of Mr. Porter follows:]

PREPARED STATEMENT OF THOMAS "TOMMY" E. PORTER, JR., PORK, BEEF, AND POULTRY PRODUCER, CONCORD, NC

Mr. Chairman, Committee Members and other field hearing participants,

My name is Tommy Porter. My family and I own and operate Porter Farms in Cabarrus County here in North Carolina. Our farming operation is diversified—it includes poultry production (four pullet houses and a layer operation), a cow/calf operation and pork production with a 2,200 sow, farrow-to-wean multiplier unit.

As I come before you today, I want to thank each of you for the opportunity to provide input as you consider the Federal agricultural policies that will affect me and my fellow North Carolina livestock farmers. I thank you for giving producers like me a chance to provide input in your planning.

Let me begin with some general comments and thoughts.

I understand that a farm bill is a comprehensive piece of legislation. From my review of its purpose and history, I also understand that a farm bill's focus should be on farm programs and policies to enhance the competitiveness of U.S. agriculture.

This includes conservation and trade programming that are vital to our country's livestock and poultry producers. On the other hand, it should not include outside interests on behalf of those who want to hurt farmers, food security and resource conservation.

Please allow me to expand.

First, regarding the subject of conservation and natural resource stewardship, North Carolina's pork, poultry and cattle producers are committed to running productive operations while meeting or even exceeding environmental expectations. We have fought hard for science-based, affordable and effective regulatory policies that achieve the goals of today's environmental statues. In order for us to meet these costly demands while maintaining production, the Federal Government must provide support to help us defray some of the costs of compliance through conservation programs of the farm bill.

We need simple conservational title programs that give us cost-share or technical assistance. By simple, I mean processes and programs that do not complicate or hinder the delivery of services in the field. Whether it's the opportunity for me or fellow pork producers to install cup waterers in our barns for better water management or the chance to purchase additional irrigation equipment, we need EQIP and other conservation provisions. With air quality objectives and requirements likely ahead of us, we will need EQIP to help us there too.

While we need simple conservation title programs, we also must have programs that increase quality and safety, and promote the role of pork, chicken and beef in a healthy diet. And that leads me to the subject of market access and trade. Expanded access to foreign markets, continuing promotion of U.S. exports and aggressive pursuit of export business all mean a great deal to U.S. protein producers.

For example, at present, there is strong global demand for pork products. With 96% of the world's population outside of the United States, programs and trade efforts in other countries are important to America's pork producers. The U.S. is the low-cost producer of pork in the world. We are the number one exporter of pork in the world and these pork exports benefit the economy in two ways: it helps increase the prices that pork producers are paid for the hogs they market, but it also helps retain jobs through many rural communities across North Carolina and in some cases, create new jobs.

Last year pork producers experienced firsthand the importance of protecting access to current export markets. Twenty-seven countries placed bans on U.S. pork and pork products following an outbreak of H1N1 human influenza on the North American continent in spite of the fact that there is absolutely no evidence to indicate that the virus can be conveyed to humans through the consumption of pork. The limitations on our access to those markets greatly impacted pork producers at a time when we were already under economic stress. Market access is key to the viability of pork producers like me across the country.

Furthermore, I want to stress another point—farm programs that help manage or control costs of production related to input costs are vitally important to America's producers like me. Corn and soybean meal comprise a significant cost of raising livestock and poultry. The entire impact of feed grain programs and renewable energy programs should be carefully considered, including their impact on the cost of producing meat protein sources.

Also, we realize people and organizations with extreme agendas will be calling on you to expand the focus of the farm bill to include their special interests. In advance of those distractions, I thank you for keeping your focus on a national farm policy that stabilizes food and fiber production for everyone. Outside agendas related to animal welfare guidelines, packer ownership bans, and other activist interests should not be the focus of a national farm bill. Many of these groups who will lobby you are well-funded and strategically coordinated and would like to ban farm animal production. I ask that you not be influenced by people who are not animal care experts and really have no knowledge of the animal care and husbandry practices that I employ on my farm everyday.

In summary, as a livestock and poultry producer, I stress the idea that farm bill programs should be aimed at reducing or controlling costs of production, increasing the prices received for livestock and poultry products, and increasing the quality of U.S. meat and poultry products. Simply put, a national farm policy bill that provides stabilization of food and fiber production is a benefit to everyone—farmers and consumers.

Thank you for allowing me to visit with you today and sharing my perspective as a farmer.

Mr. MCINTYRE. Thank you very much.

Mr. Dan Ward.

STATEMENT OF DAN WARD, PEANUT PRODUCER, CLARKTON, NC

Mr. WARD. Good morning, Congressman McIntyre and Members of the Committee. My name is Dan Ward, I am a peanut farmer from Bladen County, North Carolina. I am currently an alternate on the National Peanut Board and Chairman of the North Carolina Farm Bureau Commodity Committee. I currently serve on Congressman McIntyre's Ag Advisory Committee and am a past President of the North Carolina Peanut Growers Association.

My family has been producing peanuts since before I was born. Today, we are farming 330 acres of peanuts, 1,400 acres of corn and 100 acres of soybeans.

I would like to stress several points today: peanut producers support the marketing loan program; current safety net provisions are not sufficient for southern agriculture; CSP and green programs need to be strengthened and fully funded; the need for continued support by USDA for peanut exports; and preservation of the marketing loan program is of utmost importance. It is the only provision of the current farm programs that covers all of a farmer's production. It is an essential tool in marketing our commodities and provides a floor for prices. Most of the peanut crop in recent years has utilized the loan, and any substantial changes to the loan program would cause extreme hardship on peanut producers.

Mr. Chairman, as I am sure you are aware, southern agriculture is very diverse. Many producers plant peanuts, corn, soybeans, cotton, wheat, vegetables and tobacco. Each of these crops has different equipment requirements. Also, soil types and rainfall patterns result in differing yield potential within the state and even within counties.

