S. Hrg. 107–652

THE NEW FEDERAL FARM BILL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

JUNE 28, 2001

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

Available via the World Wide Web: http://www.agriculture.senate.gov

U.S. GOVERNMENT PRINTING OFFICE

81–659 PDF WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

TOM HARKIN, Iowa, *Chairman*

PATRICK J. LEAHY, Vermont	RICHARD G. LUGAR, Indiana
KENT CONRAD, North Dakota	JESSE HELMS, North Carolina
THOMAS A. DASCHLE, South Dakota	THAD COCHRAN, Mississippi
MAX BAUCUS, Montana	MITCH McCONNELL, Kentucky
BLANCHE L. LINCOLN, Arkansas	PAT ROBERTS, Kansas
ZELL MILLER, Georgia	PETER G. FITZGERALD, Illinois
DEBBIE A. STABENOW, Michigan	CRAIG THOMAS, Wyoming
BEN NELSON, Nebraska	WAYNE ALLARD, Colorado
MARK DAYTON, Minnesota	TIM HUTCHINSON, Arkansas
PAUL DAVID WELLSTONE, Minnesota	MICHEAL D. CRAPO, Idaho

MARK HALVERSON, *Staff Director/Chief Counsel*
DAVID L. JOHNSON, *Chief Counsel for the Minority*
ROBERT E. STURM, *Chief Clerk*
KEITH LUSE, *Staff Director for the Minority*

CONTENTS

Thursday, June 28, 2001

STATEMENTS PRESENTED BY SENATORS

WITNESSES

APPENDIX

THE NEW FEDERAL FARM BILL

THURSDAY, JUNE 28, 2001

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

The committee met, pursuant to notice, at 9:05 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Tom Harkin, [Chairman of the Committee], presiding.

Present or Submitting a Statement: Senators Harkin, Leahy, Wellstone, Conrad, Baucus, Lincoln, Miller, Stabenow, Dayton, Nelson, Lugar, Roberts, Fitzgerald, Hutchinson, Allard, Thomas, and Crapo.

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

The CHAIRMAN. The Committee on Agriculture, Nutrition and Forestry of the U.S. Senate will come to order.

I would first like to take this opportunity to welcome my colleagues, as well as our witnesses and members of the audience, to the first hearing in this committee on the 2002 Farm bill, basically, as we move ahead to structure it.

In particular, I want to thank Senator Lugar for his courtesy and consideration during the time that he served as chairman. I just want you to know, Senator Lugar, I look forward to continuing the same type of cooperative working relationship that we have thus far had. I want to thank you for your leadership, and I look forward to more of your leadership on this committee as we work together in this endeavor on a new farm bill.

What I would like to do is proceed. I will make a short opening statement and then I would yield to Senator Lugar, and then we will just go back and forth for opening statements from Senators, hopefully to keep them at least under 10 minutes. I will try to keep mine under 10 minutes, and then we will go to our first panel. I know we have two votes at 9:45, so we will take a short recess from around 9:45 until about 10:00. Then we will come back and complete the hearing.

As we work to formulate and draft a new farm bill, we must keep in mind that it is one of the most important pieces of legislation that Congress deals with. The Farm bill is, of course, critically important to farm and ranch families, but also to the well-being of all Americans, whether they are rural or urban areas. The bill covers a wide range of topics, from farm programs, to conservation, agricultural trade, research, nutrition and rural economic development.

Today's hearing is part of what will be a busy schedule of hearings over the next several weeks. In these hearings, we will have an opportunity to cover in more depth the many issues in the various parts of a comprehensive farm bill. Because the Farm bill is so important to all of our Nation, we need a comprehensive farm bill.

Some of us on the committee have been through a number of farm bills; others may yet have to endure their first. During my career in Congress, I have been involved in the writing of five farm bills, starting with the 1977 bill, the 1981 Farm bill, the 1985, 1990, and 1996. In many ways, the fundamental challenges and problems are similar from year to year, but our understanding and our approaches change over time.

We must keep in mind that our responsibility is to write a farm bill that will look ahead rather than try to fix the problems or settle the issues of the past. Without a doubt, the new Farm bill must recognize 21st century realities and the fact that we live in an increasingly competitive global food and agricultural system. However, at the same time I believe we are also seeing around the world a deepening appreciation of the value of farms and ranches and local communities, and the critical need to promote their survival and prosperity.

Fundamentally, we must seek to help agricultural producers earn a better return and a better return of the consumer dollar in the market. That applies to corn, soybean, wheat, cotton and rice producers, just as it does to pork, beef, dairy, poultry or specialty crop producers. We must help rural communities share in the economic growth, job creation and prosperity that our Nation in general has enjoyed over the years.

In short, we need to keep what has worked in past farm bills, including the last one, and improve what has not worked. The planting flexibility and increased support for conservation in the last Farm bill were successes. The bill's income enhancement was not, so we need to improve the system of farm income enhancement, I believe, in the next Farm bill.

To be sure, the large amounts of cash assistance to agriculture in recent years have been critical to the survival of thousands of farms and ranches across our country. I, along with others, have worked hard to obtain that assistance in the appropriations bills. Yet, we all know that this heavy reliance on Government payments is not a healthy or sustainable agricultural policy into the future. Again, we must look to creating opportunities and hope for the future, not just a continuation of the status quo.

One of the greatest contributions to our society by farmers and ranchers is their age-old stewardship of our natural resources. As we formulate new farm policies for the 21st century, conservation should be a crucial part of our work. We must start, I believe, by adequately funding and strengthening our existing USDA conservation programs. I believe we can do more.

We have before us bipartisan legislation, the Conservation Security Act, to support conservation on lands that are in agricultural production. The bill would do so through a totally voluntary program of incentive payments for conservation practices. The more conservation applied to the land, the higher the payments. The program is very flexible and suited to individual farms and ranches and local priorities. It is not top-down or one-size-fits-all. Since it is not based on price or production, it falls within the WTO "green box" as not being trade-distorting. Finally, this legislation helps all regions of the country and all types of producers, including growers of fruits and vegetables and specialty crops.

On another topic, we have only scratched the surface of developing farm-based sources of renewable energy—ethanol, bio-diesel, biomass, wind, methane, hydrogen. Agriculture in this century should be more than just about food and fiber. Anything we can produce from a barrel of oil, we can produce on our farms. We do not have to drill for oil in environmentally pristine areas, nor do we have to be at the mercy of foreign oil producers.

The potential is huge all around the country: ethanol from grains or biomass of various sorts and kinds; bio-diesel from soybeans or any kind of oilseeds, or even from animal byproducts. I know that we hear the arguments that renewable fuels are too expensive, but I maintain they are not too expensive when we consider all the extra costs of our dependence on fossil fuels, including military costs of protecting foreign oil and the environmental costs of using fossil fuels.

A sound farm economy is essential to healthy rural communities, but it is not in and of itself sufficient. We also need to include in the next Farm bill policies that will help to improve economic opportunities and the quality of life in rural communities. We must honestly face the fact that farm families are relying more and more on off-farm income. We must help communities obtain the basic amenities—water, waste water, transportation, health care, education, telecommunications. In addition, we should help them gain access to the capital, the know-how and the markets that will promote economic growth and new jobs. I see tremendous potential for local and farmer-owned value-added businesses if they receive the help they need to get up and running.

Finally, our committee cannot neglect its responsibility to fight hunger and malnutrition in our country and elsewhere in the world. We must ensure we have a solid system of food assistance in the U.S., and we should do more in developing countries. In particular, I hope that we will soon pass the McGovern-Dole legislation to create an international school nutrition program.

These are, I believe, the highlights of the components of a new farm bill. The specifics of the various commodities and other programs, such as dairy and crop insurance and others, will have to be dealt with and integrated into this bill. We have a lot of work to do.

We are fortunate to have on this committee, on both sides of the aisle, Senators with a deep understanding of and support for agriculture, our farm families and rural America. I am proud to serve with each of you and look forward to the task ahead.

With that, I will yield to my distinguished ranking member and my good friend, Senator Lugar.

STATEMENT OF HON. RICHARD LUGAR, A U.S. SENATOR FROM INDIANA, RANKING MEMBER, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Senator LUGAR. Thank you, Mr. Chairman. I simply want to start by congratulating you again on your assumption of the chairmanship. I appreciate the fact that our staffs have worked well in coordinating any transitions that were required, and I would just make that assurance to all of our friends from farm country today that the need for bipartisan cooperation as we try to do this complex farm bill is imperative. You certainly will have our support and I congratulate you on your statement.

I would mention, as the chairman knows, that we had a running start on the Farm bill with our hearings, in which the chairman and members vigorously participated, on the credit, research, trade and conservation titles. The Farm bill will probably include titles that are dedicated to each of those topics and others, as staffs have been working on that.

I look forward to working with you on a comprehensive farm bill which I hope we will be able to enact swiftly that ensures the full opportunity for the farmers that you have mentioned, and likewise allows farmers, ranchers, consumers and taxpayers to be heard during these hearings.

Mr. Chairman, while our domestic markets and commodity programs are extremely important and must be reviewed and revised, foreign markets are vital to the health and viability of United States agriculture. I would suggest that any final farm bill legislation could be overshadowed in significance by the ultimate congressional decision on trade promotion activity either way. The foreign markets expand and our prosperity increases. Likewise, when the foreign markets contract, we have supplies up around our necks.

It is critical that trade promotion authority be our highest trade and foreign policy priority, at least in terms of agriculture in this country. Ninety-five percent of the world's consumers of food and fiber live outside of our borders, and the viability of United States agriculture depends on our ability to have access to those markets.

Although some trade bills have been enacted without trade promotion authority, negotiating trade agreements with other countries is not only more difficult and more uncertain; it may be in the current context virtually impossible without trade promotion authority. Other countries will engage in serious discussions only if they know that the Congress will not second-guess and amend, thus opening up the agreements to second-guessing and amendment by every other legislature around the world.

Agriculture is two-and-one-half times more reliant on trade than the rest of our economy. Ag exports create and sustain hundreds of thousands of American jobs and income in the non-farm sector. To illustrate the importance of ag exports, I would ask that USDA ag export facts and information on other sector exports for each State represented on this committee for the 106th and 107th Congress be entered into the record. Such statistics are available and, Mr. Chairman, for the record I will submit all of that so we will have it as part of the record.

Senator LUGAR. I hope my colleagues will reflect on those figures in terms of product moved overseas and jobs created. For example, in my home State of Indiana 22,000 jobs are tied to ag exports, and those exports account for 32 percent of all of our agricultural production. One-third has to be moved somewhere else outside Indiana and the United States.

In Iowa, 48,000 jobs are tied to exports, and they account for one-third of the agricultural production in that State. 12,600 jobs in Colorado and 33,400 jobs in Minnesota are in the category of being supported by ag exports. They are serious figures which underscore my conviction that this Congress must act on trade promotion authority now rather than later.

I thank you again, Mr. Chairman, for calling this timely hearing with a comprehensive set of witnesses today and we look forward to each of the ensuing opportunities.

Thank you.

[The prepared statement of Senator Lugar can be found in the appendix on page 54.]

The CHAIRMAN. Thank you very much, Senator Lugar, and again I want to thank you for your great leadership and look forward to working with you. You are right; this has to be a bipartisan approach. It has been in the past and I am certain it will be again this year.

Now, I would like to turn to the Senator from North Dakota, Senator Kent Conrad.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman, and I too want to add my words of congratulations to you as you take on the chairmanship of this important committee at this critically important time.

I also want to congratulate you for the swiftness of the action and the leadership you have provided. We don't even have an organizing resolution yet in the U.S. Senate, but already you have an organized the first hearing with an outstanding panel of witness. It is very clear that your leadership is being expressed and you are moving rapidly, and I am just delighted, Mr. Chairman. Thank you.

Also, I want to thank you for your statement because you have put the emphasis right where it belongs. What are we going to do for the future to strengthen farm income for families all across our country? We can look to the past and we can talk about a failed farm policy. Clearly, it has failed. We have had to write disaster bills each of the last three years, economic disaster bills, because of a disastrous farm policy. There are parts of that policy that are good. It is good to have flexibility to plant for the market rather than a farm program. That is something we ought to retain in a new farm policy.

I also think you have properly put a focus on conservation because as we look at this world trading system, it is going to be critically important that we have programs that are in the so-called "green box," and you have correctly identified the opportunity to do that in this Farm bill.

I have a few charts here to illustrate some basic facts. While farmers pay more for everything they buy, they are receiving less.

The green line is what farmers are paying for inputs, and that has gone up, up, up, and with the latest energy price shock it has become even more serious.

On the other hand, the red line shows what prices farmers have received for the goods that they sell. It is interesting that the peak was when the last farm bill was written. Since then, it has been almost a straight line down, and that tremendous chasm between the prices that farmers receive and the prices that they pay has created the farm crisis.

Mr. Chairman, the other thing we have to be ever mindful of as we write this Farm bill is our competitive position in the world, because our major competitors, the Europeans, are far out-stripping us in support for their producers. This shows, according to the Organization for Economic Cooperation and Development, who are the international scorekeepers, that on average the Europeans are providing $313 an acre of support, while we provide $38 an acre.

I want to show a chart on what they are doing on export support because the picture is the same. Europe is the blue part of this pie and they account for 84 percent of all world agricultural export subsidy—84 percent. We in the United States account for that thin sliver there in red, 2.7 percent. They are out-spending us 30 to 1. This is not a level playing field. It is no wonder that our farmers are facing hard times, and it is imperative that we fight back and this hearing is the beginning.

Again, I want to congratulate you, Mr. Chairman, and thank the ranking member as well because he has given us a running start by holding hearings. You have followed up swiftly and in an important way, and we appreciate the leadership the two of you provide, and again especially you, Mr. Chairman, for your actions here today.

The CHAIRMAN. Thank you very much, Senator Conrad, and I just want to reciprocate in kind by congratulating you on your chairmanship of the Budget Committee and for ringing the alarms and letting us know the problems that we are confronting down the pike and why we have got to move on this Farm bill rapidly and expeditiously to make sure that we are able to enact the policies that will increase farm income within the confines of that budget. I personally want to thank you for alerting everyone as to what we have to do. I really appreciate that.

Next, I would go to Senator Thomas.

STATEMENT OF HON. CRAIG THOMAS, A U.S. SENATOR FROM WYOMING

Senator THOMAS. Thank you, Mr. Chairman. I am pleased to be able to be here today. All of you have talked about the number of times you have been through this. I have been involved in agriculture all my life, but it is the first time I have been involved in this committee with respect to the Farm bill, so it is an interesting experience for me.

I notice in the announcement for the meeting and some of the statements talking about the next Farm bill. Of course, that is specifically what we will be doing, but I hope that is not where we focus entirely. You all have mentioned it, but it seems to me our real challenge is to look forward in the future as to what we want agriculture to be, and then this Farm bill ought to move us toward that direction.

We have gotten, it seems to me, again from outside the committee, totally involved in the local and immediate questions which obviously have to be answered, mostly on payments and money, and so on, instead of looking at where we want agriculture to be 10 years from now, 20 years from now. I hope each of you will take a look at that and talk about where we need to be.

I personally hope, of course, we can move to more of a market-based system. Most people agree to that. It is a difficult thing to do. We have tried to do that. There are other obstacles, in addition to the Farm bill. They have to do with tax burdens and environmental restrictions and market concentration and trade barriers, and all those kinds of things.

I will submit my statement, Mr. Chairman. I don't want to take long, but I just want to emphasize again that we have to have a vision of where we want to be so that what we do here contributes to attainment of that vision. Otherwise, we will be back here next year looking at the same thing in short term and talking mostly about which programs we are going to fund and how you distribute the available money, which is an important element. I understand that, but it doesn't move us toward where we want to be over time.

I appreciate the opportunity. Thank you, sir.

The CHAIRMAN. Senator Thomas, thank you for your statement, and I would just say I couldn't agree with you more.

I turn now to my good friend, the Senator from Montana, Senator Baucus.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman. I deeply appreciate your calling this hearing. It is desperately needed. I will submit my statement for the record.

It is stating the obvious when I say this is a very difficult challenge ahead of us, and it is ironic that some peoples in the world are starving even though there is a glut of commodities in the world, and it is tragic. The cause for that disparity is really much more political than anything else; that is, it is the politics in the local areas that prevents food from getting to the people who need it.

When the United States and other countries give aid, it is the warring factions in the particular part of the world that prevent the food from getting to the people. Yet, we in the United States produce so much food. Something is not right.

Now, on our end of this, our producers, too, even though we produce so much, clearly are not getting a fair return. The problem has been getting worse over time, not better, with costs going up and prices in real terms, at least in wheat, essentially declining.

Clearly, a farm bill can help address the problem, and clearly we have to revisit Freedom to Farm.

We can do a lot in a farm bill. We can do a lot in the Farm bill, and we must. A safety net must be provided, stability, predictability, better assured. We must also recognize that much of our work has to do with international arena. Senator Conrad did an excellent job, and has many times demonstrated the degree to which other countries subsidize their production much, much more than do we, and particularly the European Union in its subsidies of exports much more than do we in the United States.

There is another WTO round, and it is in services and it is also in agriculture. We know the challenge. It is huge, and we must find leverage, frankly, if we are going to get any results in the next round. That is a large part of it and it requires a lot of new thinking, too. The world is changing so dramatically.

You know, it is interesting. Often, Pentagons and defense establishments get ready for the last war, and when we write a farm bill, we can't write a farm bill for the last farm war, the last set of problems that we were facing at the time. We have to look much more in the future and be very honest about what is happening to production agriculture and what is happening in the world.

I don't know the answer. I only ask all of us, and I know all of us, including all the groups, will dig down even more deeply and more creatively, and maybe on some pilot project basis try something new, try something different. We have no choice; we have to, because the trend that we have been experiencing is on the decline. If we write another farm bill basically under the same old ways, my guess is this trend is going to continue. That is the way we have been doing things.

I would just say to all of us we have a great opportunity here. It is an awesome challenge, and I ask all of us to step up to the plate and come up with some really significant, honest solutions. It is not going to solve the whole problem, but at least it will be a good start.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Baucus.

Senator Hutchinson.

STATEMENT OF HON. TIM HUTCHINSON, A U.S. SENATOR FROM ARKANSAS

Senator HUTCHINSON. Thank you, Mr. Chairman, and let me join my colleagues in expressing my appreciation for your calling this hearing and for moving ahead with rewriting of the Farm bill.

That is the number question I receive in farm country, in Arkansas. I was in the delta this past weekend and the question was, when are you going to write the Farm bill? Are you going to get it done this year, next year? What is it going to look like. I very much appreciate you moving even before we get that reorganization resolution completed.

I also appreciate, Mr. Chairman, your leadership on the whole issue of conservation incentives for land that is in production. While we must continue our efforts on WRP and CRP, your leadership and others' who are very concerned that we provide those incentives for conservation for that land that is in production is very worthwhile. I commend you for that and look forward to working with you on that.

I also appreciate your comments regarding the potential of biodiesel. I have been pleased to work with Senator Dayton on that issue in introducing legislation to try to provide incentives similar to the ethanol program for bio-diesel, and I look forward to working with you in seeing that as part of this new farm bill.

Senator Lugar's comments regarding the importance of exports and doing more in the area of trade are essential as well. As I look at the State of Arkansas, I don't know exactly where we would rank in population, but we are 11th in the Nation in agricultural exports. The future of agriculture in Arkansas is directly related to what we can do in increasing export markets. Senator Conrad emphasized that as well, and that is very important.

Senator Conrad also accurately pointed out, and I want to underscore, the plight of farmers today. With commodity prices as low in many areas as they have been since the 1930's, and with costs of production at record highs and being exacerbated by fuel costs today, farmers are hurting. They are certainly hurting in the State of Arkansas. Many have either given up their land or are farming up what is left of their assets in order to stay in business, and that is not a viable situation.

The other question I get asked all the time is are we going to get the second AMTA payment out. I hope that the Congress will move expeditiously on getting an AMTA payment out at the 1999 level.

We need to get a farm bill written to establish certainty, stability and predictability. The ad hoc, 1-year-at-a-time emergency bills is no way to run a farm program. I join my colleagues in that estimation, in that very strong feeling.

I commend you again for the hearing today and for moving ahead with the writing of a new farm bill. Thank you.

The CHAIRMAN. Thank you very much, Senator Hutchinson. I look forward to working with you, especially on that bio-diesel issue.

It will be the Chair's intention that in all hearings that I chair we will recognize Senators in the order in which they appear, except for perhaps today, and with two other exceptions, of course, that the Chair will recognize whenever they arrive the two Chairmen Emeritus of this committee, both the ranking member and Senator Leahy.

This has got to be another one of these firsts. This has got to be the first time that a chairman of a full committee sits between two former chairmen of a committee, one on either side of me. I don't think that has ever happened before here, but I am pleased and honored to sit here.

With that, I would recognize the former, before Senator Lugar, chairman of the Senate Agriculture Committee who led us greatly in those years, in the late 1980's and early 1990's, and who has been on the Agriculture Committee longer than maybe anyone here, if I am not mistaken.

Senator LEAHY. Except Senator Helms.

The CHAIRMAN. Except Senator Helms. Senator Helms has been here longer than Senator Leahy.

With that, I recognize my good friend from Vermont, Senator Patrick Leahy.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator LEAHY. Thank you, Mr. Chairman. I must say that one of the great delights of being on this committee is having served with both you and Senator Lugar. You are two of my best friends in the Senate and it has been good that way.

I might point out to some of the new members, when I first came on here, there was a long, straight table back in the Russell Building. I am the very last person down there, and Senator Talmadge and Senator Eastland puffing on huge cigars up at the front. Senator Eastland brings up an amendment about this thick, and Senator Talmadge says, well, then, without objection, it is accepted.

This was about my first meeting and I said, excuse me, could I just ask what is in the amendment? The two cigars come down and they look way down and they kind of say who is he? Talmadge looks at me and he just raps the gavel and he says we are adjourned.

[Laughter.]

Senator LEAHY. Hubert Humphrey turned to me and he said—and, Mark, you will appreciate this—Hubert Humphrey turns to me and he says, now you understand what is in it. That was it.

[Laughter.]

Senator LEAHY. I don't want to speak substantively. The Farm bill should be completed this year because I don't believe funding can be available next year, and we run that real risk. The Farm bill has to be comprehensive and national and fair to farmers in all regions, and fair to all families living in rural areas, not just farmers and ranchers.

"Comprehensive" means the Farm bill has to more evenly provide benefits for those living in rural areas and protect consumers in urban areas. "Comprehensive" means it does more than just transfer billions of dollars from taxpayers to certain farmers in limited areas growing certain types of crops. It should enhance farm land protection, conservation, small farm assistance, nutrition, and so on, and ensure the safety of our food supply, the quality of the water our children drink, the ability of our farm and ranch lands to act as carbon sinks. It should enhance the bargaining position of our farmers, who too often are given a "take or leave it" view on prices.

The AMTA payments today concentrate the bulk of Federal assistance in the Midwestern States, leaving vast regions of the country with little assistance. Yet, the farmers in those other regions also work hard. They produce their share of America's abundance. They have families to support. Farmers in the Northeast and Mid-Atlantic States, in particular, have been effectively shut out of AMTA assistance.

In the crop insurance bill, I have been working with a coalition of States and more than 20 Senators. We have informally become known as the Eggplant Caucus. That comes from one of our Mid-Atlantic States. The number one specialty crop export in New Jersey is eggplant.

Let me put a chart up here just for a moment. The chart shows how the $5.5 billion in fiscal year 2001 ag economic assistance funds, funds being decided by this committee right now, would be allocated under current AMTA payments.

The darkest red area shows counties who receive more than $100 million in AMTA payments, and you can see where that is concentrated right in the center of the country. The light pink counties, such as those in the Northeast and Mid-Atlantic, are going to get less than half a million. Based on the AMTA formula, farmers from the dark red counties in the Midwest will receive 1,000 percent more than, for example, the farmers in my own State.

Now, the bottom shows what should be happening. Federal assistance payments should be distributed according to the value of agricultural products. If you do that, you notice that the map changes dramatically and it more accurately reflects where products are coming from. That is what we should do in constructing the $5.5 billion package for fiscal year 2001 and for the 2001 Farm bill.

You have got the cost-shared EQIP program that helps farmers invest in their surrounding environment and protects their water supplies. In Vermont alone, EQIP is oversubscribed by more than 5 to 1. That we have to talk about the $3.7 billion backlog we have in environmental conservation programs and the farm land protection program so families can hold on to their property. We should support the new, visionary conservation initiative developed by Senator Harkin, the conservation security bill.

We need a strong nutrition component. We can't be talking about lowering WIC payments at a time when our economy may be slowing down, because after all the newly born child doesn't really have too much to say about how the economy goes, but we could have a great deal to say about how he or she eats or what kind of nutrition the child's pregnant mother has during the pregnancy.

These are things to look at, and I will do more for the record, Mr. Chairman, but I wish everybody would look at that map because today, as I said, the heaviest concentration—is that North Dakota?

[Laughter.]

Senator LEAHY. I read in the paper that they want to change the name just to "Dakota," Fort Knox, Dakota, up there.

Senator CONRAD. We kind of like this first map.

[Laughter.]

Senator LEAHY. I had the feeling you would.

I wish you would put that up behind Senator Conrad; I didn't want him to really see it, especially now that he is chairman of the Budget Committee.

In fairness, take a look at that, and also keep in mind that these Mid-Atlantic States and Northeastern States pay a very large part of the bill for what is going into these Midwestern States. We get very little back. We had one disaster bill where we got virtually nothing back, and yet we had to pay about 80 percent of our taxes for that.

We should be looking at something that more evenly distributes it. It doesn't hurt the Midwestern States. In fact, in a couple of places it will actually improve the formula, but it more accurately reflects where we are producing agriculture.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Leahy.
Senator Allard.

STATEMENT OF HON. WAYNE ALLARD, A U.S. SENATOR FROM COLORADO

Senator ALLARD. Mr. Chairman, I would like to join my colleagues in congratulating you on moving forward and becoming chairman of the committee, and also on moving ahead with the new Federal Farm bill. I appreciate being part of the panel.

I was a member of the Ag Committee over on the House side, and I do think there were a lot of good things in the Freedom to Farm bill. I hope that we can use that as a basis as we move forward. I do also realize that there are some changes that need to be done to take into account safety net issues.

We need to look carefully at what we can do to expand our markets, particularly in the export areas, as Senator Lugar mentioned. I also think that we need to look at renewables, which you mentioned in your comments. That is one area we can look to in order to expand demand and markets for our agricultural products. We need to look closely at crop insurance and taxes and also regulations on the farmers.

One area that I want to mention, which others have failed to point out in their comments so far has to do with animal diseases and plant health. As a veterinarian, you might very well expect me to make those comments. That every member of this committee has been seeing what has happened in Europe. That part of the world has not paid as good attention as they probably should to animal disease, and it has had a devastating impact on the livestock industry in Europe. The same thing can happen with plant diseases.

I hope that, as we move forward in our deliberations, we don't forget the important role that research and labs, such as the one at Plum Island, which does this kind of work, as well as a lab that you have in your State, in Ames, Iowa play. These national laboratories are key in what we are doing, particularly as far as animal health is concerned.

Because of its importance, I will continue to push for an emphasis on research and make sure that we are putting in place a proper mechanism to protect our plant and animal industries from the ravages of disease.

The CHAIRMAN. Thank you, Senator Allard. I am glad you are on the committee. You are the first veterinarian since Senator Melcher was on the committee.

Senator LEAHY. That is right.

The CHAIRMAN. I believe that is right, and so I can just say in my capacity as chairman I will turn to you often for advice and consultation on these very crucial issues of animal health and animal diseases.

A lot of people are concerned about what is happening with hoof-and-mouth disease, and so-called mad cow disease also. There is a great deal of concern about animal safety, and with your expertise and background, you can help us sort of weave through this as we develop the new farm and I am really glad you are here.

Senator LEAHY. Mr. Chairman, do we follow the past precedents of all us bringing any sick animals we have to markups?

[Laughter.]

The CHAIRMAN. Now, we turn to our good friend and a new member of the committee, the former Governor of the State of Georgia, Senator Miller.

STATEMENT OF HON. ZELL MILLER, A U.S. SENATOR FROM GEORGIA

Senator MILLER. Thank you, Mr. Chairman, and it is a pleasure to be with this committee this morning as we take this first step in what I know is going to be a long journey.

I know the minutes are ticking away, but I feel like I must respond to Chairman Leahy's comments about Senator Talmadge, my fellow Georgian. As one who has experienced that stare over the top of his glasses and amidst the cigar smoke, it hit close to home.

In fact, when I went to the first Agriculture Committee meeting and there were those grand portraits of yourself and Senator Talmadge in the committee room, I wrote Senator Talmadge a note and told him that he was still in Washington and still looking over my shoulder.

Senator LEAHY. He still votes, too, Zell, I just want you to know.

[Laughter.]

Senator MILLER. I do want to say, Mr. Chairman, before I get into talking about some of the different aspects that are essential to the new Farm bill that I hope that very soon we will begin to move quickly on the supplemental package that our colleagues in the House took up last week.

In past years, this committee has provided relief to farmers for economic and natural disasters, and Georgia farmers are very grateful for this. This year's economic disasters are probably going to outweigh those of past years and it is very important that we move forward on that.

I will submit my statement, but let me just pull out a few of the things that I did want to discuss.

There has been a lot of talk about the need for an adequate safety net for farmers in times of price and weather disasters, and certainly this is true. I do not believe that the current disaster policy over the past few years can continue. No one knows what Mother Nature will bring, but our farmers have a right to a program that will provide them the security to continue their families' farm operation and the comfort of knowing how and when the Government will provide some assistance.

I also think it is crucial that we establish commodity programs that will provide adequate funds for producers when prices are low. I don't think it is fair to punish producers with payment limits or caps. Also, with the problems in today's agricultural economy, reducing payments from the past levels is certainly not the answer. Not every farmer produces the same crops, not every farm has the same amount of acreage. Farmers want us to provide them flexibility to deal with their individual operations.

Also, Mr. Chairman, there is a strong need, I believe, to implement a specialty crop program. Specialty crops are a growing industry in my State and all around this country. They should be given similar assistance to the major commodity programs.

Conservation certainly should be an important aspect of the next Farm bill. Farmers understand this better than anyone how critical a healthy environment is to the continuation of agriculture and the general health of the community.

Over the past few years, Mr. Chairman, farmers have been hampered by numerous regulatory burdens, and this committee should stress to regulatory agencies the requirement that judgments should be based on sound science before drastic actions are taken against farmers and agricultural industries. We must not give in to the shrill minority intend on hurting this industry rather than promoting it. Increased funding for agricultural research is vital for this Nation to remain the leader in agricultural production.

Finally, we as a Congress should lend a hand, in my opinion, to this administration in helping them open new trading opportunities. There are many untapped markets out there all throughout the world, and I see no reason why the United States should not be knocking on those doors and providing the goods so many foreign countries need and desire. I also remain very firm in my commitment that food and medicine should not be used as foreign policy tools.

Those are just some of the things that I have on my list of policy decisions that we will debate in this committee. Mr. Chairman, we have a daunting task ahead of us. I am excited that we are moving forward in what is a new era in agriculture policy, and I look forward to working with you and my colleagues.

[The prepared statement of Senator Miller can be found in the appendix on page 55.]

The CHAIRMAN. Thank you very much, Senator Miller, and we are delighted to have you on the committee.

Now, we turn to Senator Crapo, from Idaho.

STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Senator CRAPO. Thank you very much, Mr. Chairman. I also appreciate your holding this hearing and your interest in moving promptly on a new farm bill.

Agriculture continues to drive Idaho's economy and, as such, Idahoans have a keen interest in having a fair and efficient Federal agriculture policy. Producers and processors and consumers, not to mention the environment, are all very interested in this debate.

As we all know, farmers are hurting. Input costs have gone through the ceiling and prices have dropped through the floor. In many cases, the prices in Idaho are below the cost of production. I am sure that is true in many other parts of the country.

A choice has to be made as to whether we want to continue to support a viable and vibrant domestic agricultural policy in this country, and I believe this committee has the opportunity to make that choice. A safe, affordable, abundant supply of domestic food is vital. The current energy problem serves as a warning to what we could face nationwide in our food policy. It shows what happens when we are subject to foreign supplies, proving that domestic production is a true matter of national security.

America's farmers are the most efficient in the world and consistently produce the safest, highest-quality products in the world, and our consumers directly reap the benefits of American agriculture practices. As we work on this important legislation, we must not lose sight of the fact that this is not just a farm bill, but it is a national food policy that we are developing. Everybody benefits from a vibrant domestic agriculture policy.

To this end, I look forward to working with you and our other colleagues on the committee to make sure that we do provide an adequate safety net to our producers; that we increase the commitment to conservation, and I too have been working on a number of conservation items and would like to work with you directly on that; to bolster our export promotion programs; to continue our commitment to agricultural research; and to find innovative ways to address rural development needs.

As those of us who worked on the 1996 Farm bill know very well, the Farm bill alone will not solve all of our problems. We also have to continue to pursue tax reform, to address unfair regulatory burdens, and move toward free and fair trade. Our producers are being handcuffed by unfair competition and barriers to exports, and it is time that we stop it.

Finally, I also want to say that while these long-term fixes are vital and a comprehensive bill is needed before the next crop year, our producers do need immediate help. Farmers are facing greater difficulties than last year and we have to provide assistance now. I look forward to working with you and my other colleagues to address these needs in our economic assistance package as well.

I will submit the rest of my statement for the record, Mr. Chairman, and thank you very much.

The CHAIRMAN. Thank you very much, Senator Crapo, and again we are delighted to have you on this committee also from Idaho.

[The prepared statement of Senator Crapo can be found in the appendix on page 59.]

Now, we turn to Senator Stabenow. I just want you to know that I wore my Michigan tie this morning.

Senator STABENOW. Well, I am very appreciative, Mr. Chairman.

The CHAIRMAN. These are Michigan cherries right here.

Senator STABENOW. That is very good, and we want you to remember Michigan cherries, Mr. Chairman.

STATEMENT OF HON. DEBBIE STABENOW, A U.S. SENATOR FROM MICHIGAN

Senator STABENOW. Thank you for the opportunity to be here and, Mr. Chairman, for your leadership in pulling us together.

I want to first say thank you to former chairman Lugar for his leadership in conducting the committee in a bipartisan manner, and I know that our current chairman, Chairman Harkin, will do the same. This is important to all of us that we develop a farm bill that makes sense for American agriculture.

I would first just say that we all know that our farmers are working harder than ever and earning less, and that is not in our interest or theirs. I am hopeful that as we move forward we will be creating policies to allow that hard work will result in strengthening family farms, as well as agriculture, in general.

Mr. Chairman, I will submit my statement for the record. I would just indicate that in Michigan we grow a little bit of everything. We have a lot of focus on dairy, and when we talk about animal disease I will just note that bovine TB is a critical issue for us in Michigan.

We also have a lot of sugar beets, and you have heard me talk many times about specialty crops, which will be a focus for me in the Farm bill as we proceed to make sure that we are keeping an eye toward specialty crops and the unique nature of specialty crops in anything we do.

We are proud to have a premier research institution Michigan State University, in Michigan, and obviously research is critical. Conservation, in which the chairman has taken such tremendous leadership, is very important. Food and nutrition, are important and rural development—I am hoping to see us expand upon our rural development efforts.

It is very exciting to be a part of this committee at a time when we can focus on an energy title, which will be important for agriculture and for the country's energy needs. Expanding markets is certainly important as well.

Overall, I would just indicate that I appreciate the fact that we are moving quickly. We need to be thorough, but we also understand that it is important to move forward and I appreciate the chairman's leadership.

Thank you.

[The prepared statement of Senator Stabenow can be found in the appendix on page 62.]

The CHAIRMAN. Thank you very much, Senator Stabenow, and we are honored and delighted to have you on the committee.

Senator Roberts, I just said a little bit ago this has got to be a first, where I sit between two former chairmen. It has also got to be a first, I have got to believe, where a committee has three former chairmen of committees sitting on it.

I turn now to my good friend from Kansas, the Chairman Emeritus of the House Agriculture Committee and valuable member of this Senate Agriculture Committee, one of the three former chairmen who sit on this committee, Senator Roberts.

STATEMENT OF HON. PAT ROBERTS, A U.S. SENATOR FROM KANSAS

Senator ROBERTS. Thank you, Mr. Chairman. It is also noteworthy that it is a first that I am sitting to your left.

[Laughter.]

The CHAIRMAN. Do you want to keep it that way?

Senator ROBERTS. You never know on agriculture policy.

The CHAIRMAN. That is true.

Senator ROBERTS. I was going to start off by repeating some names—Bob Pogue, Tom Foley, Kika de la Garza, Bob Smith, Larry Combest, somebody named Roberts, Herman Talmadge, Pat leahy, Dick Lugar, and now Tom Harkin.

I want to thank our distinguished former chairman, Senator Lugar, for his spirit of cooperation and his bipartisan leadership as we tackle the tough problems facing agriculture, and the ranking minority member, Senator Harkin, who now has the privilege of being chairman.

It was Kika de la Garza who said that everybody that is privileged to serve on the Agriculture Committee, like our farmers and ranchers, can feel the ground; there is a special purpose, a special calling, a special responsibility.

Tom, I know you feel that, and my heartfelt congratulations to you and I look forward to working with you.

We certainly have our work cut out for us as we begin the task of writing a new farm bill. I have been through six of them, as a I counted them up, as a former staffer, a member of the House, and now a member of the Senate. My godfathers in this business are the Honorable Cliff Hope, Sr., who was a Republican chairman of the House Ag Committee a long time ago; somebody by the name of Bob Dole; Frank Carlson, a former Senator and Governor and Congressman; and Keith Sebelius, who was my boss when I was a staffer over on the House side. We have a lot of history in regard to agriculture and what we believe in in Kansas and how we can be of help.

As we begin this process, the first thing we need to do is to put to bed the myth that a farm bill is only about our farmers and ranchers and the commodity title. A farm bill is a bill for rural and urban America. It is a bill to create a safety net that provides a steady, stable income for our farmers and ranchers, and virtually every dollar makes it back to Main Street and our rural communities.

We have all made the speech that the consumer in America today spends only 10 cents of their disposable income dollar for that market basket of food, thus freeing up 90 cents, if you will, to spend for other essential items. It is not only a farm bill; it is a bill for rural America, and certainly for urban America as well.

It is a bill to promote the conservation programs that protect not only our most fragile land, but which also protects our water, air and wildlife. The chairman has a unique initiative in that regard in regard to legislation.

It is about rural development programs to provide our rural communities with the infrastructure and public facilities that many of our city cousins simply take for granted.

It is about, as Senator Allard did point out, bolstering the research and education programs that ensure our producers have access to the best crop varieties, disease control methods, and the technology to allow our rural communities to continue to move forward. It is a bill to preserve our economic foundation in the future and way of life in our rural areas.

Now, we are not in very good shape with the shape we are in in farm country. Times have been difficult in rural America in recent years. We have taken some short-term steps to address our problems. Now, it seems to me we must face the difficult task of writing a new farm bill.

We have a choice, Mr. Chairman. We can continue to focus primarily on the myriad of complex micro issues in farm program policy that usually put our colleagues into a high glaze after talking to them for about one minute—all of the program details, all of the parochial interests, and certainly we have heard about that this morning, and loan rates, AMTA payments, deficiency payments, loan deficiency programs, supply management, acreage reduction, and so on and so forth, as we have done for the past 3 to 5 years. Or we can make every effort to try to work together to come up with a product that will improve farm income and sustain agriculture over the long term.

It seems to me we spend so much time around here really focusing on prices that we forget that price means nothing if a producer has no crops to sell. We must focus on income.

Mr. Chairman, it would be easy for each of us to wander down on our own path of political and personal trails. I would hope we could resist this temptation and really put our heads together to try to think out of the box on these issues.

Without question, the current Farm bill has not been able to address all the problems associated with the Asian flu, 3 or 4 years of outstanding growing weather all throughout the world, unfair trading practices by our competitors, and an overvalued dollar that is hurting us in the export market.

As a matter of fact, no farm bill is perfect. Certainly, no farm bill is ever written in stone. In the last 10 years, we have had nine emergency bills, regardless of what farm bill has taken place, due to the dynamic nature of agriculture and the way things change.

I would point out that in terms of what we tried to do in 1996 with the other component parts of crop insurance, regulatory reform, better conservation, tax relief, and a consistent and aggressive export policy, some of those things have not happened. However, I do want to thank the chairman for his outstanding help in providing $8.3 billion in a new crop insurance program that was authored by Senator Bob Kerrey and myself. Certainly, that is a help. The previous Farm bill could not address the problems of a producer who had high prices but no crop to harvest. That is the previous Farm bill. The current farm bill does.

It is time we tried to look at things a little differently. In the trade arena, the historical relationship of stocks-to-use ratios in world stocks would seem to indicate that grain prices should be on the rise. That is not happening, and we know that the purchasing patterns of our world buyers have changed. We need to look at new approaches.

I have a laundry list here of all the export programs. I see some people in the audience who testified before the committee not too long ago, and I said what out-of-the-box program could you come up with with this new challenge that we face? They had some good ideas, but most that I have read, Mr. Chairman, is as we went down the list we wanted more money for the same programs. I am not too sure that is the best answer.

I have got some goals for this Farm bill. No. 1, ensure a stable, consistent farm income that supports not only our producers, but also our rural communities and businesses. Two, maintain the flexibility of the 1996 Act. Three, avoid if we can set-asides and mandatory acreage reduction programs that only cause us to lose world market share in the long run and that are not very friendly to our environment.

Four, we must adhere to our WTO obligations as best we can. Five, we continue a voluntary, incentive-based approach to conservation issues, expanding the funding and eligibility for the Environmental Quality Incentives Program. The chairman has a bill that is much more comprehensive than that.

One other thing, Mr. Chairman. we really need to focus on carbon sequestration and what agriculture can do as a partner in our efforts to find answers to the global warming syndrome.

Six, revisit our trade programs to address the world trade issues and patterns as they currently exist, not as they did in 1990.

Seven, supplement the rural development programs to address many of the critical infrastructure and the technology needs we have in rural America.

Eight, invest in our agriculture research, including the upgrading of USDA facilities, so that we can be sure that we are prepared to address the disease threats that were mentioned by Senator Allard.

Mr. Chairman, I served on the Emerging Threats Subcommittee of the Armed Services Committee as its chairman for three years. Right now, our intelligence sources will rate agri-terrorism as a very serious risk and a higher risk. We must be prepared to address that kind of a threat.