Because of this variability in yields, the ACRE program does not work for southern agriculture. The requirement that the state must trigger has the potential of inequitable administration of this program. Some areas of the state could experience a major loss while the rest of the state has above average yields. If revenue assurance is to be considered as improving the safety net, then this question of variability within a state must be addressed.

Recently peanut growers have asked the Risk Management Agency to develop an affordable crop revenue coverage policy for peanuts. This would protect farmers against price and yield risk. I would support any reasonable price reporting requirement necessary to make a CRC policy work.

The Conservation Stewardship Program includes provisions for a crop rotation program. This program encourages longer rotations, which are effective in reducing the need for agricultural chemical application. This is environmentally sound and desirable, and also will improve crop yields. The Department has finally implemented this program, but producers have not been able to utilize it because of insufficient funding. Farmers are conservationists at heart. We are doing our part every day to protect the environment and our farm and our families. But it is expensive and we need assistance from programs like CSP.

Nutrition and feeding programs at USDA are very important to peanut producers. The school lunch program is utilized by school systems all over this country. Without it, many children would go hungry. Peanut products are an important menu choice and over the past year the peanut industry has asked the USDA to increase purchases of peanut products and they are increasing.

Exports of peanuts are important to U.S. peanut farmers. USDA's Foreign Agricultural Service and the peanut industry have cooperated in our effort to increase exports. Current world market conditions are presenting the industry with an opportunity to expand peanut exports. We appreciate the funding we have received in the past and hope that the Department will continue to fund export enhancement programs at current or increased levels.

Mr. Chairman and Committee Members, I do not envy you and your job of writing a new farm bill. I know you will be under intense pressure to decrease funding for agricultural programs and increase other programs under the Department's jurisdiction. Many farmers are struggling financially while providing this nation with the best quality, lowest priced food supply in the world. Current farm programs are making that possible. Program reductions will put many farmers out of business. This would surely result in higher food prices and put even more pressure on nutritional budgets.

Mr. Chairman, thank you and the Committee for your concern for agriculture.

[The prepared statement of Mr. Ward follows:]

PREPARED STATEMENT OF DAN WARD, PEANUT PRODUCER, CLARKTON, NC

Good morning, Chairman Peterson, Members of the Committee, My name is Dan Ward. I am a peanut farmer from Bladen County, North Carolina. I am currently an alternate on the National Peanut Board, and Chairman of the NC Farm Bureau Peanut Commodity Committee. I currently serve on Congressman McIntyre's Ag Advisory Committee and I am a past President of the North Carolina Peanut Growers Association.

My family has been producing peanuts since before I was born. Today we are farming 330 acres of peanuts, 1,400 acres of corn and 100 acres of soybeans. On behalf of the peanut farmers of North Carolina, I welcome you to the Tar Heel State. Thank you for your willingness to come here and listen to the concerns of North Carolina farmers. Mr. Chairman, we appreciate the leadership you demonstrated in getting the 2008 Farm Bill passed. We also know that you and the Committee will face unprecedented fiscal challenges while writing the next farm bill. I would like to stress several points today and look forward to your questions and comments. The major points are:

1. Peanut producers support the marketing loan program.
2. Current safety net provisions are not sufficient for southern agriculture.
3. CSP and "green programs" need to be strengthened and fully funded.
4. The need for continued support by USDA for peanut exports.

Preservation of the marketing loan program is of utmost importance. It is the only provision of current farm programs that covers all of a farmer's production. It is an essential tool in marketing our commodities and provides a floor for prices. Most of the peanut crop in recent years has utilized the loan and any substantial changes to the loan program would cause extreme hardship on peanut producers.

Mr. Chairman, as I am sure you are aware, southern agriculture is very diverse. Many producers plant peanuts, corn, soybeans, cotton, wheat, vegetables and tobacco. Each of these crops has different equipment requirements. Also soil types and rain fall patterns result in differing yield potential within the state and even within counties.

Because of this variability in yields, the ACRE Program does not work for southern agriculture. The requirement that the state must trigger has the potential of inequitable administration of the program. Some areas of the state could experience a major loss while the rest of the state has above average yields. If revenue insurance is to be considered as improving the safety net, then this question of variability within a state must be addressed.

Recently, peanut growers have asked the Risk Management Agency to develop an affordable Crop Revenue Coverage policy for peanuts. This would protect farmers against price and yield risks. I would support any reasonable price reporting requirements necessary to make a CRC policy work.

The Conservation Stewardship Program includes provisions for a crop rotation program. This program encourages longer rotations, which are effective in reducing the need for agricultural chemical application. This is environmentally sound and desirable, and also will improve crop yields. The Department has finally implemented this program, but producers have not been able to utilize it because of insufficient funding. Farmers are conservationists at heart. We are doing our part every day to protect the environment and our farms and our families. But it is expensive and we need assistance from programs like CSP. It is important to me that my farm be operated in a sustainable manner.

Nutrition and feeding programs at USDA are very important to peanut producers. The school lunch program is utilized by school systems all over this country. Without it many children would go hungry. Peanut products are an important menu choice. Over the past year the peanut industry has asked the USDA to increase their purchases of peanut products to be used in their feeding programs. I am happy to say that their purchases are up and I do think that there is room for continued increases in peanut purchases.

Peanuts do not qualify for the Fresh Fruit and Vegetable Snack program. I believe that all school feeding programs should include peanuts. At a recent peanut industry meeting, Dr. Mark Manary of Washington University in St. Louis detailed the many nutritional benefits of peanuts. He discussed how peanuts are being used in Africa to combat malnutrition, explaining that no other food contains the necessary protein, fat and nutrients at such a reasonable price. With our nations epidemic of childhood obesity, peanuts and peanut butter should be in the forefront of nutritional meals.

Exports of peanuts are important to U.S. peanut farmers. USDA Foreign Agricultural Service and the peanut industry have cooperated in our effort to increase exports. Current world market conditions are presenting the industry with an opportunity to expand peanut exports. We appreciate the funding we have received in the past and hope that the Department will continue to fund export enhancement programs at current or increased levels.