Finally, I have no illusions about this process. It is not going to be easy. It never is and, yes, we will have our differences. With the wide disparity in farm bill proposals that are out there and a nearly evenly split Senate, we have no choice but to work together.

I want to thank you, sir. I want to thank you for your past contribution to agriculture and I look forward to working with you and my colleagues on this committee.

The CHAIRMAN. Senator Roberts, thank you very much for a very strong statement. I wrote down those issues and these are issues I know we can work together on. I really can't take exception to any of them. These are all things that we have to do and focus on. I appreciate that and look forward to working closely with you and calling upon your vast background and expertise in developing farm bills to get this one through.

We have about four minutes left in the vote, so my intention is to recess now. We have two votes, so we can get over and do this vote, then vote early on the next one and then come right back. We will pick up with Senator Dayton as soon as we come back.

We will be in recess for about 15 minutes.

[Recess.]

The CHAIRMAN. The Agriculture Committee will resume its sitting.

I would like to now call to the witness table the following individuals: Mr. Leland Swenson, President of the National Farmers Union; Mr. Bob Stallman, President of the American Farm Bureau Federation; Chuck Fluharty, Director of the Rural Policy Research Institute; Craig Cox, Executive Vice President of the Soil and Water Conservation Society; Howard Learner, Environmental Law and Policy Center; Dr. Barbara Glenn, Member of the Board of Directors of the National Coalition for Food and Agricultural Research; Sharon Daly, Vice President for Social Policy of Catholic Charities; and Dave Carter, Secretary–Treasurer of the Mountain View Harvest Cooperative.

Before we start with the panel—I just wanted to make sure you were all here—are we missing Mr. Learner? Well, anyway, I wanted you all here, but we are going to finish our statements by Senators on the committee. Senator Dayton is here and then also Senator Lincoln is on her way back to give her statement, and hopefully she will be here by the time that our distinguished Senator from Minnesota and my good friend, Senator Dayton, makes his opening statement.

At this time, I will recognize Senator Dayton.

STATEMENT OF HON. MARK DAYTON, A U.S. SENATOR FROM MINNESOTA

Senator DAYTON. Thank you, Mr. Chairman, and I want to congratulate you, as others have, on your chairmanship. I very much look forward to working with you. I am reminded that I am actually officially here today as a guest of the committee. When you are 100th in seniority, it is hard to imagine you can actually get demoted, but I have lost all my committee assignments.

[Laughter.]

The CHAIRMAN. How do you think I feel? I am talking about all the firsts here today. I am officially chairman of the committee, but I am in the minority, which is what you are saying, because of the resolution we have not gotten passed yet. This is another first.

Senator DAYTON. Don't call for any votes, that is my suggestion.

[Laughter.]

Senator DAYTON. I would like to get to our distinguished panel, as well, Mr. Chairman, so I am going to limit my remarks to say that I look forward to working with you. We have got some major challenges, obviously, facing this legislation, but you have got us right on the right track with all of these opportunities as well as some tough issues we are going to have to face. I look forward to working with you, and I look forward to hearing from our panelists today.

The CHAIRMAN. We do have the time. I appreciate that, but if you wanted to delve any further, I would be glad to hear any statements. Otherwise, it will be made a part of the record in its entirety.

Senator DAYTON. I will submit that for the record later. Thank you.

The CHAIRMAN. I thank you very much, Senator Dayton.

[The prepared statement of Senator Dayton can be found in the appendix on page 64.]

The CHAIRMAN. Since Senator Lincoln is not here, we will turn to our panel, and when she arrives, we will interrupt for her statement.

As I said, we have a very distinguished panel, and while we had had a couple of hearings earlier this year regarding some elements of the Farm bill, they were not in the contextual framework of looking at the Farm bill. Senator Lugar was correct. He did chair some hearings. We started laying the groundwork. Now we are into the real meat of trying to get all the information we can from all the various groups so that we can begin the drafting of this Farm bill.

I just might say for those of you who are here and for the staffs and Senators who are here that we are developing a very aggressive hearing schedule for the month of July. I am certain that we will be calling upon you again in the following months for clarification of your positions, perhaps for further input from you as we develop this legislation.

With that, I thank you for being here. Without objection, all of your written statements will be made a part of the record. I ask, if you could, sum up for us and give us sort of the highlights of where you think we ought to be going in the Farm bill and what you think we ought to be writing into it for the future. If you do that, I would sure appreciate it, and then we can get into questions and answers.

With that, I would first turn to a longtime friend of mine, Mr. Leland Swenson, President of the National Farmers Union. I just want you to know, I did read your statement last night. It is very long and involved, but very comprehensive. Both you and Bob Stallman, both of your statements are very, very inclusive and I appreciated both of those statements. There is a lot of meat in there.

With that, I will begin with Mr. Swenson.

STATEMENT OF LELAND SWENSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, DC

Mr. SWENSON. Thank you, Chairman Harkin. I congratulate you on assuming the chair and look forward to working with you. Ranking Member Lugar is not here, but I thank him for his outstanding leadership in his role as chair of the committee, and the fellow members of the Senate Agriculture Committee.

As President of the National Farmers Union, it is a pleasure to appear before you today on behalf of the 300,000 farm and ranch members of the National Farmers Union to discuss with you our ideas for new, and I emphasize comprehensive, agricultural policy. We believe such a policy must be developed that will provide a more sustainable and predictable long-term economic safety net for producers and further encourage the conservation of our natural resource base.

Additionally, agricultural policy should create new economic opportunities for producers, for our rural communities, for rural businesses, and through increased demand of our agricultural products, both domestically and internationally, and help establish more open and competitive markets, and understanding that we must do all of this with a limited funding resource that is available. Our proposals encompass those visionary principles.

I want to just highlight very quickly for you some of the goals that we hope farm program policy will achieve.

No. 1 is that farmers will be able to achieve 100 percent of full cost of production and a reasonable profit from the marketplace.

No. 2, that farm policy will help create opportunities to increase both domestic and international demand for U.S. commodities, and we do support the establishment of a nationwide renewable fuel standards to triple the demand for U.S. commodities and provide energy security and protect our environment, and we know that a number of the members of this committee, including Senator Lugar, Senator Daschle, you, Mr. Chairman, Senator Johnson, and Senator Hagel have provided the leadership in the introduction of the renewable fuels standard and we support that enactment.

We also believe farm policy should establish a countercyclical safety net based on current production rather than obsolete yields and bases to address unpredictable market circumstances.

Mr. Chairman, we believe that the Farm bill needs to look at providing discretionary authority for the Secretary to contain program costs through targeting and inventory management programs.

I want to highlight very quickly some of the issues that we think need to be encompassed. One is the non-recourse marketing loan, which currently exists. We believe it should be continued in the next farm program, but that the structure of the marketing loan should be based on a percentage of the cost of production and productivity, not based on some arbitrary number that is just picked out of the air.

All of you in your opening comments highlighted increased input costs that have impacted farmers, that they have been unable to deal with in relation to the price they received, or the safety net that has been provided through the ad hoc emergency disaster. If we structured a loan rate that was tied to a percentage of cost of production, that way, it would respond to those fluctuations of which impact producers beyond their control. We hope you will take a look at that, and then have it be countercyclical so that it is commodity-specific, based on actual production, and allowing planning flexibility so farmers can produce what they want to produce. With the marketing loan, it is non-recourse, planning flexibility is already in place, and it is understood by producers.

We want to emphasize to have you look at some new vision in the program, and we want to emphasize three Reserve programs that we hope you will take into some consideration.

One is a renewable energy reserve. I was pleased, sitting here listening, of the unified comments made about the commitment to ethanol and bio-based fuel expansion. If we are going to do that and not have it contract when we might have a disaster that improves prices in the market, I believe we have to have a renewable energy reserve as important as a strategic oil reserve that we currently have in this country. It should be government-owned, and farmer-stored, to support bio-energy demand, limited to one year's needs, so it does not overhang the commercial food or feed markets. It is a dedicated reserve to energy.

The second reserve we would ask you to look at is a humanitarian food assistance reserve that is government-owned, farmer-stored, to support the demand for growth of food aid programs, such as P.L. 480 and the international school lunch program that has been talked about already, and again, does not overhang the commercial market.

The last reserve we would like you to consider is a production loss reserve. A farmer-owned, farmer-stored, supplement to the crop insurance coverage and the improvements made in the last farm program with the leadership of Senator Roberts, Senator Kerrey, and many of you on this committee, which enhanced the program, but farmers are still left without 15 to 20 percent of coverage within the program. The production loss reserve, we are proposing would allow about a 20 percent limit on what farmers produce to go into that production loss reserve, and if they suffer a partial loss, they could draw out of that to receive crop protection within that production year. We hope you will give that some consideration.

The other thing we would like to touch on is the authorization, for discretionary authority to put in the tool box, if you want to call it, for the Secretary to have a program of cost containment authority via the nature of a voluntary inventory management program.

Moving on very quickly, because I know my time is limited, we do have in our proposal a proposal for dairy, which establishes a structured target price support for dairy. We also encourage and include provisions of S. 847 introduced by Senator Dayton to impose TRQs on milk protein concentrate, which we believe is impacting dairy producers all across this country. We do support the inclusion of a safety net for specialty crops.

We believe that conservation must be a critical element of this Farm bill. We increase the conservation reserve program, and we establish a short-term soil rehabilitation program of up to five million acres. I want to emphasize that, because a new issue that is unfolding in agriculture. Karnal bunt is impacting producers in Texas, and the concern of it spreading. Here is an opportunity where those farmers could enroll in a short-term soil rehabilitation program of which to eradicate that disease and receive some compensation. That way, we address it not just to the benefit of the producers, but to the benefit of agriculture as a whole. We also strongly support the Conservation Security Act, Senator, that you are advancing.

I want to also emphasize that we believe a key component has to be expanding the whole rural development initiative within the farm program structure.

I want to also emphasize that in the area of trade, as has been pointed out, we think a full effort should be made to expand international trade, but some critical issues must be addressed within that dialog, within that discussion, if we are going to have that opportunity for producers. I believe the largest obstacle to U.S. trade today is the lack of a mechanism to address exchange rate differentials and distortions, because that has really kept us out of many markets or made us less competitive, even with the lowest prices in the last 20 years.

I also support that removal of all sanctions of food and medical products. We also believe that labor and environmental standards must be brought to the table if we are going to again compete in an international market place. We can say they have to be considered as a different remedy, but we have to compete in the nature of production with environmental standards, labor standards, that are directly related to our cost of production. We must bring it to the table for discussion.

We also believe that we must retain domestic trade remedy authority for those issues that arise. We also believe the implementation of the Trade Adjustment Assistance Act for farmers, which is there for workers. Also, we believe that, of course, credit must be part of the Farm bill, research must be part of the Farm bill. Concentration must be a key element and enhancements and some new visionary approaches in the area of addressing less-open, less-competitive markets.

I am pleased to say, Mr. Chairman and members of the committee, that as we analyze our very comprehensive farm bill in relation to the budget approved, we were pleased that in the analysis provided by the University of Tennessee, that it came within the budget approved, and so we hope you will take that in consideration.

In conclusion, let me just say that we urge you to enact a new, comprehensive agricultural legislation that creates a broad range of opportunities for producers, rural communities, and consumers. I am often asked by producers and policymakers what our proposal means to farmers and ranchers. We prepared a worksheet, Mr. Chairman and members of the committee, that allows producers to compare our proposal to current law, using yields and acreage from their own farms. We would like to provide to the committee, if there is no objection, and a copy of the worksheet completed by a diversified Kansas farmer as to what our farm program would mean. We will also provide you a blank one of which to look at or share with producers from your respective States.

Mr. SWENSON. We hope you will give close review to our proposal and we look forward to the opportunity to address any questions. Thank you, Mr. Chairman and members of the committee.

The CHAIRMAN. Thank you very much, Mr. Swenson, for summarizing this very comprehensive statement you have here.

[The prepared statement of Mr. Swenson can be found in the appendix on page 78.]

The CHAIRMAN. I am now going to interrupt, as I said I would, to recognize Senators who were not here earlier for any opening statements they might have. First, we welcome to the committee my neighbor, Senator Fitzgerald from Illinois.

STATEMENT OF HON. PETER FITZGERALD, A U.S. SENATOR FROM ILLINOIS

Senator FITZGERALD. Mr. Chairman, thank you very much. If I could just get unanimous consent to enter a statement in the record, I would appreciate that.

I want to compliment the chairman and the ranking member for holding these hearings and I wanted to welcome Howard Learner from Chicago to the committee. I knew Howard back when I worked in the Illinois State Senate in Springfield, Illinois.

I wanted to compliment the chairman, also, on press reports that you wanted to add a new energy title to the Farm bill. I look forward to helping the committee craft such a title and that is a very good idea. We should think about it and work toward it and I would like to help you do that.

With that, Mr. Chairman, thank you very much.

The CHAIRMAN. Thank you very much, Senator Fitzgerald. We are delighted and honored to have you also serve on this committee.

[The prepared statement of Senator Fitzgerald can be found in the appendix on page 73.]

The CHAIRMAN. Senator Lincoln has not returned, so now we turn to Mr. Bob Stallman, a rice and cattle producer from Columbus, Texas, serving his first term as President of the American

Farm Bureau Federation, elected January 13 of 2000. My notes say you are the first President to hail from the Lone Star State.

Welcome, Mr. Stallman, and again, I thank you for your long, very comprehensive statement, which I also read last night and look forward to your statement this morning.

STATEMENT OF BOB STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, DC

Mr. STALLMAN. Thank you, Mr. Chairman, and congratulations and we look forward to working with you under your leadership of this committee that is extremely important to American agricultural producers. Senator Lugar and members of the committee, it is a pleasure to be here this morning.

I want to begin today by talking about a farm opportunity rather than a farm problem. I ask you as policymakers to commit to a view of agriculture in which it plays a vital role in solving world problems and in the process sets the stage for our industry to grow. It is not an exaggeration to call our farm opportunities issues of national security. American agriculture provides food security for this nation and much of the rest of the world. We contribute to our national economic security by running a positive balance of trade and generating off-farm employment. We contribute to the world's environmental security by making use of intensive, high-tech production that saves fragile lands. We can do much more.

Our vision of the future is a vision of a growing industry that depends less on government payments and more on returns from the marketplace, but we must implement policies that will grow our markets. We can build demand by continuing to pursue a level playing field in international markets. We must finalize the elimination of unilateral trade sanctions and open trade with these markets now. We must increase market promotion and market access. We must pass trade negotiating authority. We must fight world hunger with increased food assistance programs. As markets grow, farm program costs decrease and farmer incomes grow from the marketplace.

The cornerstone of this vision is a major role for renewable fuels in our nation's energy policy. Agriculture can provide fuels that improve air quality and make the Nation less dependent on foreign oil. This energy contribution improves the environment, decreases reliance on foreign oil, creates jobs, dramatically increases agricultural markets, and decreases farm program costs as markets grow. However, bridging the gap between where we are now and where we want to be in the future requires an expanded public investment in agriculture.

Another part of our short-term reality is that we will continue to need income support consistent with our international trade obligations. Part of this new spending authority would be countercyclical and, therefore, would decline as opportunities for market growth are realized.

Before I move forward with our summary of specific recommendations for the next Farm bill, I want to share the parameters used by our board of directors in making the recommendations.

One, Farm Bureau, along with 23 other farm and commodity groups, earlier in the year strongly urged Congress to authorize $12 billion in additional annual spending for improvements in the Farm bill. We are concerned that the fiscal year 2002 budget resolution only includes an additional $8 billion, on average, in agricultural funding for the next five fiscal years for the Agricultural Committees to draft a bill that will provide an adequate safety net for farmers and ranchers in the future. We have, however, prioritized the needs outlined for the farm to comply with the average $8 billion in additional budget authority as passed by the House and Senate.

Two, we believe it is extremely important for the new Farm bill to stay within the WTO amber box commitments. The recommendations we present today are targeted toward the next Farm bill. They are not our recommendations for a short-term, low-income relief package. We believe Congress should approve an economic assistance package of $7 billion for crop year 2001 as opposed to the $5.5 billion approved over in the House, and we think those decisions need to be made fairly rapidly on behalf of producers.

Farm Bureau is the only group that will appear before your committee that represents producers of all agricultural commodities in all 50 States and Puerto Rico. Because of this diversity in American agriculture, our recommendations constitute a tool box approach. We, like this committee, must ensure a balance between all those interests. We believe our recommendations achieve that balance, as well as stay within a reasonable budget request and our WTO commitments.

Specifically, Farm Bureau recommends, one, that production flexibility contract payments to current contract holders be continued and that current provisions limiting the planting of fruits and vegetables on land receiving PFC payments also should be continued.

We did consider the need for updating bases and yields, but believe that until more analysis on the economic impacts of that decision, bases and yields should not be updated at this point.

The $4 billion in production flexibility contract baseline should be increased by $500 million in order to allow oil seed production to be eligible for PFC contracts. This amount is based on an average of what soybean producers have received from market loss assistance payments over the last two years.

We support a loan rate rebalancing plan to increase loan rates to be in historical alignment with the current soybean loan rate of $5.26 per bushel in order to reduce the distortion between soybeans and other program commodities.

The Farm bill should include a new countercyclical income assistance safety net that would be classified green box, and the details of a proposal that we believe would be green box are incorporated in our written statement.

We oppose new supply management programs, a farmer-owned reserve, or any federally controlled grain reserve, with the exception of the existing capped emergency commodity reserve. We also oppose extension of the CCC loans beyond the current terms, means testing, all payment limitations, and targeting of benefits.

With respect to dairy, we think the dairy price support program should be extended with a support price of $9.90 per hundred weight. We also support reauthorization and expansion of the Northeast Dairy Compact and authorization of a Southern Dairy Compact.

Farm Bureau supports a non-recourse marketing loan program for wool and mohair that would operate similarly to other commodity marketing loan programs.

Moving away from the commodity provisions, we also support an increase of $2 billion within that $8 billion in funding for conservation stewardship programs. Conservation stewardship should include a mix of cost-shared funding and conservation incentive practice program payments.

We also would support additional funding for peanut and sugar producers to help them address the structural problems and the problems they are experiencing within those two industries.

Mr. Chairman, Farm Bureau looks forward to working with you and other members of this committee on the upcoming Farm bill and I will look forward to questions when the rest of the panelists finish.

The CHAIRMAN. Mr. Stallman, thank you again very much for a succinct summation of a very strong statement and comprehensive one that you submitted to the committee. We look forward to working with you as we develop this Farm bill.

[The prepared statement of Mr. Stallman can be found in the appendix on page 130.]

The CHAIRMAN. I now turn to Mr. Chuck Fluharty, Director of the Rural Policy Research Institute of Columbia, Missouri, and again, as I said earlier, your statement will be made a part of the record and I thank you for getting it to us so I could look at it last night. Mr. Fluharty.

STATEMENT OF CHARLES W. FLUHARTY, DIRECTOR, RURAL POLICY RESEARCH INSTITUTE, COLUMBIA, MISSOURI

Mr. FLUHARTY. Thank you, Mr. Chairman. Let me add my congratulations on your assuming the chair and thank Senator Lugar for his excellent tenure and all the members of this committee for the outstanding work on behalf of agriculture and rural communities. I really appreciate the opportunity to briefly discuss the context for this Farm bill, the framework you will use in for the content of this re-authorization.

As you know, our nation's rural communities and farmers are facing very difficult challenges today. Indeed, many communities, firms, farms and ranches, and rural families are in very real crisis. Conversely, however, this is also a time of great opportunity in other rural communities, which are experiencing for the first time in-migration, unmitigated sprawl, and the challenges inherent in their culture and infrastructure for that development.

Indeed, one of the greatest challenges this committee faces is the amazing diversity of rural America and the need to craft a comprehensive approach which addresses these many realities. You must fully acknowledge this diversity, and recognize the differences in space, geography, culture, and context for the entire rural America which you address.

We appreciate your commitment, Mr. Chairman, to taking a look at a more integrative approach and we do all realize everyone in this room, that this is a daunting challenge. I would say, however, that I believe every one of the diverse stakeholders that are with us today acknowledge, and are willing to play a role in building, a new mutual interdependence which actually reflects the long understood and acted upon interdependence that their constituents in rural communities work through every day.

It is far past time, Mr. Chairman, that the advocates for agriculture and rural communities unite around the basic truth that we are in the same rowboat in a very large ocean. I commend this committee for initiating this discussion with that spirit, and I believe everyone at this table and in this room recognizes that must occur.

Also, Mr. Chairman, we are developing this at an historic moment. Never before in my professional career have I seen the organizations and institutions in this room representing the diverse rural people, places, and producers, in common recognition that we must develop a comprehensive, integrative approach to this Farm bill. We simply must no longer accept the fragmentation of the past. We need a comprehensive, contemporaneous approach designed to sustain agriculture and rural communities in a new global environment.

Mr. Chairman, our nation needs a national rural policy. That does not exist and it matters that it does not. This is the committee of mandate for rural people, and the hopes and dreams of rural people stand with you. I urge, as you begin this, that this becomes the committee where the future of rural America has champions for a new and integrative way.

If this goal of an inclusive, informed dialog about rural policy is to be initiated, what would the policies look like that we might craft? How would they be developed, and could we build the bipartisan leadership to do that?

I really believe rural people today are in very bad need of this and I would urge the development of that comprehensive framework. I know budgets are tight and time is tight, but I believe this Farm bill should be different in kind and not degree from all of the past. The times demand it, our constituencies need that, and if you can seize this moment, we will have, frankly, optimized the most unique opportunity of this generation to link rural development and agriculture.

In my written statement, Mr. Chairman, I lay out the interdependence of farm and rural economies, the continuing challenges of rural poverty, out-migration, and suburban sprawl. Each of these issues has unique rural implications and there are many sector-specific issues, from transportation to infrastructure, that are also challenging. As we begin this reauthorization, I would urge special attention to the importance of a comprehensive approach.

In this regard, the recommendations of the bipartisan Congressional Rural Caucus are especially key. Their recommendations to President Bush are significant, and the ability to build a more comprehensive approach will be realized if this administration takes action, in concert with the agriculture committees in doing this.

I would simply raise several overarching principles that must be addressed in my closing comments, and I hope we can then get into specifics.

The first is that we are going to need to sustain categorical programs and funding streams regardless of what we do, and be very careful, in moving to a new incremental approach, that we first do no harm. There is great fragility in this infrastructure, and as we rethink approaches, we must be certain we sustain existing programs.

Second, we must build rural community capacity and leadership. In my testimony, Mr. Chairman, I discuss the relationship of Federal funding flows to rural and urban areas. This is a very critical issue. The Federal Government is now spending more money in urban areas than rural, even with your expanding emergency payments. The challenge is, this rural commitment is 70 percent transfer payments to individuals. In urban areas, that figure is 48 percent transfers. The rest of that urban money is going to build infrastructure, community capacity for government, and sustaining community-private-philanthropic linkages. That 70–48 differential inhibits the ability of rural local leaders, like yourselves, to build upon this Federal commitment.

Urban areas have HUD and they have the Department of Transportation. They have a CDBG that is essentially a place entitlement. I would urge that this committee rethink a place entitlement for rural places, so that they do not have to compete against one another for these monies through local government, but can begin to think about a way for that capacity to be built.

Two last points, Mr. Chairman. First of all, we must rethink the linkage between agriculture and rural development. Agriculture is a rural development strategy and that interdependency, is amply pointed out in my testimony. As we think about rural development this year, let us talk about agriculture as a key component of that.

Last, Mr. Chairman, we simply must address the challenge of venture and equity capital in rural America. We will not build rural entrepreneurship unless we address the decided disparity in venture and equity capital between rural and urban America.

Mr. Chairman and members of the committee, I thank you so much for this comprehensive approach and we look forward to specific questions and working with you in the future. Thank you so much.

The CHAIRMAN. Thank you very much, Mr. Fluharty.

[The prepared statement of Mr. Fluharty can be found in the appendix on page 151.]

The CHAIRMAN. Next, we will turn to Craig Cox, Executive Vice President, Soil and Water Conservation Society. Mr. Cox.

STATEMENT OF CRAIG COX, EXECUTIVE VICE PRESIDENT, SOIL AND WATER CONSERVATION SOCIETY, ANKENY, IOWA

Mr. COX. Mr. Chairman, Senator Lugar, members of the committee, as you remember, I appeared before this committee in March at a conservation hearing that Senator Lugar held, and at that time, we reported to you on what we heard in a series of five workshops that we held across the country in 2000. Since that time, we have taken what we heard at those workshops and we have developed a set of concrete recommendations for reform of both conservation provisions and farm policy, which are contained in our new report that has been made available to members and the committee and detailed in my written statement.

What I would like to do in my oral remarks is to hit the high points, as you instructed Mr. Chairman. In short, what we heard at these workshops was that the next Farm bill has to be about more than the price of corn or the price of wheat or the price of cotton or any other particular agricultural commodity. What our workshop participants were looking for was a comprehensive, integrated agriculture policy designed to care for the land and to keep people on the land to care for it. They communicated to us, often with great passion, that current agricultural policy is falling short of that goal.

Based on our analysis of what we heard at our workshops, we think the reason agricultural policy is falling short of that goal is because that policy is out of balance. We think conservation policy is unbalanced and we think farm policy is unbalanced, and our recommendations are designed to restore that balance.

On the conservation side, we think the imbalance comes from an over-reliance on tools that take land out of production and devote it then primarily to conservation purposes. What we are missing in current conservation policies and programs is the ability to keep land in production and work with producers who want to keep farming and ranching, but do so in a more environmentally sound way.

On the farm program side, we believe we have developed an over-reliance on a set of tools that is designed to either subsidize the income of or affect the price of a handful of commodities. As production of those commodities has concentrated on fewer and fewer farms, the benefits of those programs have concentrated in fewer and fewer hands. For example, in 1999, about 47 percent of the subsidy benefits flowed to about 8 percent of producers who are operating about 32 percent of farm acres.

Those two imbalances, taken together, means that the reach of our current agricultural policy is seriously limited. We simply are not touching most farmers, either on conservation or on the farm policy side, in a way that can really effectively keep all of agriculture working and keep all of agriculture taking care of the land.

To restore balance on the conservation policy side, we would urge you to double funding for existing conservation programs from about $2.5 billion to $5 billion a year. Most of that additional $2.5 billion investment go to; No. 1, programs like EQIP that help working farms and ranches landscape and the technical infrastructure—research, technical assistance, education—that is absolutely critical to a renewed focus on the working landscape.

That is the minimum we think that ought to happen, and it is about, in percentage terms, the same increase in funding that this committee accomplished in the 1985 Farm bill. It would be a big mistake at this juncture to settle for the minimum. We instead would urge you to make room in farm policy itself for an option based on land stewardship, an option that would pay people a fair return for investing their labor and capital in improving the environment, to pay them a fair return for what they are already doing to improve the environment and to encourage them to do more to improve the environment.

In our vision, we see this new program as being an analog to the existing production flexibility contract, except the stewardship contracts would be based on the care of the land rather than on the mix of commodities that were produced in some historical period in the past.

Fixing what we have got is the first step, but we will miss a tremendous opportunity if we do not take this chance to build into farm policy itself a program based on stewardship. Thank you, sir.

The CHAIRMAN. Thank you very much, Mr. Cox.

[The prepared statement of Mr. Cox can be found in the appendix on page 163.]

The CHAIRMAN. Now we will turn to Howard Learner of the Environmental Law and Policy Center in Chicago.

STATEMENT OF HOWARD A. LEARNER, EXECUTIVE DIRECTOR, ENVIRONMENTAL LAW AND POLICY CENTER OF THE MIDWEST, CHICAGO, ILLINOIS

Mr. LEARNER. Thank you, Mr. Chairman, Senator Lugar, and the members of the committee for the opportunity to appear today to discuss why wind power and biomass energy development in farming communities can produce both environmental quality gains for the broader public and economic development benefits for farmers in particular.

We encourage the committee to explore ways to include clean energy development initiatives in a new energy title in the Farm bill. We believe that farmers can effectively become suppliers, not just users, of energy.

Everybody knows that the Midwest farmlands, in particular, are ideal for growing crops that energize our bodies. If the right public policies are put into place, farmers can also be encouraged to develop wind power opportunities, produce crops for bio-diesel and ethanol fuels, use land for conservation stewardship, and grow high-yield energy crops that can be used to generate electricity to power our economy. Expanding wind power and biomass energy, will provide new markets for crops while reducing air and water pollution, deterring soil erosion, and providing rural income and jobs. Let us give farmers the tools to succeed and the incentives to succeed in these genuinely new markets that provide environmental value.

I have five points to present today in summary fashion. First, let me turn to wind power development opportunities. Wind power is the world's fastest-growing energy source. It expanded about 35 percent in 1998. More than 600 megawatts of new wind power has come on line in the Midwest alone since 1998 that avoids pollution from central power plants and provides rural economic development opportunities.

Wind energy is truly a cash crop for farmers. The typical annual lease payment for windy sites in the Midwest is about $3,000 per turbine. For a 50-megawatt wind farm, that is about $125,000 to $150,000 per year.

Iowa and Minnesota have led the way with wind power development and there are major new wind power projects now going up in Iowa, Illinois, Kansas, Minnesota and Wisconsin. Wind power is fast becoming a larger reality in the Midwest and across our nation. There are more development opportunities for large wind farms. There are also significant untapped opportunities for small-scale distributed wind power to serve individual farms and smaller communities that are in more remote locations.

Congress should consider steps that can be taken to map good wind power sites in rural communities, provide easy access to monitoring equipment to determine what is a good windy site for local farmers, and provide low-cost financing for smaller distributed wind power projects.

Let me turn to my second point. Energy efficiency is the best, the fastest, and the cheapest solution to power reliability problems. Inefficient energy use continues to waste money and cause unnecessary pollution, and the places for energy efficiency improvements are not limited to the major cities and the suburbs. There are many opportunities to be tapped for cost-effective energy efficiency improvements and farming activities that include more efficient motors and pumps, more efficient grain-drying equipment, and better lighting.

The third point; the importance of a renewable portfolio standard. Federal policy action is necessary to transform this energy development potential for farmers from a good idea into reality. The single most important legislative step would be a Federal renewable portfolio standard that requires all retail electricity suppliers to include a specific percentage of renewable energy supplies as part of the generating power mix that they are providing to consumers.

It is essential that the types of renewable energy be carefully defined to include principally wind power, biomass energy, and solar power; not municipal solid waste incineration, the burning of tires, construction wastes, and some other materials. Otherwise, the value of a renewable portfolio standard gets sidetracked. The opportunity to provide wind power and biomass energy development is undermined.

Fourth point, in developing the Federal farm bill, this committee should explore a potential new conservation energy reserve program that would recognize the value of putting agricultural lands into energy production in ways that also provide conservation production. The Chariton Valley biomass energy project in Iowa is a good example of how switchgrass can be grown and harvested to provide 35 megawatts of power. A conservation energy reserve program could be structured to allow, for example, one cut of switchgrass each fall after the birds have migrated. That is good for the farm economy, that is good for the environment. It provides a new cash crop.

A fifth and final point, we need transmission access reform. If you cannot get the wind power to the load centers and the market because of transmission constraints, it stymies the development of wind power and biomass energy.

To wrap up, historically, America has relied on farmers to work their lands to provide crops to put food on our tables. There are now 21st century opportunities to use lands to produce crops that power our economy, our homes, our schools, and our factories. We urge this committee to consider an energy title to the Farm bill that can spur these clean energy development opportunities, especially wind power and biomass energy development.

Thank you for the opportunity to appear today. We look forward to working with the members of the committee on the Farm bill.

The CHAIRMAN. Thank you very much, Mr. Learner.

[The prepared statement of Mr. Learner can be found in the appendix on page 174.]

The CHAIRMAN. Now we turn to Dr. Barbara Glenn, member of the Board of Directors of the National Coalition for Food and Agricultural Research and Executive Vice President of the Federation of Animal Science Societies. Dr. Glenn.

STATEMENT OF BARBARA P. GLENN, MEMBER, BOARD OF DIRECTORS, NATIONAL COALITION FOR FOOD AND AGRICULTURAL RESEARCH, AND EXECUTIVE VICE PRESIDENT, FEDERATION OF ANIMAL SCIENCE SOCIETIES, BETHESDA, MARYLAND

Ms. GLENN. Thank you, Mr. Chairman, for inviting the National Coalition for Food and Agricultural Research to testify. I am a member of the Board of Directors of the National C FAR, as you mentioned, in my role as Chairperson of CoFARM, which is the Coalition on Funding Agricultural Research Missions. We look forward as NC FAR to working with this committee.

First, we want to thank the members of this committee for your support of food and agricultural research and education programs. We believe increased Federal support for food and agricultural research and education should be a key component of this committee's goal to develop sound food and agricultural policy.

National C FAR is a newly organized, broad-based, stakeholder coalition of some 90 organizations. National C FAR recommends the doubling of Federal funding of food, nutrition, agriculture, natural resource, and fiber research, extension, and education programs during the next five years. This is to be net additional funding on a continuing basis that complements but does not compete with or displace the existing portfolio of Federal programs of research and education.

Why should the Federal Government invest in food and agricultural research extension and education? We believe the answer is because the food and agriculture sector is fundamentally important to the United States, as we have heard this morning. It provides food, creates jobs and income, reduces the trade deficit, contributes to the quality of life, and bolsters national security. In addition, public financed research and education should complement private research by focusing in areas where the private sector does not have an incentive to invest.

What have been the measurable benefits of Federal investment for American farmers and consumers? According to a recent analysis by the International Food Policy Research Institute, the average annual rate of return on public investments in food and agricultural research and extension was a whopping 81 percent, an extremely high rate of return by any benchmark. Additionally, as we know, advancements in agricultural productivity have led to enhancing the environment and the quality of life, especially linking good food to good health.

Why should we double food and agricultural research? Well, there are three basic reasons, the way we see it.

First, agricultural research and education can address many of today's pressing problems. World food demand is escalating. Some $100 billion of annual U.S. health costs are linked to poor diets and foodborne pathogens. Farmers are suffering from some of the lowest prices in over two decades. We need longer-term approaches to assist farmers and retain value of their commodities. Other problems include threats to our environment, the escalating costs of energy, and the need for improved bio-security and bio-safety tools to protect against bio-terrorism and dreaded problems, such as the foot and mouth and mad cow diseases and other emerging plant and animal pests.

Second, Federal funding of food and agricultural research in the USDA, when measured in real, inflation-adjusted dollars, is less now than it was in 1978, so it has essentially been flat for over 20 years. Furthermore, currently, we only invest about one dollar of Federal funds in food and agricultural research for every $500 of consumer expenditures on food and fiber, a very low rate, indeed.

The third reason, but perhaps one of the most important for doubling food and agricultural research is to capitalize upon the promising opportunities that advances in science and technology make possible, for example, the sequencing of the human plant and animal genomes. Taking advantage of these unprecedented bio-technological advances will require significant increases in research funding.

Last, how should the doubled funds be spent? Well, there are several areas of opportunity. The National C FAR does not have a list of specific research recommendations. However, major areas of research and education opportunities have been identified by our members and related consensus-building coalitions and they are included in our written testimony.

National C FAR emphasizes the continuing need to build the capacity to do quality research and education. We must maintain a balanced portfolio of Federal research and education programs, including competitive grants, formula funds, and intramural programs.

With respect to current legislation, National C FAR recommends that, first, the basic authorization and provisions of the Agricultural Research, Extension, and Education Reform Act of 1998 be extended and incorporated in the new Farm bill.

Second, an additional provision should be included that it is the sense of Congress that Federal funding of research, extension, and education be doubled over the next five years.

Third, the provisions should be strengthened to expand stakeholder participation in identifying that research and education funding and the needs and opportunities.

In conclusion, National C FAR hopes that we have convinced you that because of its primary role in serving all Americans, Federal investments in food and agricultural research should be doubled over the next five years. Again, we appreciate the opportunity to share our views. We look forward to working with you and members of the committee toward enhancing Federal support of food and agricultural research and education. Thank you.

The CHAIRMAN. Dr. Glenn, thank you very much for that statement and for the more comprehensive statement you submitted to the committee.

Ms. GLENN. Thank you.

[The prepared statement of Ms. Glenn can be found in the appendix on page 180.]

The CHAIRMAN. As I announced earlier, I would try to recognize Senators when they arrived for their statements, and Senator Lincoln has returned. I want to recognize our distinguished Senator from the State of Arkansas for her opening statement and any other comments she might wish to make. Senator Lincoln.

STATEMENT OF HON. BLANCHE LINCOLN, A U.S. SENATOR FROM ARKANSAS

Senator LINCOLN. Thank you so much, Mr. Chairman, and I apologize for interrupting such a distinguished panel. I do thank all of you all as witnesses for being here and working with us, your testimony that you have submitted as well as what you are giving.

Mr. Chairman, I want to thank you so much for holding this important hearing and for getting this committee on track to rewrite a new farm bill. Of course, the short-term and the long-term are both very important to our agricultural producers in Arkansas. I would like to put a plug in for our supplemental appropriations and emergency assistance and also to put a plug for the AMTA payments that we will be providing, or hope to be providing, at a 1999 level and how crucial that is to ensure that our farmers are actually going to have the resources to be able to complete this agricultural production year. It is coming at an awfully late time for them and it is going to be absolutely essential.

In terms of the long-term, Mr. Chairman, I am anxious to get to work on a new farm bill, because, frankly, our farmers need some relief from our current farm policy. For almost six years, our farmers have labored under a farm policy that is ill-suited for the pressures that global markets and poor weather can exert. That is why for each of the past 3 years we have sent back to our farmers a multi-billion-dollar emergency aid package.

Freedom to Farm offered our farmers the flexibility to plant the crops they felt were most needed by the market. This was a fundamental component of Freedom to Farm, allowing our farmers for the first time in a long time to respond to a free domestic marketplace rather than to the government. Yet, Freedom to Farm did not give our farmers the tools to respond to a global marketplace that is influenced by the actions of foreign governments. This shortcoming reveals the FAIR Act's fatal flaw, the lack of an adequate safety net.

The next Farm bill that we hope to produce, with your assistance, those of you all here today working with us and others that will contribute, should be built on these lessons. Planting flexibility should be retained. Our farmers must have the power to choose what they grow and when they grow it. This planting flexibility must be paired with some recognition that the policies of our trading partners can have as much effect on commodity incomes as any drought or flood.

I believe my colleague from Arkansas, Senator Hutchinson, may have mentioned some of these issues in terms of trading partners and opening up those markets.

We must encourage the expansion of our overseas markets wherever and whenever we can. As a member of the Senate Finance Committee, working with our chairman, Senator Baucus, I am committed to lowering trade barriers and providing our farmers with the leverage they need to push the global commodities market into the 21st century and seeing the U.S. as an absolute player in that. We must also provide a solid, reliable safety net. With a strong safety net, our farmers, our rural bankers, and the rural economy that depends on them will know they will have the support to weather the bad years.

Senator Roberts in his opening statement alluded to some of those issues in terms of the fact that we are not just addressing the issues of producers and farmers, but to all of rural America. Rural America will also know that they can look to the coming years with confidence rather than with fear and uncertainty.

The next Farm bill must also address other areas of importance for our rural communities. It should contain a strong forestry title that promotes sustainable forestry in this country, and it should recognize that our private forests provide everything from timber production, carbon sequestration, wildlife protection, recreation, and clean water. We need to remember that tree farmers are farmers, too. It just takes them longer to grow their crops than those of us that are used to traditional row crops.

We should also remember the wisdom of conservation, and we appreciate, Mr. Learner, your input there. Whether we are talking about our farmlands or our wetlands, energy sources, bio-conversion, a multitude of options and opportunities that are out there, we must help our rural communities protect against the damaging forces of erosion and overuse, not to mention what it can do to help our income in rural economies and in producers by taking marginal lands out of production in ways that we have seen productive over the past several years.

Finally, we must look down the road to the long-term needs of rural development. Many small towns are missing the financial support to develop their own resources. Often, the support that we offer does no more than help them struggle from one crisis to the next. We must provide better support for these communities so that they can build the necessary infrastructure to grow rather than simply to survive.

Mr. Chairman, all over the country, our rural communities are collapsing. Virtually every commodity is suffering. It is high time that we got to work on a new farm bill. I thank you for your leadership, for the ranking member, Senator Lugar, for his willingness to work with us on this, for both of your patience as well as the unbelievable institutional history and wisdom that we have on this committee to be able to make this process a huge success. I stand with you and ready to work hard and we, too, appreciate all of the input that you all as our first panel of witnesses and the many individuals that will have a great deal of input into this very, very important process and the product that we will produce for the American people. Thank you, Mr. Chairman, very much.

[The prepared statement of Senator Lincoln can be found in the appendix on page 75.]

The CHAIRMAN. Thank you for a very eloquent statement, Senator Lincoln, and I look forward to working with you in developing this legislation.

Now we will turn to my neighbor to the West—Mr. Fitzgerald is my neighbor to the East. Now my neighbor to the West, our former great Governor of the State of Nebraska, now Senator from my neighboring State of Nebraska, Senator Ben Nelson.

STATEMENT OF HON. BEN NELSON, A U.S. SENATOR FROM NEBRASKA

Senator NELSON. Thank you, Mr. Chairman, and Senator Lugar, I appreciate your work, as well. I want to thank you for convening this hearing this morning. I apologize also for being later getting here and certainly hate to interrupt the panelists.

It is good to be with you today and I really look forward to working on this important committee and I hope to be a part of it when the organizing resolution is accomplished. I hope I will be able to rejoin it.

Of course, moving forward on the new Farm bill is my top priority for agriculture and it is of critical importance not only to farmers in Nebraska, where it is extremely important, but also to our rural communities and the economy of our entire State and the economy of almost every rural State. With one of every four jobs in Nebraska dependent on agriculture, we clearly have a lot at stake.

Chairman Harkin, let me commend you for focusing on some issues in this hearing today that don't often get as much public attention in the Farm bill and in the debate as they ought to—rural development, nutrition, research, and the three "F"s I talk about so often, food, fiber, and now fuels, oxygenates, alternative sources of energy.

This piece of legislation is the closest thing we have to a rural America policy, and as Mr. Fluharty points out in his testimony, only 6 percent of rural Americans live on farms and less than 2 percent of the rural population is engaged in farming as a primary occupation. It is still a rural America issue.

Many of our rural communities are withering away, and as a former Governor, I can attest to the huge impact that that has on our State. I am pleased to see that many of our witnesses today are talking about some of the policies that affect the rural areas, as well as directly affecting farmers and ranchers.

Mr. Chairman, as you are well aware, I am eager to work with you and help hold whatever necessary hearings and to get to work on crafting our new farm bill. That is what I have heard from one end of the State of Nebraska to the other end of the State, and I appreciate the urgency, as I know you do and the members of this committee appreciate the urgency. I thank you for getting us started. I want to be brief, but I look forward to working together in the upcoming months. Thank you very much.