Mr. Chairman, I am concerned about the recent effort by the U.S. Department of Transportation to ban peanuts on commercial airline flights because of peanut allergies. The peanut industry has spent millions of dollars to encourage the development of a vaccine or treatment for peanut allergies. We do not wish to minimize the seriousness of food allergies. Congress asked 10 years ago that DOT not implement a peanut ban unless a scientific peer reviewed study indicated a need for the ban. No such study has been done, and I would hope that Congress would not allow DOT to continue this action.

Mr. Chairman and Committee Members, I do not envy you and your job of writing a new farm bill. I know you will be under intense pressure to decrease funding for agricultural programs and increase other programs under the Department's jurisdiction. Many farmers are struggling financially while providing this nation with the best quality, lowest priced food supply in the world. Current farm programs are making that possible. Program reductions will put many farmers out of business. This would surely result in higher food prices and put even more pressure on nutritional budgets.

Mr. Chairman, thank you and the Committee for your concern for agriculture.

Mr. MCINTYRE. Thank you very much, Mr. Ward, and thanks to all the panel for your testimony.

Mr. Woodie, it has been said that U.S. trade policy is the biggest driver of unemployment in North Carolina. Would you agree with that statement?

Mr. WOODIE. Certainly North Carolina is the most trade affected state in the country, we know that in terms of the number of jobs that we have lost and the reasons for those job losses. We continue to see communities struggling with that transition in the economy, seeing the percentage of their total rural workforce that is in manufacturing decline significantly. Just when you thought you had reached the bottom and could not go any lower, we found a new low water mark. And even though we believe manufacturing and very different manufacturing will continue to be a strong part of the total labor force, we certainly have seen the loss of many of those jobs. A lot of it is due to foreign competition and the nature of that competition.

Mr. MCINTYRE. Would you say that the backlog in program applications got reduced any by the Recovery Act when it was passed?

Mr. WOODIE. No. I do not believe the backlog got reduced, though it was significantly able to help meet the need that we did have. We closely monitored the ARRA dollars and looked at how they worked in conjunction with state dollars that we had been appropriated. There were a total of 150 water and sewer projects that were submitted as part of the ARRA round. Those projects were defined as ready to proceed. And it greatly exceeded the capacity of our state revolving water and wastewater loan funds to meet those needs by more than $200 million. More than half a billion dollars in shovel-ready projects in need of financial assistance for construction are ready to proceed in North Carolina, but for funding.

Mr. MCINTYRE. Okay, well, I want to make sure I am clear on your answer then, because you said no, that it did not help meet the backlog, but then you said it helped significantly meet the needs. So are you just saying—please explain that.

Mr. WOODIE. Well, in the absence of that money, we would be even further behind. There continues to be a very significant backlog. Our state needs to invest about $16 billion in rural water and wastewater and stormwater infrastructure between now and the year 2030. And the funding streams have not always been reliable year in and year out. Were it not for ARRA funding, we would be even further behind.

Mr. MCINTYRE. In the last farm bill we had, we also had monies for water and sewer. Was that of significant help to the state projects as well?

Mr. WOODIE. Absolutely. And it was through our partnership with USDA Rural Development in this state that we were able to use state appropriated dollars to the Rural Center, which are all grant dollars, to help USDA leverage those Federal dollars into projects on the ground. That resulted in a significant increase in funding of water and sewer projects in the State of North Carolina during that time period.

Unfortunately, our funding is nonrecurring funding, it was done at the time when the General Assembly was able to dedicate resources to water and wastewater, and that is not always the case. So reliable funding streams at both the state and Federal level are the most important things for our water and sewer infrastructure.

Mr. MCINTYRE. All right, thank you.

Mr. Jones—I apologize, let me ask you one more question, Mr. Woodie. Have you had a chance to look over the new USDA interim rule on the new Microentrepreneur Assistance Program?

Mr. WOODIE. Yes, I have. And we participated in the formation of the program along with a lot of other folks across the country. We are very pleased to see it, we think it meets a critical need of really helping us be able to—and organizations like us, to be able to work with the intermediaries we do to increase their capacity to deliver technical assistance at a local and regional level to small business owners who really need that kind of help.

Mr. MCINTYRE. Thank you. And for those in the audience, the new Micro-Enterprise Assistance Program that emanated from our Subcommittee and also this full Committee, was one specifically targeted to small businesses that employ less than ten people, because they are the fastest job generators of all small business, and also usually have the most trouble dealing with Federal bureaucracy and the red tape at both the state and Federal levels. So we are pleased that that program is now being implemented, having come out of the last farm bill, the Rural Entrepreneur and Microenterprise Assistance Program.

Mr. Jones, I was going to ask you—you gave some excellent testimony about your desires to work on broadband, can you tell us how much of your service area currently does not have broadband service? Do you have a percentage or rough estimate?

Mr. JONES. Congressman, I can tell you that the four counties in which we serve, just about all of the rural territory does not have broadband access. There are public school systems throughout the county that were funded through the Federal Government to allow the school systems to get it to the schools. One of our concerns is that many of the residents out in the rural community that go to those schools do not have that broadband access at home.

Mr. MCINTYRE. Thank you. Mr. Thompson.

Mr. THOMPSON. Thank you, Chairman.

Mr. Woodie, do you believe that the definition of *rural* which was included in the 2008 Farm Bill was sufficient to properly target the areas in need?

Mr. WOODIE. I am not familiar with the definition specifically that was used in the farm bill. At the Rural Center, we suffer from the fact that there are so many definitions of *rural* and our definition is a little different from the one that USDA has used.

Mr. THOMPSON. I think that is a significant issue only because there are probably as many different definitions of *rural* as there are agencies and departments within the Federal agencies.

Now you cited in your testimony the absence of recurring appropriations for water and wastewater programs that you were involved in applying for. But the farm bill actually authorizes yearly appropriations. Can you clarify which programs you use that are not authorized for subsequent years?