The CHAIRMAN. Thank you very much, Senator Nelson. I look forward to working with you on this important legislation.

Now we will turn to Sharon Daly, Vice President for Social Policy. Ms. Daly provides overall direction to Catholic Charities USA's legislative efforts and leads its work on welfare reform and Federal budget and tax issues. Welcome, Ms. Daly.

STATEMENT OF SHARON DALY, VICE PRESIDENT FOR SOCIAL POLICY, CATHOLIC CHARITIES USA, ALEXANDRIA, VIRGINIA

Ms. DALY. Thank you very much, Mr. Chairman, for this opportunity to testify about the key role of the food stamp program. Catholic Charities USA represents 1,400 independent local agencies with a quarter-of-a-million staff and volunteers who serve ten million people a year. They provide every kind of social service, but the single most frequently needed service is emergency food, so we have very strong views about the food stamp program.

My first point is that, until recently, the food stamp program has been a resounding success in reducing hunger among families with children. Over the last three years, even though earnings for low-income workers actually declined when adjusted for inflation and welfare payments went down dramatically, childhood hunger declined because of the food stamp program, the WIC program, school nutrition programs, and the Earned Income Credit.

The food stamp program has always had strong bipartisan support with great leadership by Senators Harkin and Leahy and Lugar, and, of course, Senator Dole, who is in our prayers today.

My second point is that even though there is less hunger now than 30 years ago, there is still far more than a rich nation should tolerate, and as food stamp rolls have declined recently, hunger is again on the rise. We begin with the premise that here in the United States, the strongest economic powerhouse in human history, that parents working full-time should earn enough to support their children in dignity and should not be reduced to begging for food for their children. That is the fact for millions of Americans, and not just occasionally, but regularly.

Despite the high employment rates, record profits, and stock market highs, wages at the bottom of the labor market have stagnated, especially compared to the higher costs for the basic necessities, like rents, gas and electric, and gasoline. The working poor are forced to swallow their dignity and rely more and more on handouts from charities.

Now, the lack of affordable housing is the single biggest culprit, but the outdated and outrageous rules of the food stamp program are close behind. Just like Senator Conrad's chart about the farmers, the working poor in America are paying more and getting less.

The experience of Catholic Charities agencies in every State is they report steady increases in need for emergency food of 20 percent or more each year since 1996. Meanwhile, participation in the food stamp program was dropping by more than seven million people. We think there is a connection. Most of the increased need has been among working families with children, the very same group who have been dropped from the food stamp program. In fact, nearly two-thirds of the families leaving welfare-to-work were dropped from food stamp within six months, even though they were still poor enough to qualify for and need food stamps.

Twenty-five years ago, it was rare for working parents to show up at churches looking for food unless a death in the family or a fire left the family without food or money for food. Now we have a nationwide network of emergency food programs trying desperately to cope with chronic emergencies, emergencies of low wages, high rents, and no food stamp benefits.

I am not suggesting that the food stamp program alone can solve the problem. We need increases in the minimum wage and more affordable rental housing. The food stamp program could do a much better job. Unfortunately, the program operates on three outdated assumptions.

The first is that low-income families can afford to spend 30 percent of their incomes on food, and food stamp benefits are calculated to fill the gap between the cost of the lowest-possible-cost diet and 30 percent of family income. In fact, only one-fourth of low-income households get any housing subsidy, so three-fourths are now paying rents that consume 50, 60, and 70 percent of their incomes. A parent working at or near the minimum wage with take-home pay of only $800 or $900 a month has to pay about $700 a month or more in rent, and that is before utilities, leaving not enough for food.

Our first recommendation is to adjust the food stamp program to the reality that the majority of food stamp households can't afford more than 15 or 20 percent of their incomes for food.

The second outdated assumption is that most recipients only need help temporarily. The benefit structure is based on a diet that is minimally adequate for short periods. Unfortunately, families need help for years. The very people who create the conditions that give the rest of us a decent quality of life through their work in nursing homes and cleaning office buildings and serving food are expected to survive on long term on a diet that is officially "minimal". America's children are being nurtured on a diet that is like prisoners' rations.

Our second recommendation is to adjust the food stamp program to the reality that people are not going to be able to get off food stamps quickly.

The third outdated assumption is that people who need food stamp are on welfare or unemployment insurance and can spend a full day every few months at the food stamp office, once again filling out a 26-page application and supplying 14 kinds of verification and enduring the condescension of the eligibility worker. In some States, Mr. Chairman, it is easier to pass the bar exam than to get certified for food stamps.

Today, in the typical household, the adults have jobs that do not provide time off, and a visit to the food stamp office means sacrificing a day's pay and risking their jobs. In many States, working parents have to reapply for food stamps every three months. It is no wonder that less than half of the eligible households are participating in the program.

Our third recommendation is to recognize the reality that low-paid workers are the largest group of eligibles and to allow families who are leaving welfare-to-work to automatically be enrolled in food stamp for a full year without additional paperwork and to allow other low-wage workers to apply for food stamps on a simplified form by mail.

We are also concerned about welfare recipients who are now reaching their lifetime limits and will depend more on food stamps than ever. About a third of these parents have severe physical and mental disabilities or care for a parent or a child who is disabled. Eventually, they are going to qualify for an exemption or some kind of disability payment, but meanwhile, the food stamp program is the only thing standing between them and starvation.

We need a comprehensive communication strategy to inform parents that their food stamp eligibility does not end with the TANF time limit. The committee should require States to conduct outreach and education campaigns to maintain that food safety net.

Congress should not be misled. The religious and community organizations that feed the poor now are already stretched beyond their capacity. The cupboard is almost bare.

In addition, Mr. Chairman, I would like to mention once again to this committee that it is important to restore eligibility to food stamps for immigrants who are legally present in this country and are working incredibly hard. I was disappointed that I didn't hear the word "farm worker" in anyone's statement so far, member or witness. We heard about farmers. We heard about growers. Nobody mentioned farm workers.

The Catholic Bishops' Conference and Catholic Charities USA and the National Rural Life Conference recently began a series of listening sessions on agriculture issues and they will be listening to testimony on research and on conservation and on problems of small farmers, all of those important issues. They also have already heard some important testimony in Sacramento, California, last week about farm workers, and Mr. Chairman, the plight of farm workers is just as bad as it was when Cesar Chavez began organizing in the 1960's. I urge you to hold a hearing to look into what is happening to America's farm workers, who are being exploited, dehumanized, and treated like commodities.

Mr. Chairman, I also want to flag another issue for you, which is WIC appropriations. As you know, the administration's request is insufficient for this coming year and if the Congress does not add $110 million to the administration's request, WIC offices will have to turn away perhaps as many as 200,000 children next year, so we urge you all who care about WIC to help make that additional $110 million happen.

Mr. Chairman, thank you so much for the chance to testify and to raise issues that are just as important as all the other agriculture issues.

The CHAIRMAN. Thank you very much, Ms. Daly, for reminding us that the Farm bill needs to be comprehensive and the food stamp portion is one vital part of this bill that we are going to address. Your suggestions are right on target. We are going to be looking at that and I assume we will be in contact with you further on this issue.

[The prepared statement of Ms. Daly can be found in the appendix on page 199.]

The CHAIRMAN. I am told that there is a vote supposedly at 11:50 or 11:55. We have one more witness. If we have time for questions, we will do that and we will move into that. If there is a vote, then I assume we will just adjourn, and because of the late hour, we will not return.

Now we will turn to Mr. Dave Carter, Secretary–Treasurer of the Mountain View Harvest Cooperative, Longmont, Colorado.

STATEMENT OF DAVID E. CARTER, SECRETARY–TREASURER, MOUNTAIN VIEW HARVEST COOPERATIVE, LONGMONT, COLORADO

Mr. CARTER. Thank you, Mr. Chairman and Ranking Minority Member Lugar and members of the committee. I am indeed honored to testify before you today. I am here in my capacity today as the Secretary–Treasurer and board member of the Mountain View Harvest Cooperative, which is a producer-owned bakery in Northern Colorado that is owned by 225 Colorado wheat farmers. I want to tell you very briefly the story of Mountain View Harvest and then use that to illustrate some of the things that we think need to be included in particularly the rural development title of the new Farm bill.

It was in early 1994 that I had an opportunity to join a small group of producers, all of whom were part of an old-line traditional grain origination cooperative that had gone bankrupt in the 1980's, but it was a group of producers who wanted to take a look at reestablishing a presence, a cooperative presence in Colorado for particularly grain marketing. We went through the summer of 1994 and talked about various ideas and began to think that perhaps we ought to look down some other avenues, and in September 1994, we received a $100,000 grant from the U.S. Department of Agriculture to conduct feasibility work.

That gave us the ability to hire some professional expertise to come in and take a look at marketing opportunities, 14 different areas of potential marketing opportunities for Colorado producers. We looked at everything from grain origination and gluten to pizza dough and pretzels. What we identified were some emerging opportunities in a segment of the baking industry particularly known as par-bake, or partially baked bread. You take the dough, you mix it, you let it rest and rise and you bake it about 90 percent of the way. You sell it to a customer. They pop it in the oven and tell everybody they make their own bread. This is a growing part of the industry and it represented a real opportunity.

Well, following that feasibility study, then we were also fortunate enough to receive a $25,000 no-interest loan from a for-profit subsidiary of a non-profit organization that allowed us to bring on three individuals, an investment advisor, an accountant, and an attorney, to really go through and do the due diligence and to develop a business plan for the operation of this new cooperative. In that process, we were able to locate that there was an existing bakery in Northern Colorado, a modern facility that might be available for purchase.

We entered into some negotiations and reached an arrangement that we knew would require us then to generate $5 million to finalize that purchase. We developed a plan in which there would be

400 shares of stock at $12,500 apiece to capitalize this new cooperative. Now, not too many farmers have got $12,500 laying around in the kitchen drawer, and that is why it is so critical that the local Farm Credit office stepped up to the plate at that time, and they put together a signature loan program in which producers, qualified producers, could go in and borrow the money to make their equity investment in that cooperative.

With that program in hand and with the business plan in hand, we were able to go to the countryside and market the 400 shares to 225 producers, and on April 15, 1997, we closed the purchase of Gerard's French Bakery in Northern Colorado. It was a $6 million bakery at the time we purchased it. Last year, the annual sales topped $17 million. We are the national supplier to a well-known sandwich chain as well as a regional supplier to several restaurants, and through a joint venture with another cooperative, we are in the retail business.

The growth has been a blessing, but it has come with some challenges. Unfortunately, we have not been able to pay the dividends that we would like to with our members because we have been forced to try and fund the growth through internal profits, but we feel that we are building a very successful business.

Well, that is the Mountain View Harvest scenario. I have also been involved with some other cooperatives, including one in Southern Colorado/Northern New Mexico that involved 110 limited resource ranchers that had an idea of putting together a certified kosher beef processing cooperative. They had a much different experience. They didn't have the feasibility resources. They didn't have an institution that stepped up to the plate. They were undercapitalized. They had inexperienced management and it had severe difficulties before shutting down in 1997.

In taking a look at those two experiences, as well as other emerging cooperatives, and Senator Roberts, I had an opportunity yesterday, for example, to visit with Kent Sims of the American White Wheat Association and their process, and so that has led me to the recommendations that there are five particular areas that we think would be very helpful in the rural development title.

No. 1 is we simply need to have more money available for feasibility studies. That $100,000 that was used by Mountain View Harvest was critical in keeping us not only on the right path, but keeping us from pursuing some other alternatives that we thought were very attractive, but in the analysis would have been an absolute disaster.

Second, we need to have more funding through the Rural Cooperative Development Grant program. We are very fortunate in our area to have a Cooperative Development Center, and other States are equally as fortunate. If you look at the map, there are some black holes, and we think that every State ought to have adequate funding to have a Rural Cooperative Development Grant Center in their State to provide those resources and the technical assistance that are necessary for successful development.

Third, the Business and Industry Loan program needs to be strengthened and expanded. We think that that is a good concept. When Mountain View came along, we didn't have that program in place to help producers borrow the money for their equity shares.

B and I is supposed to help us do that. It is not working quite as well as envisioned. It needs to be retooled.

One of the things that is very important is we also need to recognize that the real emerging opportunities in cooperative development may come from acquisition rather than a new startup. Many times when you go into an acquisition, what you end up buying are blue sky, customer lists, the distribution routes, markets, and those are extremely valuable, but they are not the type of assets the lenders like to use as collateral. They aren't bricks and mortar, and so we need to make that change.

Fourth, we need to expand the Value-Added Grant program. The $60 million in requests that were in for this round that were just announced, the $10 million in funding demonstrate that there is a tremendous pent-up demand, and that can be very successful in helping new co-ops get across the threshold of the organizational stage and into the operational stage.

Then, fifth, we feel that the new Farm bill ought to direct Federal institutions to expand the purchases of food that they make from farmer-owned cooperatives and minority-owned businesses. We feel that that could provide a demand pull that could provide a consistent customer that can help the cooperatives move into new areas.

Mr. Chairman and Senator Lugar, Senator Roberts, those are five recommendations. We feel that this is critically important, because not only are cooperatives and farmer-owned enterprises going to be important in the food and fiber sector, but as has been mentioned repeatedly, the demand for energy is going to create new opportunities for farmer-owned cooperatives.

I would like to just end with a comment that summarizes many of the comments here today. In the final analysis, safe, healthy food and reasonable, reliable energy all begin with secure, profitable farm and ranch families. Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Carter.

[The prepared statement of Mr. Carter can be found in the appendix on page 205.]

The CHAIRMAN. I want to thank all of the panel for your patience and willingness to be here and to sit through a long morning. As I said in the beginning, your testimony is most valuable and I am certain that we will be in contact with you through our staffs for further development of your thoughts and your suggestions. I assume that we will probably see some of you back here again as we have more hearings in July and on to however long we have to go to get this thing put together.

We do not have a vote yet. What I will do is I will just ask one question and then I will turn to Senator Lugar and then Senator Roberts and maybe we can go for as long as until we have a vote here.

I first want to turn to our two individuals that represent the broad-based farm organizations, the Farm Bureau and the Farmers Union, to just, again, ask a little bit more of a development in your thinking on the situation we have now in terms of farm income and stocks on hand and what we need to do in terms of a countercyclical program. Both of you mentioned countercyclical and I am not certain I know exactly how we are going to move ahead on that countercyclical program. We talk about countercyclical, but I will bet a lot of us have different ideas on what that really means. If you could just elaborate a little bit, both of you, on where you think we ought to be headed on a countercyclical type of a support program.

Mr. Swenson.

Mr. SWENSON. Thank you, Mr. Chairman. It is a very good question. No. 1, it is clear now in the filing with the WTO that AMTA payments as such are going to be classified as amber, and so taking that into consideration, as we take a look to the future, how do we structure an appropriate safety net?

First of all, we would stress equity, equity in the support mechanism among all commodities.

Two is that if we are going to maintain, as we believe we should, planting flexibility to allow producers to plant whatever commodity they may wish, we believe that the countercyclical then should be tied to commodity specific. That is why in our proposal we have gone away from any just payment regardless of payment and just to produce and produce, is that we tie our support to the actual commodity via an adjustment within the commodity loan rate. We do not believe that will then——

The CHAIRMAN. A marketing loan?

Mr. SWENSON. The marketing loan, the loan program. That will not distort what happens in the market because we maintain the marketing loan program, the non-recourse element so that the commodities have that choice to flow into the market. It is just a protection via the loan rate if that commodity price goes low. It serves as a countercyclical, but it is tied to what a farmer chooses to produce today.

Then you have the protection of not being able to produce by participation, No. 1, in the crop insurance program, which has been enhanced, and two, in the crop protection program that we have outlined in our proposal.

The CHAIRMAN. Thank you very much. Mr. Stallman.

Mr. STALLMAN. Well, you are right, Mr. Chairman. There has been a lot of discussion about countercyclical and probably not enough definition at this point, although we are moving toward a little better definition. I would disagree with my colleague that AMTA payments are going to be classified as amber box in the future. That notification specifically referred to the supplemental assistance payments, and also it was classified as a de minimis payment under the amber box provisions, which in essence means it does not count against our $19.1 billion cap.

Having looked at countercyclical ideas in terms of programs, if you look at what the Congress has done the past three years, in essence, that has been countercyclical. Although it has been on an ad hoc basis, it has been very much appreciated and needed. We looked at ways to structure a system, a payment system that would more or less mimic what the Congress did in response to low prices, where payments would go out in low-price periods. Then when prices improved, those payments would not go out.

We think in looking at the agreement on agriculture under the WTO that as long as you meet certain provisions of that agreement, one can be structured green box and still be countercyclical.

It would not be tied to an individual producer and their individual situation, because when you tie it to production, current production, that, by definition, is going to make it amber box.

Our example in there, we believe would be classified as a green box. Obviously, no one would know until there was an actual WTO dispute case because no one gives you pre-clearances with respect to whether a program is amber box or green box. It can be done, but it will have to be crafted, and in the end, it may not satisfy enough of the objectives of producers or Members of Congress, but we will have to see, we are working on it.

The CHAIRMAN. Thank you both very much. We will explore this further as we go along on the countercyclical.

Senator Lugar.

Senator LUGAR. Thank you very much, Mr. Chairman. I just wanted to comment on several things just briefly that came up in the hearing today that require some thought and, hopefully, some incorporation.

Specifically, Mr. Learner, in your testimony, in addition to advocating more efficient use of electricity in the country, and you suggest a number of changes in which large corporations in this country that are producing appliances and various other things could make sales of those to a willing public that would adopt them and use less electricity, and ideally, some Federal energy policy may come along that gives some push to that.

Specifically with regard to agriculture and your third recommendation, you call for a Federal renewable portfolio standard that requires all retail electrical suppliers to include a specified percentage of renewable energy resources. That would steadily increase from 8 percent in 2010 to 22 percent in 2020, and you specify three specific kinds of energy, wind power, solar power, and closed-loop biomass energy as the ones to qualify, and you would exclude various others.

In the closed-loop biomass energy, describe what that is and how that applies to farmers and producers.

Mr. LEARNER. That includes what most of us call biomass energy of farm crops, be it corn waste, be it switchgrass, or be it alfalfa. What we are trying to get away from here is the battle over incineration versus what most people consider biomass energy. There is tremendous public support for developing biomass energy, both to help out farmers and reduce pollution. There is a different public view when it comes to incineration. Closed-loop means you keep it within the system.

Senator LUGAR. As you know, I have advocated annually research funds for this purpose. Senator Harkin has been a strong advocate. Each year, we have watched House appropriators slice this into small pieces. Even if it survives at places like Purdue or Iowa State or so forth, the ability, or at least the willingness of people who supply energy to incorporate these ideas out of our university laboratories has been very limited. I have tried to follow this or trace it, piece by piece, as to how it might get out there. Obviously, this is a very big idea. An administration, any administration, Democratic or Republican, who finally took energy seriously would have adopted this a long time ago and moved down the trail, as opposed to leaving the vulnerability that we have.

Essentially, you are asking in this Farm bill, as I see it, for us to undertake that. In other words, we, as an authorization committee, would mandate that this occur. Clearly, some other committees are going to say, well, we have some interest in this, maybe in jurisdiction. You folks are supposed to be dealing with farmers, producers, farm workers, food stamp recipients, and what have you, but not the energy problems of the country. Fundamentally, that is what we are doing here. I like the idea, obviously. I am trying to sketch in my own mind's eye how we do it, how we make it stick, how something like this happens.

Mr. LEARNER. Clearly, energy issues cut across committee jurisdiction lines. There is no way around that. The production tax credit, for example, extension of which is very important, would not fall appropriately within this committee's jurisdiction, and that is key to biomass energy production, especially closed-loop, as well as for wind power and solar power development.

I am not suggesting that this committee take up the whole of energy policy, but, rather that a rural-focused energy title is very appropriate as a part of what this committee does in the Federal Farm bill, and there are steps that can be taken in the Farm bill that would seriously advance biomass energy and wind power energy. The Conservation Energy Reserve Program, patterned after, in many ways, the Conservation Reserve Program, falls quite comfortably within the Federal Farm bill parameters.

Where a renewable portfolio standard goes is an interesting jurisdictional question. Clearly, Senator Jeffords, who has sponsored a bill, might have some views on the appropriate committee. It is also appropriate for consideration by this committee here.

Going to your point about the link between developing biomass energy and bringing that clean energy to consumers, that is why the renewable portfolio standard is so important. If all retail electricity suppliers are required to include a reasonable percentage of renewable energy in the power they deliver to consumers, that would encourage biomass energy development and pull it into the market.

Ten years ago, this may have been visionary and simply interesting. Today, it is on the front burner, for national domestic energy policy, and as you have eloquently written, as a matter of foreign policy and security as well.

Senator LUGAR. I thank you, and perhaps you can help us with some language that will guide that section, because it is an important concept.

Mr. LEARNER. Senator, we would be pleased to work with you and your staff.

Senator LUGAR. May I ask just one more question of Mr. Cox? In your report, and it is a very important document, "Seeking Common Ground for Conservation," which you mentioned from the previous hearing, but let me just mention, on page 38, you have some provocative ideas, one of which is that the combined effect of crop insurance premium subsidies would add 900,000 acres to aggregate plantings of eight major field crops—this is a USDA Economic Research, ERS, estimate—that marketing loan benefits have added four million to five million acres to the total U.S. acreage planted to eight major field crops, and you go on to point out that crop insurance has the other benefit, or liability, of keeping fragile lands in production.

Now, the effect of this, as some of us have pointed out, is that we are attempting to do some things that help farmers and they get income out to farmers and a lot more of that has been suggested today. The net effect of that also is to increase plantings, to increase production, to increase supply. At the very time that we are worrying about countercyclical, we are pushing up the amount of supply and pushing down the price, and the price is inevitably going to remain low so long as we have policies that encourage people to plant more, a whole lot more, and really ensure the income of doing so.

These thoughts innocently placed on page 36, or maybe not innocently enough, simply point out that we have got a problem. We are working both sides of the coin. If I had a dollar for everybody I have heard today say we want full flexibility, Freedom to Farm, everybody making their choices, but we want a lot of money for farmers, even though Freedom to Farm may mean prices go down, stay down, we do not export and they stay down further.

Now, in the midst of all of that, you can spend a lot of money and still, in fact, get net income on farm investment up to a very minimal figure. What you are suggesting is a different approach, and that is, essentially, you get income to farmers for being stewards of the land, and that helps a lot of small farmers as well as large farmers. It is sort of indiscriminate on that basis, so we are not into a class warfare clash that hits us frequently in these hearings.

I would just say, more power to you. It is an excellent suggestion. The question would be how much of the resources given to this committee by the 10-year budget, or whatever budget we are working on, are to be allocated to conservation and to the sorts of things you have suggested, as opposed to income supplements or countercyclical funds or so forth.

I don't know the answer to that, but this is a good entry into the field, at least as the competition for those resources begins. I do not have a question, I just commend you, and likewise Mr. Fluharty and Mr. Carter, really, for another facet of the fact that we are talking about agriculture development because we are talking about rural America and less than 20 percent of our counties even have 20 percent of their income coming from farming that are in agricultural territory, which means 80 percent have very, very little visible support from anything in the production side.

Now, maybe that is not the jurisdiction of this committee, either, in other words, to take on the demographics of the whole country and try to shore up farm country. If not us, who? We are trying to get back to that predicament, so we probably should tackle it, even with the potential of others interloping in or making amendments and suggestions.

I appreciate all of your testimony. It is very, very helpful in terms of a new vision for a farm bill as we try to take a look at all of the persons who are affected, including the rural poor. Ms. Daly has made a very good point. She has mentioned farm workers, and so has Senator Harkin and so will I. They are a very important facet, in addition to the recipients of the food stamps.

I thank you, Mr. Chairman, for indulging me these extra minutes.

The CHAIRMAN. No, I am delighted to hear it. I am tracking with you on exactly what you are talking about. That is going to be one of the real challenges of this Farm bill, to put this together with that methodology, but you are right. We are really going to have to look at rural development and how we get those funds out there in the rural development sector, and a lot of these people talked about that, too.

I recognize Senator Roberts.

Senator ROBERTS. Mr. Chairman, I ask unanimous consent that the committee now report the current Farm bill, that we double existing program funding for all nine provisions and establish farm prices at parity levels, and that farmers are allowed to farm as determined by Purdue University.

[Laughter.]

The CHAIRMAN. It is nice having you on the committee.

[Laughter.]

Senator ROBERTS. There is a workshop that is going on right now with the distinguished National Association of Conservation Districts, since we are talking about conservation, Kansas State University, home of the ever-optimistic and Fighting Wildcats, the University of California, Iowa State, and the speaker is me. I began speaking about five minutes ago. I do not know what is going to be on the floor, but instead of asking specific questions, if I could be permitted to list some concerns, other than the concern I have of the former distinguished chairman's comments as to where we should farm and not farm.

Leland, a loan rate based on 80 percent of the cost of production, and I am assuming you are referring to a national cost of production as opposed to individual producers, the year is 1981. As you remember, the deficiency payments at that particular time and the loan rate were pretty much tried to figure out on a national cost of production. The first amendment that this member ever got passed in the House Agriculture Committee was a Cost of Production Board, a producer Cost of Production Board, and Bill Turentine from Garden City, Kansas, America, was the chairman and Bill Lesher had to put up with him when he worked down at the Department of Agriculture. We had people from all sections from the country and they had what I call meaningful dialog for the greater part of a year trying to figure out cost inputs, different regions, and different commodities.

I do not know if that is possible, but it seems to me that something out of the Department of Agriculture a little more specific as to the cost of production would be helpful, regardless if we feel we want to go down and make the loan rate an income protection device as opposed to a market-clearing device. It is an interesting comment and I would like to visit with you further about that.

Then in addition, one of the problems or one of the challenges we have is we have learned in the past, or at least our producers out in Kansas will set aside their most marginal land and they increase the inputs on their more productive land when we go to something like flex-fallow, and that has always been a concern, not to mention that our competitors increased their production by more than we set aside. Bob, you have got a good statement on that in your statement. That is something we have to consider.

Then again, you indicate, Leland, that we need to target benefits to small and moderate-sized farms. Congressman Tim Penny and I used to go into this at considerable detail and we finally both thought that the small family farmer is somebody five-foot-two who farmed up in Vermont, and that a large family farmer was somebody six-foot-two that had about, what, 5,000 acres in Kansas.

[Laughter.]

Senator ROBERTS. I really have some concern, having the Department of Agriculture or anybody else trying to define who is a small family farmer and what is a small family farm. It would be an interesting debate.

One other concern. Bob—well, I am going to leave the green and amber business to the House Agriculture Committee.

What would you do—in terms of Farm Bureau members, is it more important for your members to maintain the soybean loan rate at $5.26 or to reduce it, if necessary for budget reasons, in order to establish an AMTA payment or a PFC payment for soybeans? Is there a choice? I know you want both. I know everybody wants both. I don't know of anybody here that did not say, I want an increase in my budget. I understand that because you represent outstanding programs. Anyway, think about that a little bit. It may have to come to that.

You are recommending $8 billion per year. Is that just in commodity program spending or does that include other important programs, i.e., exports, rural development, and conservation, over the $7.3 billion that is in the budget? Does that $8 billion include all of that?

Mr. STALLMAN. Well, it included the prioritized list out of our original $12 billion, which included those other components. The board decided that $8 billion should be focused on more of the direct income support programs as opposed to the other, although we say, if we can get additional funding, we need to have those others. It was prioritized that way.

Senator ROBERTS. All the commodity groups and the farm organizations have indicated—well, almost all, I cannot think of anybody that thinks the current budget is enough, and it goes from your recommendation of $8 billion, Your original recommendation was $12 billion, and we have some up to $14 billion. I would point out, over a 10-year period, that is not $73 billion, it is $101 billion up to $137 billion. I don't know. I don't mean to be Scrooge around this place, just the opposite, as far as I am concerned. We have to really think about where we are headed in total.

Mr. Cox, you have, and this is just a concern of mine and Senator Lugar and I have had a lot of dialog in this regard, CRP seems to be concentrated in several States in the Plains area and should be moved throughout the country. I remember being shown a red map and a blue map, at Purdue, by the way, where on the blue map, it showed, obviously, that Kansas and the Great Plains had a significant amount of funding on CRP. After all, it was our bill. I authored it. I thought it might be appropriate if we would do that. Then there was a red map.

Purdue is saying, in other sections of the country, we have vital resource needs, and that is true. I said, why don't maybe you get a supplemental instead of taking money from us for you? If we don't have CRP, I would remind you of the sodbuster days in the 1930's and all of that, and I don't think we want to go back to that.

That should be a concern, and that really speaks to the effort. We have to work together as opposed to robbing Pat to pay somebody else. I would remind everybody that soil is the greatest non-toxic, I guess, pollutant that we have.

Now, Mr. Chairman, I had a whole series of concerns here, but in the interest of time and the interest of getting down the road and making my speech and sparing you the agony of listening to me, I want to thank every witness especially for coming all this way and taking your time, your very valuable time, to give us your suggestions and your proposals. I don't know how we do it all under the budget restrictions we have, but each one of you have dedicated a great deal of time and effort in this enterprise and I thank you for your testimony, and I thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Roberts, and believe me, it is always a delight to listen to you, always. We may not always agree, but it is a delight to listen to you and to hear your views, and again, the long history and knowledge of our agricultural programs.

I wish we had more time, but now a vote has started, to get into more questions. I had some on the food stamp program and the whole new system of using plastic rather than the stamps itself and how that is working out, but we will get back to that in future hearings.

Again, what we see from this panel is the diversity of the issues that confront us. Regarding a couple of those issues in terms of energy, I noted carefully and wrote down carefully all of the comments made by the members of this committee, and almost everyone mentioned something about the energy issue. I believe there is going to be some consensus here, at least to do something in that area.

Senator Lugar, of course, has pointed out the jurisdictional problems. It is unclear as to what jurisdiction we have and what we can do under our jurisdictional constraints, and, of course, under the budget constraints, also. I will just speak for myself in saying that I don't mind pushing the envelope a little bit on the energy issue. If other committees are not addressing this in terms of what it means to rural America, then we should. We will just have to, perhaps, duke it out with some of the other committees later on. We ought to go very aggressively down this road. Whereas there may be some disagreements on other aspects of agricultural policy, this is one on which we might find some pretty broad-based agreements.

Also on conservation, I note that there is at least a desire to move beyond the old land reduction CRP, taking land out, but to do something about providing some support for farmers on working land. I picked that up from a lot of the comments, also.

On the research end, I just want to say, Dr. Glenn, of course, this is something that is going to be vitally important. You can rest assured that we are going to continue our support for a good sound agricultural research system here.

Again, when it comes to energy and value-added products, cooperatives hold a great promise for helping farmers get more of that consumer dollar. I just close my comments by saying that, right now, the farmers are getting the lowest share of the consumer dollar ever in history. That won't be made up by government payments. It has got to be made up through some way of getting more of that value-added from the crops that they produce, and the cooperatives in terms of energy, value-added, all these other things, can help get more money back to those individual farmers. We will be pursuing that.

Last, I throw out a question for all of you who are here and others on this whole concept of price supports, safety nets, and countercyclical. However this all works out as we try to come up with bipartisan agreements and find out where we can agree and work this thing out. I ask this question. Should we still be involved as a nation in supporting every bushel and every bale that is produced? Should we continue the policy of supporting every bushel and every bale produced? I will just let that linger there. Think about it. It is a question that I will be asking in July as we have further hearings, as to whether or not we want to continue that policy or maybe shift into other areas.

With that, I thank you. As Senator Roberts said, I thank you for being here. A lot of you came a great distance. Rest assured that we have taken your testimony into account and it will be made an entire part of the hearing record. As I said earlier and repeated and I will repeat one more time, we look forward to having further contact with you as the hearing and markup process proceeds.

Thank you. The committee will stand adjourned until the call of the chair at some time after the Fourth of July recess. We are working now and I am going to be working with Senator Lugar to set up a hearing schedule in July. We will be back sometime the first week after we come back.

[Whereupon, at 12:19 p.m., the committee was adjourned.]

A P P E N D I X

JUNE 28, 2001

Dick Lugar

U.S. Senator for Indiana

Contact: Andy Fisher 202-224-2079 or Nick Weber 202-224-8370 Date: 6/8/01

website: lugar.senate.gov • e-mail: senator_lugar@lugar.senate.gov • press e-mail: andy_fisher@lugar.senate.gov

Opening Statement by Sen. Dick Lugar, Agriculture Committee Hearing

Senator Harkin, congratulations on your becoming Chairman of the Senate Agriculture Committee. I am committed to working with you for an ongoing strong bipartisan relationship in all Committee activities.

I am pleased that the farm bill is the topic for your first hearing as Chairman. You will recall that earlier this year, the Committee held hearings on the credit, research, trade and conservation titles of the farm bill. I look forward to working with you in development of a comprehensive farm bill and to encouraging a process in upcoming months that ensures full opportunity for farmers, ranchers, consumers and taxpayers to be heard.

Mr. Chairman, while our domestic markets and commodity programs are extremely important and must be reviewed, foreign markets are vital to the health and viability of U.S. agriculture. I submit that any final farm bill legislation will be overshadowed in significance by the ultimate Congressional decision on Trade Promotion Authority (TPA).

The products of three out of every ten acres of U.S. agricultural production are exported. When foreign markets expand, our farmers prosper and when those markets contract, our farmers are harmed. It is critical that Trade Promotion Authority is our highest trade and foreign policy priority.

Ninety-five percent of the world's consumers of food, feedstuffs and fiber live outside our borders. The viability of U.S. agriculture depends on our ability to have access to world markets. Although some trade bills have been enacted without trade promotion authority, negotiating trade agreements with other countries is more difficult and more uncertain without such. Other countries will engage in serious discussions only if they know that the Congress will not second-guess what is achieved at the negotiating table.

Agriculture is two and one-half times more reliant on trade than the rest of the economy. Agriculture exports create and sustain hundreds of thousands of American jobs and income in the non-farm sector.

To illustrate the importance of ag exports, I would ask that USDA ag export facts and information on other sector exports for each state represented on this Committee (for the 106th and 107th Congress) be entered into the record. I am hopeful my colleagues will reflect upon these figures in terms of product moved overseas and jobs created.

Following are some examples. In my home state of Indiana, nearly 22,000 jobs are tied to ag exports and those exports account for 32% of the state's agricultural production. In Iowa, over 48,000 jobs are tied to exports and exports account for one-third of the agricultural production. According to USDA, 12,600 jobs in Colorado are supported by ag exports and in Minnesota, 33,400 jobs are in the category of being supported by ag exports. These are serious figures which underscore my conviction that this Congress must act on Trade Promotion Authority, now rather than later.

Again, Mr. Chairman, thank you for calling this hearing and I look forward to working with you on farm bill development.

###

Zell Miller

SENATOR ZELL MILLER'S SENATE AGRICULTURE COMMITTEE
HEARING STATEMENT
JUNE 28,2001

Thank you Mr. Chairman

I first want to thank the Chairman for holding this hearing today. This will be the first of many more hearings over the next few months which will direct this committee down the path of establishing a new farm bill. This hearing is our first step in the long journey of providing America's farmers the security, support, and incentives to ensure that the best agricultural producers in the world remain strong into the 21st Century.

I thank the individuals and organizations present today for their commitment to agriculture and look forward to working with all sectors of agriculture to find policy solutions that will benefit not only Georgia farmers, but all farmers throughout this nation.

Before I discuss a few of the different aspects I believe are essential in the next farm bill, I first want to express to this committee the importance of moving quickly on the supplemental package which our colleagues in the House took-up last week. In past years this committee has provided relief to farmers for economic and natural disasters. Georgia farmers are very grateful for this assistance, however from every indication I have received from my state, this year's economic disaster will far outweigh those of past years. We must provide our farmers with the best assistance package possible and I encourage this committee to act soon.

Our Committee faces many challenges in writing this new farm bill. A state such as Georgia is very diverse in agriculture production and it is my goal on this committee to protect the different interests of Georgia and keep all of America's agriculture economy strong. I would like to share with the committee a few of the issue I think should be addressed in the coming months.

- There has been much talk about the need for an adequate safety net for farmers in times of price and weather disasters, well this is true. I do not believe the current disaster policy over the past few years can continue. No one knows what mother nature will bring, but our farmers have a right to a program that will provide them the security to continue their family's farm operation and comfort of knowing how and when the government will provide assistance.

- It is crucial that we establish commodity programs that provide adequate funds for producers when prices are low. It is not fair to punish producers with payment limits or caps. Also, with the problems in today's agriculture economy, reducing payments from the past levels is certainly not the answer. Not every farmer produces the same crop or farms the same amount of acreage. Farmers want us to provide them flexible programs that will fit their individual operation.

- There is a strong need to implement a specialty crop program. Specialty crops are a growing industry in my state and around the country. They should be given similar assistance to the major commodity programs. On the same note, the specialty crop industry has suffered under a broken farm labor policy for too long. As I've said many times, we need a labor policy that protects the rights of the employer and employee.

- Conservation should be an important aspect of the next farm bill. Farmers understand better than anyone how critical a healthy environment is to the continuation of agriculture and the general health of the community of which they live. We should develop a strong incentive-based program allowing farmers to adapt the program easily to their operations and provide real benefits for their efforts.

- Over the past few years, farmers have been hampered by numerous regulatory burdens. The committee should stress to regulatory agencies the requirement that judgements should be based on sound science before drastic actions are taken against farmers and agriculture industries. I am proud that American farmers produce the safest food supply in the world, however in order for our farmers to compete with emerging foreign competitors, they must be allowed to produce in a safe, but efficient manner, free from frivolous rules and poor judgements from overzealous regulators. We must not give in to the shrill minority intent on hurting this industry rather than promoting it.

- Increased funding for agriculture research is vital for this nation to remain the leader in agricultural production. Our nation's educational institutions have made great strides in research over the years and additional support will yield even greater returns. In Georgia, positive relationships have developed between public institutions and private sector companies. These collaborative efforts are beneficial to both interests and I encourage continued support for these programs.

- Finally we as a Congress should lend a hand to the administration in helping them open new trading opportunities. There are many untapped markets throughout the world and I see no reason why the U.S. should not be knocking on those doors and providing the goods so many foreign countries need and desire greatly. I also remain firm on my commitment that food and medicine should not be used as foreign policy tools.

This is just a short list of the many policy decisions we will debate in this committee. These ideas which I have expressed today are not only my views, but they are the views of the thousands of farmers and individuals in Geogia whose livelihood depends on a vibrant Agricultural economy. Our Rural communities are suffering, we must quickly develop policies that work. Mr. Chairman, we have a daunting task ahead of us. I am excited that we are moving toward a new era in agriculture policy, and I look forward to working with my colleagues on this committee to craft a farm bill for all America, and to protect family farms for future generations.

Thank you Mr. Chairman

Statement of Senator Mike Crapo
Before the
Senate Agriculture, Nutrition and Forestry

Hearing on the New Federal Farm Bill
June 28, 2001

Thank you, Mr. Chairman and Senator Lugar, for holding this hearing and allowing me to participate.

Agriculture continues to drive Idaho's economy. As such, Idahoans have a keen interest in a fair and efficient federal agricultural policy. Producers, processors, and consumers, not to mention the environment, all have a stake in this debate.

And, as we all know, farmers are hurting. Input costs have gone through the roof, and prices have dropped through the floor. In many cases, prices are below the cost of production. A choice has to be made on whether we want a viable and vibrant domestic agricultural industry. I say we do.

A safe, affordable, abundant, domestic supply of food is vital. The current energy problem serves as a warning. It shows what happens when we are subject to foreign food supplies, proving that domestic production is important to national security. America's farmers are the most efficient in the world and consistently produce the safest, highest-quality products in the world. Our consumers directly reap the benefits of American agricultural practices.

As we work on this important legislation, we must not lose sight of the fact that it is not a just a farm bill, but a national food policy that we are developing. Everyone benefits from a vibrant domestic agricultural industry.

To this end, I look forward to working with my colleagues to:

Provide a safety net to producers.
New legislation must address both present and long-term needs to ensure a viable agricultural industry. These goals must include a safety net for producers. This can be done through counter-cyclical payments, crop insurance programs, and other payments vital to agriculture's future. A continuation and adjustment of the Loan Deficiency Payment Program can help supplement farm income during crisis times. A cost-of-production insurance program would help protect investments. The most talked about measure is a counter-cyclical payment, which would be vital to ensuring producers are protected when disastrous prices occur.

Increase the commitment to conservation.
The bill must also increase commitment to conservation practices to meet environmental protection stewardship goals and efforts. America's agricultural producers have long been the best stewards of the land; increasing conservation funding will help them continue to meet the demand for clean air and water, wildlife habitat, and open spaces, and comply with increased regulations. Fully funding EQIP

and adding flexibility to federal conservation programs are vitally important. As agriculture production faces increasing regulations, adequate funding and technical assistance must be provided to meet these mandates. I will continue to work to determine how best to reach our conservation goals, whether it is adopting new ideas, altering existing programs, or addressing funding issues.

Bolster our export promotion programs.
We must continue the progress in pushing farm exports and changing failed trade policies of the past. When I announced during the WTO in Seattle that China was purchasing Northwest grain, many figured those sales may not last. Slowly but surely, the Chinese and others are coming to the table seeking grain sales in increasing quantity. Even though prices remain low, our efforts are worth the work, but we can not slip backwards into grain embargoes or other foreign policy decisions that stop business with other nations. I have often said–it is not the sanctioned nation that suffers–it purchase its food elsewhere; it is the American producer who pays for ill-conceived political decisions that last for decades. Until the export markets are there and we have a vibrant trade picture, it is a safe bet our economy will continue to see support through programs in the Farm Bill.

Continue our commitment to agricultural research.
The legislation should also continue our commitment for agricultural research funding. This ensures that America's farmers remain the safest, most efficient producers in the world. New seed variety development should be supplemented with food safety and consumer acceptance research. We need to reorganize and adequately fund research for new product development, value-added opportunities, and alternative agricultural products use.

And, find innovative ways to address rural development needs.
There is a need for a more coordinated approach to government programs regarding agriculture and rural America. Making a wide range of federal programs work better is why I have set up agricultural and economic summit meetings throughout rural Idaho. There are many federal agencies that offer a broad range of services to rural cities and families. These agencies and programs include USDA Rural Development but they are not limited to just the USDA. Programs through the Economic Development Administration, the Small Business Administration, the North American Development Bank's Community Adjustment and Investment Program, and many others offer assistance to our rural areas through non-traditional programs, compared with more traditional help in the Farm Bill. My commitment in joining the Agriculture Committee was to identify these resources and make sure they are utilized effectively in Idaho. We are doing that, and partnering with the new state rural development initiatives and local efforts, I look forward to rural Idahoans being able to access an entirely new source of economic help to revitalize our agricultural areas. Through maximizing these programs and their connection to USDA rural development efforts, we can revitalize rural Idaho.