Mr. WOODIE. Well, I think the most important thing, as I understand it, is that the funding for water and wastewater programs through the farm bill be mandatory funding *versus* non-mandatory funding. The problem we have experienced is we do not apply directly to the Federal Government for any of the USDA resources, but we try to work with USDA Rural Development in our state to leverage both programs, both our state funding and Federal funding, to combine that to make it work for communities and real projects on the ground in rural communities. So that is sort of the role we play.

Mr. THOMPSON. Your testimony also cited the need for more training. What specific training do your rural small businesses lack? I know that North Carolina has a fairly strong community college program, what role do community colleges play in filling this training need?

Mr. WOODIE. The community colleges play a very important role in North Carolina, and I mentioned earlier that we rely heavily upon our intermediaries at the local and regional level in terms of really reaching, being the one-on-one service provider to rural entrepreneurs. A lot of that is done through the small business centers. There is a small business center that exists at every campus of the community college system in North Carolina. And we work strongly at the Rural Center to support increased technical assistance to those intermediaries to increase their technical capacity, their ability to reach more local business owners. If you get down to the business owner level, what they face is really a lot of difficulty in navigating the system.

North Carolina is blessed in many ways in that we do have so many programs, both federally funded programs, state funded programs, nonprofit funded programs funded through the private sector, that offer a lot of assistance to any rural business owner or any other business owner in the state. But it is a very difficult network to navigate. And so our emphasis has been on simplifying that network, having the different cogs in that wheel, so to speak, be much more aware of what each other does. And what we have tried to do is really adopt a no-wrong-door policy so that if a small business owner goes to one agency and it is not exactly the right fit, that agency knows enough about what everybody else is doing to get them to the right place to provide that technical assistance that they need.

Mr. THOMPSON. Great.

Mr. Jones, I really appreciate your organization—your commitment to broadband. You know, business and industry was built along riverways and then highways. The broadband highway is the future for economic development, and especially in rural America.

At the end of the fiscal year, the broadband funding from the stimulus bill will expire. Do you feel it would be useful for USDA to have rules for the farm bill broadband program in place before the Fiscal Year 2011 begins?

Mr. JONES. Yes, sir, I do. I know that the announcements are being talked about possibly sometime in July for the last stimulus funding that was announced, and that is the part of the application that we have applied for at Lumbee River. We had applied in the first round and did not make it. But there were many other states and counties did not make it as well. I think there was only one entity in North Carolina that received funding in the first round. Our application for the second round is in, and we are looking forward and hoping that application may be approved.

Mr. THOMPSON. Okay, thank you.

I have a couple of other questions, but I will yield for now, Mr. Chairman.

Mr. McINTYRE. Thank you, Mr. Thompson.

Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman.

I would like to thank the panelists for being here today. Also, I would like to recognize Randy Gore and the work that he does for our state and our districts and how much we appreciate that.

Mr. Woodie, if you could pass on to Billy Ray our concerns on the medical situation. Mr. Chairman, also in your situation. I hope they all go well as time goes on.

Patrick, I would like to thank you for bringing out the information in discussing how rural North Carolina is because, in my district, it is very rural and all the situations you talked about certainly apply to us.

One thing I would like to mention, Mr. Porter, you mentioned about the importance to national security of agriculture and the military. It should not surprise anybody what a large percentage of our soldiers come from rural areas. There is a like mindset there that is developed there.

Tommy, you are recognized as a leader of agriculture in Cabarrus County and surrounding areas. You have grown your business, you are a very effective and efficient farmer. What programs do you find, including Farm Credit and the availability of credit, to work well as you entertain your business opportunities *versus* ones that maybe we need to look at more?

Mr. PORTER. I would say that the Farm Credit Association, without Farm Credit I feel safe to say I would not be farming to the extent that I am today. Credit is not available through commercial banks, there is just not the understanding of agriculture, they are not willing to take the risk and work with farmers through tough times. So I really cannot say enough good about the Farm Credit System and my experience with it.

Farm Bureau simply put is the voice of agriculture. We desperately need someone like that. Farmers are too busy on the farm just trying to make a living to spend time in Washington, or at the state capitol, or even at the county level for their needs to be heard. So organizations such as Farm Bureau are vital to our existence.

Mr. KISSELL. And Mr. Jones, this question maybe is a little bit away the farm bill that we are looking at, but we are looking at legislation that would allow monies to be worked through the rural co-ops to be given to your members for them to upgrade their heating systems, air conditioning, weatherization of the houses to make them more weather efficient and fuel efficient. I just wonder what your thoughts are on this program.

Mr. JONES. It is an outstanding program. The electric cooperatives have been very supportive toward any of the conservation and energy efficiency programs that we are implementing along with any of the state or national programs and supporting those. I think it is very important that the energy policies that we look at today, and where we are as far as future need of generation, that we will continue as electric cooperatives to support energy efficiency programs and renewables and those things that will help in the conservation of energy.

Mr. KISSELL. Thank you, sir. And once again, thanks to the panelists and I yield back, Mr. Chairman.

Mr. MCINTYRE. Thank you, Mr. Kissell. Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Let me thank each of you for being here. Let me also thank Matt Peterson who is here. We talked this morning about programs, production agriculture and a host of others. But he actually represents one of the leading research universities, NC State and really North Carolina A&T, who we have depended on in this state for a long time. I think all of you can agree that were it not for research over the years, we would not be where we are today in our agriculture production, not only just here in this state, but across the country. It really is research development funds through USDA and some other places, but by and large USDA, where they come from.

Mr. Porter, let me ask you a question if I may. You are aware of the importance, and you talked about this, of agriculture in our state, but really livestock. Livestock in North Carolina has really bloomed. We rank number two in hogs, pigs, turkeys, number three in poultry and eggs. And we are also going through some tough times there, as we have talked about this morning and some difficult changes.

I would like to know your thoughts on the current grower/integrator contract system. Does it need changing or should it be left alone? We went through that in the last farm bill to some extent. Sometimes when you make changes, you have unintended consequences such as the USDA GIPSA rule. I think there are some concerns as to the end effect as to whether the proposed rule changes would be advantageous to growers. I would be interested in your thoughts because you are involved in a whole host of those areas.