However, as those of us who worked on the 1996 Farm Bill know, the farm bill alone will not solve all our problems. The federal government has not yet come through on commitments made during passage of the 1996 bill; While production agriculture input costs continue to rise and farm commodity prices remain low, the government has yet to deliver significant tax, trade and regulatory reforms, or fully utilize the market promotion programs that will help our farmers sell their produce abroad. We must continue to pursue tax reforms, address unfair regulatory burdens, and move toward free and fair trade. Our producers are being handcuffed by unfair foreign competition and barriers to exports; it is time this stopped.

While these long-term fixes are vital, producers need immediate help. Farmers are facing greater difficulties than last year, and we must provide assistance now. I look forward to working with my colleagues to address these needs in the economic assistance package. As I will continue to encourage my colleagues to move as expeditiously as possible to pass a comprehensive farm bill this year.

I look forward to an educational and enlightening hearing today. Thank you, Mr. Chairman.

SENATOR DEBBIE STABENOW

OPENING STATEMENT

Farm Bill Hearing

June 28, 2001

Chairman Harkin and Senator Lugar, I am so pleased that we are moving into high gear on the Farm Bill. This is the number one issue on the minds of farmers in the state of Michigan and I have been eager to begin working on the nuts and bolts of reauthorization.

As you all know, although producers in my state grow a little of everything, Michigan is primarily a dairy and a specialty crop state and I have pledged from the beginning of this process that I would be the voice for the specialty crop producers. I have been meeting with groups to hear their plans for how specialty crops can be incorporated into the Farm Bill. I also intend to hold a field hearing in Michigan so that producers in my state can voice their opinions.

Specialty crops are unique and their treatment under the Farm Bill will require a creative approach. Many, like, lettuce are extremely perishable and cannot be stored and even the slightest fluctuation in production can dramatically influence the market price. Other crops such as tree fruits, like cherries and apples which are very important in Michigan, offer little flexibility for producers. Growing these crops require the right climate and strong commitment from the producers. Their livelihood is literally rooted in the ground; an orchard cannot be easily turned under to grow a more profitable crop the next year. It is difficult to offer a uniform definition for specialty crops because of the broad range of fruits and vegetables that fall into this category. Because of these differences, it is a challenge to develop policy recommendations that will benefit all specialty crops. However, I believe that it is finally time to ask when we examine each title of the Farm Bill, from trade to research to nutrition, how we can address the unique concerns of specialty crops.

Conservation will surely be an important component of our Farm Bill and I believe broadening the current conservation programs and incorporating the innovative approach developed by Senator Harkin in the Conservation Security Act, which I have cosponsored, will greatly benefit specialty crops. In fact, in many cases, specialty crops have been the leaders in conservation and providing financial incentives for their stewardship will promote continued good practice and will have the added benefit of helping producers with their bottom line. I believe a strong conservation title is one of the most important goals of this committee and this Congress as we work to reauthorize the Farm Bill.

More research funding is desperately needed for specialty crops. With Michigan State University, a world class land grant, in my home town and in the middle of my old House district, I have long been a supporter of agricultural research. Research helps to develop alternatives to pesticides, which oftentimes are very limited for specialty crops, improved harvesting practices, which is critical in an industry where appearance is a critical component in determining value, conservation, and many other important categories. It is my hope that the research title of the Farm Bill can be expanded and a special focus be granted to the needs of specialty crops.

I am also examining proposals that would create an increased safety net for producers of specialty crops. I hope that this will be a topic of future discussions. Other areas that can be expanded to address specialty crops include: domestic nutrition programs and foreign food aid, market promotion, trade concerns, and risk management.

I must also mention that diary and sugar are also very important components of the agricultural economy in Michigan and I will be very interested in working on these provisions of the bill.

Two other titles are important for Michigan. A good portion of my state is rural and I am very interested in Senator Harkin's interest in expanding current rural development provisions. Finally, the energy crisis has had a very strong impact on agriculture and I look forward to discussions relating to developing a new energy title, or at least addressing energy concerns in some capacity, in the next Farm Bill. I am particularly interested in investigating the potential for bio-based fuels and products, such as ethanol.

In closing, I would like to welcome all of today's witnesses. I look forward to working with you and the committee as we advance toward writing the next Farm Bill.

Opening Statement

Senate Agriculture Committee Hearing

June 28, 2001

Senator Harkin, congratulations on your becoming Chairman of the Senate Agriculture Committee resulting from recent events in the Senate. Know of my commitment to an ongoing strong bipartisan relationship with all Committee activities.

I am pleased the farm bill is the topic for your first hearing as Chairman. You will recall that earlier this year, the Committee held hearings on the credit, research, trade and conservation titles of the farm bill. I look forward to working with you in development of a farm bill and encourage a process in upcoming months that ensures full opportunity for farmers, ranchers, consumers and taxpayers to be heard.

Mr. Chairman, while our domestic markets and commodity programs are extremely important and must be reviewed, foreign markets are vital to the health and viability of U.S. agriculture. I submit that any final farm bill legislation will be overshadowed in significance by the ultimate Congressional decision on Trade Promotion Authority (TPA).

The products of three out of every ten acres

of U.S. agricultural production are exported. When foreign markets expand, our farmers prosper and when those markets contract, our farmers are harmed. It is critical that Trade Promotion Authority is our highest trade and foreign policy priority.

Ninety-five percent of the world's consumers of food, feedstuffs and fiber live outside our borders. The viability of U.S.

agriculture depends on our ability to have access to world markets. Although some trade bills have been enacted without trade promotion authority, negotiating trade agreements with other countries is more difficult and more uncertain without such. Other countries will engage in serious discussions only if they know that the Congress will not second-guess what is achieved at the negotiating table.

Agriculture is two and one-half times more reliant on trade than the rest of the economy. Agriculture exports create and sustain hundreds of thousands of American jobs and income in the non-farm sector.

To illustrate the importance of ag exports, I would ask that USDA ag export facts and information on other sector exports for each state represented on this Committee (for the

106th and 107th Congress) be entered into the record. I am hopeful my colleagues will reflect upon these figures in terms of product moved overseas and jobs created.

Following are some examples. In my home state of Indiana, nearly 22,000 jobs are tied to ag exports and those exports account for 32% of the state's agricultural production. In Iowa, over 48,000 jobs are tied to exports and exports

account for one-third of the agricultural production. According to USDA, 12,600 jobs in Colorado are supported by ag exports and in Minnesota, 33,400 jobs are in the category of being supported by ag exports. These are serious figures which underscore my conviction that this Congress must act on Trade Promotion Authority, now rather than later.

Again, Mr. Chairman, thank you for calling

this hearing and I look forward to working with you on farm bill development.

Pete Fitzgerald

Statement of Senator Peter G. Fitzgerald
Committee on Agriculture, Nutrition and Forestry Hearing
Farm Bill Hearing
June 27, 2001

Good morning. Mr. Chairman, I appreciate you scheduling of this hearing about the next farm bill.

The 1996 Farm Bill expires in September of 2002. This Committee has a lot of work ahead of it to ensure that our nation's agriculture is strong, prosperous and viable for future generations.

Our nation's agriculture has continued to see chronic low commodity prices due to exceptionally good weather, subsequent overproduction, and a sagging world economy. While the next farm bill will probably not be a panacea for all the woes of the agricultural industry, I hope we can craft a farm bill that is both responsive and effective at meeting the needs of our nation's farmers.

We have spent a lot of time and resources over the past few years to provide short-term fixes to the farm economy. I am hopeful that we can move beyond this debate and begin to look for long-term solutions to include in this farm bill.

I was not a member of Congress or the Senate when the 1996 farm bill was enacted, so I enter this debate with no preconceived notions. However, I think we can all agree on one thing – farmers have enjoyed the planting flexibility provided by the 1996 bill. We would be ill-advised to return to the days of the federal government telling farmers when to plant, where to plant, and what to plant.

Additionally, this Committee on a bipartisan basis has often supported conservation measures to preserve and effectively manage our nation's precious natural resources. The question before us, however, is how can these programs be better managed and made more effective, should they be expanded, and would new programs prove more effective and efficient?

Finally, the press recently reported that our new Chairman would like to add a new energy title to the farm bill. I look forward to helping the Committee craft a title to increase the use of renewable fuels such as ethanol and biodiesel. While our nation has become more dependent on foreign oil and our refinery capacity has been going down, biofuel production capacity has been going up. Farmers are part of the solution to our energy problems, and they should have full opportunity to be a partner in this new era.

Again, I thank the Chairman for highlighting this important issue and look forward to the panelists comments today.

STATEMENT OF SENATOR BLANCHE LINCOLN

HEARING ON FARM BILL

SENATE AGRICULTURE, FORESTRY & NUTRITION COMMITTEE

JUNE 28, 2001

Mr. Chairman:

Thank you for holding this important hearing, and for getting this Committee on track to rewrite a new farm bill. I am anxious to get to work on a new farm bill, because, frankly, our farmers need some relief from our current farm policy.

For almost six years, our farmers have labored under a farm policy ill-suited for the pressures that global markets and poor weather can exert. That's why, for each of the past three years, we have sent back to our farmers a multi-billion dollar emergency aid package.

It is also why this Committee must work as urgently as possible to provide again much needed emergency assistance to our farmers. They are hurting and we must respond. I support a package that sends back to our farmers an increase of the AMTA payments to 1999 levels. Yet, this is only a short-term response.

Our long-term response must be a new and better farm bill, starting with a review of the current farm policy. Freedom to Farm offered our farmers the flexibility to plant the crops they felt were most needed by the market. This was a fundamental component of Freedom to Farm - allowing our farmers for the first time in a long time to respond to a free domestic marketplace rather than to the government. And it was a good idea, then and now.

Yet, Freedom to Farm did not give our farmers the tools to respond to a global marketplace that is influenced by the actions of foreign governments. I think this short-coming reveals the FAIR Act's fatal flaw - the lack of an adequate safety net.

The next farm bill should be built on these lessons. Planting flexibility should be retained. Our farmers must have the power to choose what they grow and when they grow it.

But this planting flexibility must be paired with some recognition that the policies of our trading partners can have as much affect on commodity incomes as any drought or flood. We must encourage the expansion of our overseas markets wherever and whenever we can. As a member of the Senate Finance Committee, I am committed to lowering trade barriers and providing our farmers with the leverage they need to push the global commodities markets into the 21st century.

We must also provide a solid, reliable safety net. With a strong safety net, our farmers, our rural bankers, and the rural economy that depends on them, will know they will have the support to weather the bad years. They will also know they can look to the coming years with confidence, rather than with fear and uncertainty.

The next farm bill must also address other areas of importance for our rural communities. It should contain a strong forestry title that promotes sustainable forestry in this country. And it should recognize that our private forests provide everything from timber production, carbon sequestration, wildlife protection, recreation, and clean water. We need to remember that "tree" farmers are farmers too - it just takes longer to grow their crop.

We should also remember the wisdom of conservation. Whether we're talking about our farmlands or our wetlands, we must help our rural communities protect against the damaging forces of erosion and over-use. Doing so not only preserves land for future farming, it also improves farm income by easing over-production.

We must look out for our families's nutritional needs. As we all know, it is hard for our children to learn in school if they are not first well-fed. This nation's bounty is worth nothing if it does not relieve hunger wherever it may surface.

The next farm bill must address rural America's energy crisis. The higher energy prices rise, the lower farm incomes will sink.

Finally, we must look down the road to the long-term needs of rural development. Many small towns are missing the financial support to develop their resources. Often, the support we offer does no more than help them struggle from one crisis to the next. We must provide better support for these communities, so that they can build the necessary infrastructure to grow rather than simply to survive.

Mr. Chairman, all over the country, our rural communities are collapsing. Virtually every commodity is suffering. It is high time we got to work on a new farm bill. I thank you for your leadership in starting the process. I, for one, stand with you. I am ready to roll up my sleeves and get to work.

NATIONAL FARMERS UNION

STATEMENT OF

MR. LELAND SWENSON

PRESIDENT
NATIONAL FARMERS UNION

BEFORE THE

SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE

JUNE 28, 2001

400 North Capitol Street, N.W. • Suite 790 • Washington, D.C. 20001 • Phone (202) 554-1600

STATEMENT OF MR. LELAND SWENSON
PRESIDENT, NATIONAL FARMERS UNION
BEFORE THE
SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE
JUNE 28, 2001

INTRODUCTION

Chairman Harkin, Ranking Member Lugar, members of the Senate Agriculture, Nutrition and Forestry Committee, I am Leland Swenson, President of the National Farmers Union (NFU). It is a pleasure to appear before the committee today on behalf of the NFU's 300,000 farmer and rancher members to discuss our ideas for new agriculture policy that can provide a more sustainable and predictable long-term economic safety net for producers and create new opportunities for producers, their families and rural communities.

We recognize that appropriate and effective agriculture policy represents a significantly greater range of important topics than specific programs for crops, livestock and dairy. Some of these issues, including agricultural research, conservation, rural development and nutrition assistance programs are directly within the purview of this committee. Others, such as trade, credit, energy, environmental programs, fiscal and monetary policy, and agricultural concentration and consolidation must also be considered by other committees but have a profound influence on U.S. agriculture and individual producers.

FEDERAL AGRICULTURE IMPROVEMENT AND REFORM ACT OF 1996

Over five years ago Congress approved and the President signed the Federal Agriculture Improvement and Reform Act dubbed Freedom-To-Farm by its proponents. This legislation was adopted during a unique period in agriculture characterized by continued pressure on federal agricultural spending, greatly improved nominal commodity prices and an expanded level of gross agricultural export earnings.

The Act was designed to significantly reduce the federal role in U.S. production agriculture based on a set of speculative assumptions that the future would continue to reflect the optimistic conditions existing at the time. The FAIR Act, with declining, de-coupled payments as its centerpiece, represented reform to the extent it would end the historic role of commodity specific programs that were designed to be counter-cyclical to market conditions. It is increasingly apparent the legislation has neither represented an improvement to the short or long-term economic stability of agricultural producers or rural communities, nor achieved the promise of a broad, market-based environment of opportunity for farmers and ranchers.

Freedom-To-Farm advocates assumed that: 1) World population and income growth would create new export demand for U.S. farm commodities. 2) Improved risk management programs, such as crop insurance, could replace other economic safety net programs. 3) Reduced government regulation could be achieved that would increase production efficiency and lower operating costs. 4) A combination of arbitrarily established marketing loans and de-coupled; direct payments would ensure adequate farm income levels to allow the transition to a market-oriented agriculture system. 5) Reduction in our production-based producer safety net would force others, primarily our export competitors; to absorb any needed production adjustments.

None of these assumptions have been proven correct since the implementation of the Act. Since the adoption of Freedom-To-Farm, the optimistic forecasts of increased net U.S. agricultural exports have been wrong. In fact our agricultural surplus has declined substantially and agricultural production and competition for export markets have increased. (table 1) Surplus stock levels have grown significantly since the mid-1990's. (table 2) U.S. net farm income from production and commodity prices collapsed (table 3, table 4) due to rational behavior by individual producers trying to respond to declining incomes and other less predictable events while production costs continued to increase. (table 5, table 6) Risk management programs, while continuing to be improved, remain inadequate to fully address price and production losses. It is unlikely that adjustments to agricultural regulations, if they occur at all, will significantly reduce production costs or increase the level of efficiency. In addition, the combination of inequitable and arbitrarily established commodity loan rates with de-coupled payments has increased the level of distortion in production, marketing, land rents and program benefit distribution.

Congress has acknowledged the inadequacy of the current safety net as an economic stabilizer for producers by providing annual ad hoc emergency assistance programs, thus making this the most expensive farm bill in history.

The nature of modern production agriculture; due to its inherent relationship to the physical environment, importance as a national security issue, lack of alternatives for much of the resource base, relatively inelastic demand, impact of new technology and technology transfer, limited market transparency and competition and the rational economic behavior of individual producers suggests the future is unlikely to provide any new evidence in support of the aforementioned beliefs.

POLICY RECOMMENDATIONS – COMMODITY PROGRAMS

We believe the primary goal of commodity programs should be to provide economic stability and opportunity for producers over time consistent with a responsible view of market realities, resource sustainability and food security and safety issues. These programs must ensure a reasonable level of cash flow and producer income in the short term and achieve the goal of providing 100% of the full cost of production in the long run to maintain a sustainable, independent family farm production agricultural structure.

It is our hope that Congress will be able to approve new farm program legislation prior to the 2002 crop year that will eliminate the necessity for supplemental assistance programs for 2002 and into the future. If new policies are not implemented for 2002, supplemental economic assistance for crop producers and an extension of the dairy price support program will likely be required.

We are recommending a new crop commodity policy that is substantially different from the current program. We recognize that contractual obligations exist between the government and producers under the Agricultural Market Transition Act of the current farm bill through the 2002 crop. We believe eligible program participants should be given the option of continuing their farm program contracts through the expiration date of the current law or terminating those contracts in order to participate in the new commodity programs.

Analytical Process

For the eight program crops, our analysis was performed by the Agriculture Policy Analysis Center at the University of Tennessee utilizing the Policy Analysis System (POLYSYS). The model uses the National Agricultural Statistics Service Agricultural Statistical Districts as the base unit of crop supply analysis. Crop demand is modeled nationally for feed, food and industrial demand as well as exports.

The livestock sector is included to estimate the linkage effects among sectors and their impact on demand and farm income.

The baseline to which POLYSYS is anchored contains the macroeconomic and policy assumptions released by the Food And Agriculture Policy Research Institute (FAPRI) in February 2001. The baseline assumes a continuation of commodity marketing loans at current rates and an extension of AMTA contract payments based on an adjusted FY 2002 spending commitment equal to $3.938 billion for all program crops.

In addition to the baseline projections, we have provided estimates, based on the use of POLYSYS computer simulations, concerning the effect of our policy recommendations on the areas of interest to the Committee over a 10-year period. The simulations include 1) a modified marketing loan "only" program; 2) a modified marketing loan program plus limited commodity reserves, and; 3) a combined policy of marketing loans, reserves and a discretionary, voluntary set-aside program. The results of these simulations are summarized in: table 8 – Summary of Projected Expenditures, table 9 – Summary of Crop Acreage and Receipts, table 10 – Summary of Average Prices Received for Major Commodities, table 11 – Program Crop Exports, and table 12 – Cattle and Hogs: Production and Prices Received.

In the case of dairy, our estimates are based on FAPRI dairy production, and price projections. The moving average cost of production level, adjusted for expected production cost increases over the period, are projected from FAPRI cash cost of production estimates. We have estimated the number of dairies with more than 143 cows based on January, 2001 USDA/NASS data. We then estimated the percentage of those dairy operations that milk more than 143 cows that would continue to increase production beyond the expected annual market growth. (table 13)

The conservation program analysis reflects the expected outlays required to achieve the maximum level of participation in the Conservation Reserve Program (CRP) over three years, and a gradual entry of land in the soil rehabilitation program that remains at the maximum authorized level once that point is achieved. The conservation incentive program estimates are based on an assumed level of funding into which program functions will be designed. (table 14)

The rural development section includes estimates of the additional funding required above current program levels to implement our recommendations. (table 14)

We have assumed no additional budget outlays to implement the trade, credit or concentration recommendations provided. We do recognize however that USDA resources may need to be reallocated or enhanced to address our policy concerns.

For each policy initiative we have attempted to summarize the impact of both the combination of policy recommendations as well as individual policy component on federal budget outlays, farm income, production, WTO commitments and other agricultural sectors. More extensive data summaries are contained in the tables at the end of the document and complete copies of the simulations, that include commodity specific information, have been provided to the committee staff.

<u>Program Crops</u>

For the program crops, our recommendations represent a substantive departure from current policy, in that we eliminate de-coupled payments (AMTA contract payments).

Our counter-cyclical approach to economic assistance is based on an improved commodity marketing loan program and does not include other "supplemental income assistance programs". Additional components to this policy include limited commodity reserve programs and discretionary set-aside authority.

Non-recourse Commodity Marketing Loan Program -

Non-recourse commodity marketing loans represent a relatively simple administrative mechanism to provide commodity specific, counter-cyclical income support to the producers of eligible crops while allowing domestic and international markets to determine commercial commodity prices based on market fundamentals within the inherent limitations of that function.

The program is commodity specific in that the actual level of farm production, within any applied limitations, is eligible for the program. Marketing loans are counter-cyclical to the market such that public transfer payments to eligible producers are made only to the extent that local producer market prices are below the established loan rate. Thus producer assistance increases when specific commodity prices decline and the level of payments are reduced or eliminated as those prices rise. The non-recourse function of the program provides a "fail safe" mechanism by allowing producers to forfeit crops to the government in satisfaction of their loan obligations should a local market aberration occur. This situation can occur if the sum of the actual market value and available loan deficiency payment rate for the commodity adjusted for quality is less than the local marketing loan rate. Effectively, the program crop producer is provided an economic safety net based on his actual production and the higher of the local market price or the commodity loan rate.

We believe the non-recourse commodity marketing assistance loans for the wheat, feed grains, oilseeds, cotton and rice crops represents a viable compromise in terms of differing policy views.