Mr. PORTER. Yes, sir, and I am not familiar with all the details of the new particulars that may be coming up. But I would be concerned—there is always room for improvement and as a producer, no, the integrator never pays me enough. But also packer bans and things that would be placed as restrictions on the integrator, those could trickle down and have your unintended consequences that could drastically hurt the producers. So it has to be fair and equitable to all. And in my mind, it is a very complicated process, but I would be very concerned about the unintended consequences that could come about from different regulations.

Mr. ETHERIDGE. Thank you, I appreciate that. I think it is important to get that on the record because many times when people want to move something, they forget that for every action there ultimately is a reaction.

Mr. Ward, I know you are aware of the recent attempt by the U.S. Department of Transportation to ban peanuts on flights. So thanks to Members even on this Committee and my colleagues here today, they at least postponed it or called it off for now. However, this does bring to light the need to look at food allergies. I mean people do have them and we need to think about them. What is the peanut industry doing to deal with this allergy and what do you think needs to be done, if anything, at the Federal level?

Mr. WARD. Currently the peanut industry is spending a tremendous amount of money doing research. We are doing research at Duke, Johns Hopkins, Sloan Kettering and other universities. The National Peanut Board has spent about $7 million in the last few years to research the allergies. The Peanut Foundation has raised $2 million, that is the research arm of the American Peanut Council. And we have raised $2 million through the industry to research allergies.

They are coming very close to having an allergen vaccine that will work. We do not want the peanuts picked on, we want everything to be treated fairly and so that was why the Department of Transportation was asked about the peer-reviewed study group so that they would be able to rate peanuts along with the other allergens.

Mr. ETHERIDGE. Thank you. Let me ask each one of you this question dealing with rural development because we have touched on it today. How would you assess the state of the economy in rural communities where you live or work, and what is the biggest challenge out there for this farm bill that we might do to help to make a difference in rural America, in your community—one thing. We'll start with you, Mr. Woodie.

Mr. WOODIE. One thing, in my testimony I spoke a lot to what is the state of those rural communities, and I know you know that extremely well. They are in pretty dire situations, very high unemployment, there is a great need for jobs. We believe more than ever before in this recovery, small business job creation is the key to long term job recovery, and I think it needs to be a major emphasis of the farm bill.

Mr. ETHERIDGE. Jobs.

Mr. Jones.

Mr. JONES. I would say basically the same as well, jobs in the communities, but also in the jobs I think for small businesses, that there has to be the financial tool for those small businesses to be able to have the lending funds that they do in order to start those new businesses, or to assist in the expanding of the existing businesses.

Mr. ETHERIDGE. Credit.

Mr. JONES. Credit.

Mr. PORTER. I would agree that small businesses are a key and vital part, remembering that agriculture is the number one industry in North Carolina, so whatever is done to help agriculture can only help these other small businesses.

Mr. WARD. I would like our safety nets to be continued and protected. I think that is one way for me, the row crop lender that I deal with, that is one way for us to be protected. If safety nets are in place and are working properly, then I will have the ability to pay back those people that I use their crop supplies, their tractors, their fertilizers. With my safety net in place, no matter what the weather turns out, things I cannot control, I would be able to pay my bills which would help in my rural area make the rural economy a little bit better. That's from my standpoint.

Mr. ETHERIDGE. Thank you. Thank you, Mr. Chairman.

When you are talking about a safety net, you are really talking about a three-legged stool, you are talking about countercyclical payments, you are talking about market loans and direct payments, those three things. And if any one of those are gone that stool is going have a very difficult time standing up.

Thank you, Mr. Chairman, I yield back.

Mr. MCINTYRE. Thank you very much.

Mr. Thompson, you have anything additional?

Mr. THOMPSON. Just two quick questions.

Mr. Porter, your testimony highlighted a need to expand exports of agricultural products. Just briefly, what steps do you feel the Administration and Congress should be taking to address that need?

Mr. PORTER. You are probably getting a little bit above my head but any movement, any efforts that could be taken. For example, the talks going on with Russia to expand poultry back into Russia, that is a great boost to the poultry industry, which greatly helps North Carolina.

The lifting of the bans from the result of the H1N1 virus worldwide through the pork industry, as I said earlier, that was just devastating. So any talks that could smooth over these type of, what I would consider a lot of them are political repercussions, and why a lot of these bans are put on. But anything to smooth over stuff like that for foreign trade, I think would be a great improvement.

Mr. THOMPSON. Very good. I think we also need to be real careful what we name future flus as opposed to blaming the hogs for it.

Mr. Ward, can you explain what you mean when you say that you would support any reasonable reporting requirements necessary to make a CRC policy work? Do you mean mandatory price reporting for peanuts or something specific to a crop insurance program?

Mr. WARD. Well crop revenue coverage and the RA, the revenue assurance programs with the corn and soybeans which we carry that kind of insurance on our farm. They use the Chicago Board of Trade futures prices to set a spring price and a fall price which is an average of the 30 day for different months. And that is about as far as I understand that.

We do not have that with peanuts, there is no futures at the Chicago Board of Trade for us to rate what the price is this year compared with last year or a year in advance. So USDA has been trying to get prices established so that they would have a way to base that revenue part on. And I do not understand the whole formula, but there is no clear market like that. They are depending on individuals within the peanut industry to report those prices, and I do not think they have been able to find a successful formula yet.

Mr. THOMPSON. Thank you. Thank you, Mr. Chairman.

Mr. MCINTYRE. Thank you so much.

Mr. Kissell, you had an additional question?

Mr. KISSELL. Just a follow up. Mr. Ward, we talked about Congressman Etheridge's question on peanut allergies. We recently held a reverse trade mission where we bring people in from another country to our district and talk to them about opportunities here. We had a delegation from Israel come in and we talked about peanut allergies and they said it is very rare in Israel for that to be the case with their population.

I would encourage you—we have a great research campus in Kannapolis, North Carolina, it is a public-private partnership between David Murdoch and in North Carolina the seven universities there. They look at food allergies. Also a lot of corporations come in there. Might want to encourage the folks that are working on this to make the contact with our office or the research campus, there is a lot of work being done there and maybe we could help in that regard.

Mr. WARD. I would love to.

Mr. MCINTYRE. Mr. Ward, let me ask you this, would you support an increase in the loan rate for peanuts? And are low loan rates a bigger long-term economic threat to peanut producers than the lack of peanut buyers? Could you give us some insight on that?

Mr. WARD. I do not know that I would necessarily support an increase in the loan rate. I do not want the loan rate increased in order to flood the market. That is one of my main concerns, if it is working as it is right now. And I do not know in the current attitudes in Washington whether we are going to get increases. I would like to maintain what we have.

Mr. MCINTYRE. All right. And how involved have you been in the discussions with RMA to this point regarding a revenue coverage policy? Is there an issue particularly sensitive to peanuts that RMA needs to take into consideration?

Mr. WARD. I have not been involved in any of those discussions. I know the outer periphery of what I understand is they just cannot get a price reporting—they cannot get the price reporting data down properly between the prices going to the farmers and what the manufacturers or the shellers are reporting. And I am not sure where it is going from that.

Mr. MCINTYRE. All right, thank you very much.

Is there any other comment that any of the panelists, in light of the discussion or questions, would like to point out before we close out this panel?

[No response.]

Mr. MCINTYRE. If not, I would like to thank you all and thank all of our witnesses.

Mr. Etheridge?

Mr. ETHERIDGE. May I ask Mr. Woodie a final question?

Mr. MCINTYRE. Sure.

Mr. ETHERIDGE. You touched on it earlier talking about funding for water and sewer. And in the recovery package last year, there were substantial dollars allocated to USDA for that specific purpose. I would be interested in your final comments for the record because those dollars will not be there in coming years. You alluded to it earlier but did not speak to it specifically, and as we look out at the tremendous need that is going to be there and the climbing dollars, because that was a one time infusion. What do you see in terms of the Rural Center's involvement in that because you were able to allocate state dollars to leverage a lot of those Federal dollars? What do you see as our challenge over the next several years without those additional leveraging dollars in rural America when we talk about developing jobs but you cannot get the jobs unless you have rural water and sewer?

Mr. WOODIE. You know, I think our greatest challenge and the one that we deal with as a funder and in talking with the other funders, which we do on a regular basis, I think the biggest challenge that we see—and the biggest fear, quite frankly—is that we lose some of the ground we have made up. You know, the big challenge is in front of us and the biggest problem we have is that there is not reliable, recurring, dedicated funding streams that year in and year out give us an idea of the resources that we are going to have as a state to focus on water and sewer infrastructure. Most other major types of infrastructure have more reliable funding streams. Big problem at a state level that our state has to come to terms with and being able to leverage the state dollars with Federal dollars is absolutely essential when we still are a state of small towns, and so many of those small towns have small systems.

Mr. ETHERIDGE. Thank you and for the record, many of those small towns are on moratoriums.

Mr. WOODIE. Yes.

Mr. ETHERIDGE. Mr. Chairman, thank you and thank you for the opportunity.

Mr. MCINTYRE. Yes, sir. And Mr. Jones, if I could ask you, has Lumbee River Electric Membership Cooperative made use of other USDA Rural Development programs such as the Rural Economic Development Loan and Grant Program, which is known as the REDLG program? If so, what is your assessment of that program or other programs that you avail yourself through USDA?

Mr. JONES. The USDA rural lending funds have been I think, particularly with us, as an electric cooperative, to provide those funds in assisting an industry into our counties that we serve, also for small businesses through the intermediary relending program. It has been very helpful during this time of the financial crunches that we saw. We have seen an increase in small businesses that have came to us for assistance in lending. We probably have, as far as electric cooperatives, one of the best programs I think in the state on the lending side. I give that support to our board because we do stand as the guarantor to those funds, and our Board of Directors has supported us in being able to make those loans. And I think it is continuing to be critical in support, particularly for small business and the REDLG side of industry that may be coming, but most importantly I think the intermediary relending program for small businesses has been the most important.

Mr. MCINTYRE. In your testimony you talked about broadband, of course. Can you tell us when you applied for broadband funding, did you apply for those under the first or second rounds of the funding in the Recovery Act?

Mr. JONES. Yes, sir, we did the first round and were denied on the first round and then we also applied for the second round.

Mr. MCINTYRE. And then you mentioned RUS in your testimony right at the end. The annual broadband loan and grant program process with the Rural Utility Service is another program that you regularly take advantage of; is that correct?

Mr. JONES. Yes, sir.

Mr. MCINTYRE. The application process, would you say that it is one that is fairly straightforward and easy or more difficult for you to navigate?

Mr. JONES. From our experience, we found it to be pretty difficult. We have not had the chain of communications I felt that we should have been able to have gotten information through. Our application process of understanding the steps and where those applications stood, there was very limited information from it. And Congressman, let me just say that I do not think it is all the Department. I think because of those funds being rapidly available to them and how they were going to distribute those funds has put an extra workload to the Department with them finding how they should administer those and get those out. So it has been sort of two-fold.

Mr. MCINTYRE. Do you have any suggestions yourself about how to simplify that process from your perspective?

Mr. JONES. Well, one of the things I think is that maybe through the national level is to bring it back into the state level, and maybe have someone on the state level, that will be able to communicate with us who has those applications. It is just more difficult for us to have that contact on the national level. But I think if it was through the region or the state level office, that we could have that contact association similar to what we do with the loan program, I think would work better.

Mr. MCINTYRE. Thank you, sir.

Any other burning questions from any of our panelists or any other comments?

[No response.]

Mr. MCINTYRE. Mr. Thompson, would you like to be recognized for any closing comments?

Mr. THOMPSON. Sure. Thank you first of all, Mr. Chairman, for your leadership with this hearing and bringing this hearing here and to my colleagues, Congressman Kissell, Congressman Etheridge, thank you.

Thank you to everyone, to the folks here at the Crown Expo and all of our witnesses, and frankly everyone here that has an important stake in agriculture, extremely important.

As we are crafting this, we are doing this, I guess we call it listening tour more than anything else, and that is important because we need, as we craft and prepare for the 2012 Farm Bill, we need to be listening, we need to build this with consensus from the agricultural community. It is extremely important as we look at issues, obviously production agriculture needs to be strong. Sometimes it gets lost in the mix when we start talking about farm bills. We need to be looking at food security. There is a lot of risk to our country and we all know what those risks are, but I would put food security right on top of that list.

Certainly the fact that we have been blessed in this country with quality and affordable food is something that we need to continue, and we need to make sure that we preserve and maintain a very strong rural America.

In an environment of struggling economies and challenging budgets and just very, very difficult fiscal times that we are in now and probably going to extend for a period of time, that is the context as we do this listening tour and we prepare for the 2012 Farm Bill. That is why it is so important, your input is incredibly important so that we are able to set, in the end, the right priorities as the bill actually begins to be crafted here in the future.

So thanks once again for, as always, the great North Carolina hospitality, it is greatly appreciated, it is an honor to be here.

Mr. MCINTYRE. Thank you very much.

Mr. Kissell and Mr. Etheridge, do you have any closing comments?

Mr. KISSELL. Just a quick thank you to everybody, all the ones at the Crown Center here and the Agriculture Committees from Washington, all our districts and you folks that care about agriculture, thank you for what you do, thank you for coming and it was said here several times, this is national security, it is very important. We appreciate the opportunity to listen to you guys and to take this back and help us craft a good bill.

Mr. MCINTYRE. Mr. Etheridge.

Mr. ETHERIDGE. Thank you. Let me thank each of you for coming, for our panelists, for all those who worked and certainly for the facilities, it is cool this morning, it is awful warm outside.

Let me touch on something each of my colleagues have said here, that you know when you are putting together a farm bill and it is going to be no different, this one from the other one, it is broader than just the people who till the soil and produce it. It really is for the consumer and everyone else.

The real challenge, I remember when we put it together the last time, it is not a partisan issue when you put it together. The real issue comes down to regionalism. Across this country, agriculture is so diverse, all the products and the communities are so diverse and the real issue is very difficult. Mr. McIntyre was there last time and I remember had it not been for the fact the that Ways and Means Committee was willing to give us $10 billion for nutrition, we probably would not have gotten a farm bill last time. That was the key ingredient that they came up with the money and we were able to add that to the nutrition title to make it happen. Those challenges are going to be out there again. Working together, we will get a destination and reach a good piece of legislation, but it always is about regionalization. What fits in California may not necessarily fit in North Carolina and *vice versa*. But that is the great challenge we face, that is the great diversity of America and we are blessed to have food. Someone mentioned food security and I will close with this, Mr. Chairman, that in World War II, we were the first nation in the history of the world to not only feed our soldiers, but to feed to soldiers of other nations. That is our true national security, the ability to produce food and fiber at a reasonable price and that is safe and consumable.

Thank you.

Mr. MCINTYRE. Thank you very much.

As Mr. Etheridge indicated, I would also want to say a natural tie-in for us here in Fayetteville, the home of Fort Bragg and the 82nd Airborne and 18th Airborne Corps, the great commitment that this rural area of North Carolina also has to our nation's military. And as a Member of the Armed Services Committee, I would also want to say something very special that as we see the tie-in between agriculture and our national security. We have the greatest, and thank the good Lord, the best and safest supply of food and fiber in the world. And that is a great tribute to the hard work that you as our farmers, you involved in the agricultural business community, you involved in the credit community that can help the farmers do their work and so many of the rest of you who are involved in making a difference for our rural economy.

When I think about that, I also think about the cutting edge of biotechnology and biofuels that was mentioned today. Yours truly had an opportunity to go to the Pentagon a couple of months ago and was the only Member of Congress there. But, as Chairman of the Subcommittee on Rural Development, Biotechnology, Specialty Crops, and Foreign Agriculture from Agriculture and as a Member of the Armed Services Committee, I was particularly honored to be there because it was a signing, a historic signing, between the Secretary of the Navy, Ray Mabus, and the Secretary of Agriculture, Secretary Vilsack, for a biofuels agreement as the Navy continues to convert its source of energy away from energy sources that we all know we tend to get from other countries to biofuels. And then later on April 20, which appropriately enough was Earth Day, I had the opportunity to travel with the Secretary of the Navy to Pax River Naval Air Station, not too far away from the Capitol over in Maryland, and witnessed the flying of the F–18 Super Hornet Navy jet fighter dubbed the Green Hornet because it was flying on biofuels.

So when we talk about our national defense, and the food and fiber supply, and when we break new ground in areas like biotechnology and biofuels, this is where we see that the nation and our national security absolutely depend and tie in with what we are producing in agriculture communities. And having personally witnessed that and having the opportunity the see that from both angles, from the purview of the Armed Services Committee, as well as from the purview, of course, from the Agriculture Committee, that is a nexus that we all appreciate. I think we are in a location today that is symbolic of that, having this agriculture hearing here in Fayetteville where we know our military friends often refer to, and we do too, as the center of the military universe, when 9-1-1 is dialed for a military emergency anywhere in the world, that phone rings right here at Fort Bragg. So we appreciate that nexus between our national security and our national supply of food and fiber and fuel. And we are excited about the new opportunities that are going to come our way with regard to that as well.

I also want to remind us that when you hear people debating about the Federal budget and the concerns about our national economy, let us not forget that only ½ of 1 percent—only ½ of 1 percent—of the Federal budget is the agriculture budget. So when people are concerned or complaining about how much we are spending on agricultural needs, remind them you are talking about ½ of 1 percent of the entire Federal budget, yet we are feeding the American population and many others as we deal with other nations around the world. The Agriculture Committee has done quite well with ½ of 1 percent and you have a lot to be proud of.

We stand with you in all that you are doing to indeed provide our nation the safest and most abundant supply of food and fiber, and for the future fuels as we look to the future and work ahead.

And so thank you for that kind of commitment; thank you for that kind of vision. We want this farm bill not to be just more of the same or falling back into a routine, if and where it needs improvement. As the old saying in the South goes, if it ain't broke, don't fix it. So for those areas that are working well, that is what we needed to know, that is what we want you to continue to give us input and tell us. For the areas that are not, let us move ahead, let us prepare as we look at new innovative ways to incorporate, whether it be biotechnology and biofuels, or whether it be new innovations with regard to farming itself, or other ways to improve the economic development in the areas of broadband, in the areas of working with new program like micro-enterprise assistance and rural entrepreneurs. In any way and every way, we want this to be a bill that will carry us with vision into the future.

You all have been a part of that vision today by what you have shared. You can continue to be a part of that vision by going to the website. You can pick up these cards on your way out in case you forget or do not have something to write on, but it is real easy, think of agriculture, think of us discussing it in the U.S. House and that is part of what we are doing right now in our government, so it is *agriculture.house.gov.* And if you are joining us by web, we hope that you too will be willing to contribute.

I do encourage our witness panel to make any additional testimony or comments within the next 30 days. However, technically under the rules of the Committee, the record of today's hearing will remain open for 30 days and just as I said earlier to those that want to submit comments by web, you will have up to 30 days, we are counting that toward July 28, to be able to submit any additional materials, supplementary responses posed by any questions today or any other material you would like us to have.

With that, I want to thank all of you for your commitment to our country, your commitment to our future and your commitment to American agriculture, it makes the difference for rural America and economic opportunity for all.

Thanks for being part of that vision. Thank you for helping us now carry that vision, as all of us up here get ready to head back to Washington to speak on your behalf. God bless you all, travel safely and have a good day.

This hearing of the Committee on Agriculture is now adjourned.

[Whereupon, at 11:55 a.m. (EDT), the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT BY SUE JOHNSON-LANGDON, EXECUTIVE DIRECTOR, NORTH CAROLINA SWEETPOTATO COMMISSION, INC.

Chairman McIntyre and the other Members of the Committee, thank you for allowing me to submit written testimony for this hearing in review of U.S. agriculture policy in advance of the 2012 Farm Bill. I am Sue Johnson-Langdon, Executive Director of the North Carolina SweetPotato Commission, Inc.

The North Carolina SweetPotato Commission was formed in 1961 and has been the collective voice for the sweet potato industry for almost 50 years. Today, the North Carolina SweetPotato Commission represents over 350 growers in the state of North Carolina. The Commission and its activities of promotion, marketing, education, issue management and dissemination of information are funded by an annual assessment and dues of its membership. North Carolina leads the nation in sweet potato production supplying almost 50% of the annual national supply. Congressman McIntyre's 7th District currently represents 12.5 % of the total production. North Carolina's growers planted 47,000 acres in 2009 with a forecasted planting of 50,000 acres for 2010—a 6% increase. Across the nation, 109,600 acres of sweet potatoes were planted in 2009. A 7% increase is expected in 2010. The economic impact of the North Carolina crop in farm cash receipts in 2009 was $170.1 million which makes sweet potatoes the #1 specialty crop and also ranks within the top 10 of the cash receipts for other commodities produced in North Carolina.

Sweet potato consumption continues to rise. The current per capita consumption of 5.7 lbs/person represents a 54% increase since 1999 as reported by USDA/NASS as being 3.7 lbs/person. The Commission attributes the rise in consumption to be due to several factors—the superior nutritional values of the sweet potato and the marketing of more value-added products such as sweet potato fries, chips and ready to eat mashed sweet potatoes. The sweet potato is a complex carbohydrate which contains healthful antioxidants, fiber and necessary micro-nutrients. Ongoing research at North Carolina State University shows that sweet potatoes when consumed do not cause a spike in blood sugar thereby making it a good carbohydrate choice for diabetics and others who are monitoring their carbohydrate intake.

Maintaining consumer trust in the safety of their food supply is a concern of our sweet potato producers. Although sweet potatoes have a historically low risk of pathogen contamination at the farm level, we recognize the need for good growing and handling practices; and traceability not only on the farm but throughout the entire food distribution chain. Food safety is a huge, complex issue especially for fruits and vegetables and the cost of implementing good agricultural practices, pre harvest residue testing and tracking from the field to the point of sale is daunting and can be prohibitive. We believe that any regulations and compliance measures should be scientifically based, as simplistic as possible, and implemented in stages. Also, a type of crop insurance to mitigate loss due to a failed residue test prior to harvest is necessary. At this time, all processors and a growing number of fresh market retailers require random sampling for residue testing of each field prior to harvest. If unacceptable residue is found, the grower must destroy the entire field although the failed sample may be 3–5 individual sweet potatoes in the lot. There is no compensation for loss at this time.

The majority of our production is marketed within the continental United States however exports into the UK and Western Europe from North Carolina continue to steadily rise—up 8% from the record year of 2009. The value of U.S. exports increased in 2009 by 15.5 percent, from 7,596 metric tons in 2008 to 10,627. The flavorful orange fleshed sweet potatoes produced in the United States are not the staple that white potatoes are in the UK but they are finding their place in UK restaurant menus and also the regular grocery purchases of European consumers. In order for sweet potato consumption to increase in the United States, other commodities such as white potatoes will decrease. The UK and Western European markets represent the opportunity to increase our production and thereby our economic stability without sacrificing domestic production of other vegetables. We are asking the Committee to continue to work with USDA and USTR in opening up other markets in Western Europe.

To summarize, concerning food safety, we ask for the regulations be scientifically based, as simplistic as possible and implemented in stages over a period of years as well as including a crop loss provision if a pre harvest random residue sample fails. We are also seeking the continuation of the close relationships with USDA and USTR to increase exports to the countries in the UK and Western Europe.

Thank you, Congressman McIntyre and the House Agricultural Committee for allowing us to submit testimony.

SUE JOHNSON-LANGDON,
Executive Director,
North Carolina SweetPotato Commission, Inc.

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