On the one hand, there are those who advocate that government establish commodity price floors to stabilize and enhance farm income, and suggest the impact of such a program on production and markets is at best minimal.

On the other, some are concerned about U.S. market competitiveness in an era where trade and the actions of others are an important economic component of agriculture. The U.S. is now a less dominant supplier of many commodities in the global market and we are increasingly subject to the potential of increased imports of those commodities due to commitments to reduce or eliminate domestic border protections.

Provisions of the FAIR Act established initial loan rates based on a historic average price basis for the major crops and inter-commodity price relationship for minor feed grains and oilseeds. The bill limited the potential future upward adjustment of the rates by applying arbitrarily determined caps. Discretionary authority was provided the Secretary of Agriculture to reduce loan rates for some commodities under specified circumstances. That authority was also arbitrary in nature by precluding or limiting the adjustment for different crops in different ways.

In order for the marketing loan program to be an equitable, less distorting and more effective component of the production agriculture economic safety net policy, it must be significantly modified.

There is a broad consensus that current marketing loan rates are inequitable across the eligible commodities, distorting the production and market decision making process of producers as a result of the loan rate establishment process contained in the 1996 farm bill. Most farm and commodity organizations also now support the idea that commodity marketing loan rates for the grain and cotton crops should be adjusted upward in relation the oilseed loan rate, while rejecting the notion that oilseed rates be reduced. We concur with this position.

Some who now advocate "re-balancing" marketing loan rates suggest utilizing a moving average price basis for determining loan rates. Others propose that the rates simply be adjusted for the majority of eligible crops to an arbitrarily higher level, or implement a procedure based on a view that some type of fixed, proportionate market price relationship among the commodities has existed in the past and that the same relationship will continue in the future.

We believe the methodology for determining the level of each commodity loan rate should be reviewed to better ensure its effectiveness in enhancing producer economic and financial stability. This will require a more rational, consistent long-term approach that can be applied annually to determine loan rate levels avoiding the potential they will become so greatly distorted in the future. Use of historical prices or price relationships is a flawed loan rate adjustment mechanism for several reasons.

First, while prices of the program commodities appear to move up and down somewhat in tandem, the movement is neither parallel across all the crops, likely to occur simultaneously, nor even occur consistently for a single crop across all production regions, crop classes or sub-classes.

Second, it is questionable whether an appropriate market price relationship can be determined on either a historical or future basis due both to the past levels of production and market intervention here and abroad and the fact that for some crops there are not alternative or substitute markets where price arbitrage takes place. For example, wheat is a food and occasionally feed grain while cotton is primarily a non-edible fiber. What is the predictable relationship between these two crops over time that is not arbitrary or potentially distorting?

Third, as a safety net program, the marketing loan should address the full economic equation of those crops, not just their nominal prices. For example, if marketing loan rates were based on a percentage of mid-1990's market prices and not reduced as prices declined, the effective level of economic security for producers and their creditors would be greatly diminished today compared with that base period due to increased per unit production costs. Although a producer's economic situation might certainly be better than it is currently, the relatively low rate of inflation during the late 1990's coupled with the significantly increased costs of energy-based inputs recently would have eroded the value of the safety net. In addition, it would have done so disproportionately among regions and crops based on their individual energy input requirements for fuel, electricity and fertilizer.

It is our goal that new farm policy provide a non-recourse commodity loan program that yields a return to producers equal to the full economic cost of production. The national average commodity marketing assistance loan rate for each eligible commodity should be annually established at the highest possible level and not less than 80% of the three year moving average of the full economic cost of production per unit per planted acre as calculated by the Economic Research Service utilizing the most recently available data. Our initial analysis is based on marketing loan rates established at 80% of the 3-year average of full economic cost of production, adjusted each year through the application of the model's calculations of changes in costs and yields.

This methodology for establishing marketing loan rates has several advantages over other calculation procedures while maintaining the market oriented counter-cyclical approach inherent in the program: (1) Provides a more meaningful economic safety net to those who actually engage in the production of the eligible crops. (Table 7) (2) Creates a predictable, long-term basis for determining the loan rates on an annual basis that is equitable across the program crops reducing the current level of distortion. (3) Provides an automatic annual adjustment procedure that accommodates both changes in all production expenses and productivity. (4) Tempers the distorting effect of a variety of short-term production and market shocks by utilizing a multi-year average of costs that will implicitly lag behind actual expenditures by at least one year. At the same time, it provides future predictability to producers and lenders that short or long-term structural change in costs or productivity will be accounted for. (5) Avoids the potentially distorting and self-defeating effect of arbitrarily establishing loan rates based on market price levels and relationships.

Planting Flexibility -

By creating a more equitable production-based, commodity specific marketing loan program and eliminating de-coupled payments; we believe the limited planting flexibility provided in the FAIR Act can be expanded to allow full planting flexibility to producers.

Although some suggest the current program's de-coupled payments are not production distorting, we believe that the potential cross-subsidization of non-program crops through AMTA payments was the rationale employed by supporters of Freedom-To-Farm to limit planting flexibility in the legislation.

Non-commercial Commodity Reserves -

Authority to implement commodity reserve and buffer stock programs was eliminated in the FAIR Act with the exception of the Food Security Commodity Reserve.

We support the necessary authority and funding to establish limited government owned, farm-stored commodity reserve programs. Storage payments to participating producers should reflect local, commercial storage rates subject to appropriate conditions concerning quality maintenance and other factors. We have estimated the storage payment rate to be $.30 per bushel per year.

The purpose of these reserve stocks, that would be isolated from the commercial food market, would be to help ensure our long-term commitment to the continued development of the renewable fuels industry and provision of humanitarian nutrition assistance.

A renewable energy reserve would be established to provide feedstock commodities to that sector when renewable fuels production is at risk of decline due to reduced feedstock supplies or significant commodity price increases. The reserve would be limited to the type and a quantity of commodities necessary to provide approximately one-year's utilization plus additional commodities to provide incentives for research and development of new renewable fuels/bioenergy initiatives. Currently we estimate the required reserve level would be approximately 600 million bushels of corn and other feed grains and about 50 million bushels of oilseeds.

Quantities from the reserve would be sold at the discretion of the Secretary to eligible renewable fuels/bio-energy enterprises at the government's procurement price when the market price for those commodities exceed 100% of the farmer's full economic cost of production. These sales will effectively average down the input costs of renewable energy producers reducing the potential that higher commodity prices force a contraction in renewable energy production.

We support efforts to establish a national renewable fuels standard as a component of a broader U.S. energy strategy. If implemented, demand growth for ethanol, bio-diesel, etc. is projected to more than triple over 10 years. We believe such a shift in demand would necessitate a corresponding increase in the size of the renewable energy reserve that is not included in our projections. While the potential growth in demand will improve the price expectations for crop producers, the impact of increased feedgrain and oilseed meal prices on U.S. livestock producers will be significantly less than one might expect due to the residual feed products produced by the bio-energy industry.

A humanitarian food assistance reserve would be created to ensure our capacity to fulfill our current and future commitments for nutrition assistance programs. Similar to the renewable energy reserve, this reserve would be utilized to continue and expand U.S. nutrition programs during periods when commercial supplies of commodities are low and/or commodity prices have increased to levels that threaten interruption of these programs. The Secretary would be authorized to release stocks in the humanitarian food reserve when market prices for those commodities exceed 100% of the farmer's full economic cost of production.

For the program crops, our analysis has assumed that an additional 300 million bushels of wheat, 50 million bushels of oilseeds and 25 million bushels of rice would be purchased by the government to create the food assistance reserve in addition to current reserve quantities.

We support the current initiative to establish an international school lunch program in developing nations. While envisioned as a cooperative program among the developed countries, we expect the level of U.S. participation in such a program would require additional reserve levels to meet the potential needs of the program that have not been factored into our analysis.

Production Loss Reserve Program

We also support new authority and funding for the implementation of a limited, farmer-owned production loss reserve program (PLR). Participants would receive annual storage payments consistent with those provided under the government-owned reserve programs, an average of about $.30 per bushel per year.

We urge the Committee to provide authority that would allow producers, participating in the crop insurance program, to redeem and market reserve grain at a discount to the entry-level price. These stocks would be used offset a portion of actual insurable production losses not indemnified through multi-peril or other "buy-up" crop insurance policies.

We believe the PLR should be limited to about 20 percent of the annual average production of each crop and provide for immediate entry at the prevailing commodity marketing loan rate for the county in which the grain is stored. Initially, the reserve would be open to all producers to enter up to 20 percent of their individual annual production of the eligible crops. Recognizing that some producers will not participate in the program, the Secretary would be authorized to accept additional reserve entries up to the maximum national quantity. We expect the Secretary to ensure that equitable participation opportunities are provided all eligible producers within the limited scope of the program.

In addition to the potential as a production loss supplement to crop insurance, we recommend that producers be allowed to withdraw and market reserve stocks when individual commodity price levels achieve 100% of the full economic cost of production. At that point, government storage payments to producers would also be curtailed. The reserve loans for specific commodities would be "called" by the Secretary when commodity specific market prices reach 110% of the full economic cost of production.

Cost Containment, Production Management Authority -

While we support efforts to increase demand for agricultural products, it is possible that market expansion through bio-energy production, expanded humanitarian assistance and commercial domestic and export utilization will not exceed the production and market potential of U.S. producers. Over the long term, no business or sector can continue to produce in a volume that exceeds the available market demand. We support providing the Secretary of Agriculture with discretionary authority to offer a voluntary set-aside type program to contain program expenditures and help bring production in line with demand.

When implemented by the Secretary, it should be based on a range of participant options at 5, 10, 15 and 20 percent of total program crop production acreage and applicable set-aside from the previous year.

Participation incentives should be based on an increase in the producer's individual commodity marketing loan rates for the crops in production. We recommend the incentive be established at one-half of the set aside percentage level applied by the producer. For example, a producer who sets aside ten percent of his program crop acreage for the prior year would receive a five percent increase in the commodity marketing loan rates for the balance of his eligible production.

Producers who voluntarily decide not to participate in the program should be subject to a percentage reduction in the marketing loan rates for their crops equal to the average national percentage incentive payment rate increase provided set-aside participants.

In order to enhance the integrity of the program and reduce the so-called slippage factor, we support the application of both cross and offsetting compliance measures.

Dairy

The current dairy program extension expires at the end of 2001 and new program authorities should be adopted prior to the program's expiration. We believe new dairy policy should address not only the more traditional program components but also the issue of Milk Protein Concentrate (MPC) imports and utilization as well as surplus production issues that may arise due to dairy compacts and other regional pricing mechanisms.

Imports of MPC are not limited under the Harmonized Tariff Schedules thus the WTO negotiations on dairy failed to provide for U.S. application of import quotas or tariff rate quotas on MPC because the potential impact of this form of dairy trade was unforeseen at the time. Since then, U.S. imports of MPC have dramatically increased and are displacing 350-400 million pounds of non-fat dry milk or approximately 4-4.6 billion pounds of U.S. domestic milk production.

Imports of MPC and casein displaced an estimated 9 billion pounds of milk in 1998. Also at issue is the apparent lack of enforcement of existing U.S. regulations that prohibit the use of MPC and casein as ingredients in standardized cheese. In addition, NFU is concerned about the sanitary and phytosanitary impacts of importing MPC and casein.

We support immediate negotiations to include MPC products within the tariff rate quota schedules. In addition, we urge that enforcement of current product standards for standardized cheese be strengthened through the use of end use certificates and increased inspection of manufacturers by the Food and Drug Administration.

A dairy price support program should be authorized and funded at a level that will enable efficient family-sized dairy producers to market milk at prices that return a reasonable profit and maintain income stability within the sector while providing high quality, reasonably priced products for consumers.

We recommend that Congress consider two alternatives for a national dairy program.

Option 1 –

Establish a price support mechanism, with the support price set at $12.50 per cwt. We believe the support level can be maintained in the market place through a combination of government and privately funded purchases of dairy products. Government purchases should be limited to no more than 3% of the higher of U.S. utilization or production. A producer-financed purchase system would then be utilized to remove any additional surplus product from the market in excess of the level procured by the government to stabilize dairy prices at or above the support level. Stock accumulations under either program would be utilized for humanitarian assistance and public nutrition programs or as buffer stocks to ensure future domestic and export supply reliability.

Producer financing for excess purchases would be the responsibility of those who increase production by more than 2 percent from the previous year. Those who produce less than 2.6 million pounds, approximately equal to the output of a 143-cow dairy, would be exempt from responsibility for financing. For the purpose of analysis, we have assumed the producer purchase financing requirement would be $.25 per hundredweight for the non-exempt production. Our analysis also assumes that of those dairies with more than 143 cows, 50% will continue to expand production in excess of the estimated 2% annual market growth.

Option 2 –

As an alternative or supplement to the recommended support price program, we support implementation of a target price deficiency program for dairy producers. A target price would be established at 80% of the moving, 3-year average economic cost of milk production, as measured by USDA/ERS.

Our analysis of the dairy target price deficiency program is based on FAPRI price projections and a 3-year moving average cost of milk production adjusted by projected inflation in producer costs over the 10-year period.

The producer payment would be calculated as the difference between the target price and the appropriate base price for Class III or Class IV milk multiplied by the percentage of a producer's milk priced under the applicable Class. For purposes of analysis, we have assumed that nationally, 42% of the total milk production is priced using the Class III base and 58% is priced using the Class IV base.

Producers who produce more than 2.6 million pounds and increase production by more than 2 percent of their previous year's output would be ineligible for any deficiency payments.

In addition to the need for national economic safety net program for dairy producers, we recognize that dairy compacts or regional programs to establish floor prices for producers in excess of the federal support level can provide an effective mechanism to enhance producer economic stability appropriate for a given region. However, we believe that compact-type arrangements must contain adequate supply management provisions to avoid unfair competition with other regions and be consistent with comprehensive national policy that enablès dairy producers with sound management practices to earn a fair price in all regions of the country.

Benefit Targeting –

Farm program benefits have been subject to limitations for a number of years in order to target safety net programs to small to moderate sized farming operation and satisfy both budget and political reality. Unfortunately, adjustments to these regulations over time, in an attempt to address rapidly changing economic conditions in agriculture, have resulted in a confusing and sometimes counter-productive system that disproportionately rewards the largest farming operations and minimizes their risk of even further expansion.

It is our view that payments resulting from economic assistance programs should benefit all eligible producers up to specified point, and beyond that point, those who wish to further expand their operations should assume an increasing level of risk. In other words, the government should provide a realistic level of support for all producers, however, the programs should not encourage producers to decide they wish to farm the whole county in order to maximize their farm program benefits.

The NFU supports legislation that effectively targets benefits to farmers based on a realistic view of the operational scale necessary to maintain a full-time family farm operation. We believe several elements are critical to enhancing the integrity of any system designed to target the benefits of economic safety net programs.

First, benefits should attributed to single individuals based on their assumption of production and market risk. This element requires the elimination of the so-call "3-entity rule", but does not adversely effect the type of farm organization individual producers may utilize in their operations.

Second, by establishing an adequate, counter-cyclical safety net, the need to modify payment limitations annually to accommodate the benefits provided through ad hoc programs can be reduced or eliminated.

Third, the integrity of any targeting system requires that the capacity to avoid the effect of limitations be curtailed. We support rescinding the current rules that allow commodity certificates to be utilized as a means to circumvent the limitations that apply to marketing loan benefits.

Finally, while we support increased reliance on counter-cyclical programs to provide economic security to producers, we realize that the level of payments under those programs can vary significantly from year to year. A targeting mechanism must accommodate the increased level of variability in safety net payments.

The NFU is currently analyzing several alternatives to the current payment limitation regulations. One option we are reviewing would implement a targeting mechanism that provides for a reduction in the level of the safety net, based on USDA defined farm typology, as the operating scale of the producer increases.

Commodity Program Impact

Total federal outlays for the program crops with a combination of marketing loans, reserve programs and set aside recommendations are projected to range from a low of \$4.05 billion in 2009 to a high of \$8.2 billion in 2004 and average about \$5.15 billion per year over the period. Baseline expenditures over the same period range from $4.0 billion to $7.8 billion and average $5.5 billion per year. The significant reduction in crop program outlays is due to the cost reducing effects of the reserve and set-aside programs that result in a reduction of loan deficiency payments that greatly exceed the cost of operating the reserve and set-aside programs. (table 8)

Compared to the baseline, a farm program based on commodity marketing loans in combination with the other policy recommendations results in a significant redistribution of acreage across the eight program crops resulting from the removal of current policy distortions. However, total program crop acreage increases very little, (table 9) due to the fact that, when combined with the acreage entered into the CRP, the U.S. has little additional acreage that is likely to shift into program crop production even at the improved safety net levels established by the program.

Under a marketing loan program, commodity purchasers, whether they are independent livestock producers, domestic or multi-national merchandisers and processors or national governments are able to procure commodities at prices determined by the market. They are not disadvantaged or made less competitive in the market by the program, and our competitors receive no "price umbrella" protection that some suggest could encourage increased foreign production and/or reduced U.S. export and domestic market opportunities. In and of itself, the marketing loan program does not distort the economic activity or well being of other sectors.

In terms of our WTO commitments, the marketing loan program, when utilized in conjunction with the reserve and set-aside programs, the U.S. "amber box" expenditures are no larger than the levels achieved over the past two years. (table 8)

Under Option 1 of our dairy proposal, (table 13, page 1) the support price is increased to $12.50 per hundredweight. For those dairymen who produce less than 2.6 million pounds of milk per year or control their production within the expected annual 2 percent market growth. This option provides an improved counter-cyclical economic safety net that is $2.60 per hundredweight better than the current program.

For producers who continue to expand milk production beyond current market demand, the safety net is reduced by $.25 per hundredweight. We estimate this will effect about 7200 dairies nationally, 50% of those dairies with more than 143 cows. The assessment should help limit surplus production as well as increase purchases for donation to non-commercial markets thereby strengthening milk prices for all operators.

The estimated cost of this program option is $640-700 million per year, for government purchases of dairy products, excluding any increased outlays associated with the "make allowance" provided manufacturers.

Due to the formula for determining the Aggregate Measure of Support (AMS) for WTO "amber box" compliance purposes, the AMS for this option would increase to about $9.0 – $9.8 over the 10-year period, nearly double the current AMS notification levels.

Under Option 2, (table 13, page 2) the operation of a $9.90 dairy price support coupled with a target price/deficiency payment program based on a percentage of cost of production should result in similar income levels for eligible dairy producers as would occur under Option 1.

Similar to Option 1, the assessment program should help deter expansion of dairy production beyond market growth and provide additional stocks for humanitarian and nutrition programs.

Government outlays for commodity purchases and deficiency payments under Option 2 are estimated to range from $2.3-3.1 billion annually. The AMS calculation results in an increase in the level of "amber box" support of $1.8-2.0 billion per year, equal to the level of annual deficiency payments to producers.

Neither option should have a significant impact on other livestock sectors, since there is no incentive provided to liquidate or reduce current herd size in order to qualify for program benefits.

POLICY RECOMMENDATIONS - CONSERVATION

Current Programs

The conservation programs currently authorized under the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, have, for the most part been sound programs. They have served to conserve our soil resources, enhance wildlife habitat and improve the quality of both air and water through participation incentives and technical assistance. However, we believe there is room for improvement in two general areas. First, it is important that the level of funding be adequate to ensure the long-term success of these initiatives. Second, a key priority of these programs should be to target assistance to family-sized farm and ranch operations. We believe such an approach will serve to promote the broadest possible development and application of conservation measures, while reducing the likelihood that these programs encourage further concentration of agricultural resources or provide unneeded subsidies to large, integrated agricultural operations.

After reviewing the current programs we would make the following observations and suggestions concerning specific conservation program authorities and funding levels:

Conservation Reserve Program (CRP) –

The Conservation Reserve Program has been the most successful conservation program in our nation's history. The original CRP legislation has significantly reduced soil erosion and dramatically improved wildlife habitat, by idling highly erodible and environmentally sensitive land.

We support raising the cap on total enrollment to at least 40 million acres, while ensuring compensation rates are comparable to local rental rates. In order to lessen the impact on rural communities, the emphasis on whole farm enrollments should be reduced and the aggregate county entry limits should be reviewed and enforced. However, whole field enrollment, where common sense dictates, can encourage producer actions to maximize the conservation and habitat benefits of the program.

In addition, the requirements and benefits of planting expensive and often unneeded five-way seed mixtures as cover crops should be reviewed. For CRP acreage that is to be re-enrolled in the program, a field inspection should be conducted to determine whether the current cover crop contains desired multiple plant species.

We also support authorization to allow the enrollment of farmable wetlands into the CRP, similar to a pilot program about to be implemented in South Dakota.

Wetlands Reserve Program (WRP) –

We recommend expanding the WRP by removing the cumulative acreage cap and providing such funds necessary to address the current and future demand for this worthy program.

Farmland Protection Program (FPP) –

A number of states have initiated state-funded farmland protection programs. We support additional funding for this program to encourage greater cooperation between federal and state authorities in order to protect and preserve farmland from development.

Wildlife Habitat Incentives Program (WHIP) –

The Wildlife Habitat Incentives Program is a program to encourage the development of habitat for fish and wildlife on private property through cost-share assistance for habitat development and implementation. We support the goals of the program, encourage that endangered-species habitats be included as a priority and urge that the program be re-authorized and funded at sufficient levels.

Environmental Quality Incentives Program (EQIP) –

This program has been successful in providing financial, technical and educational assistance to farmers and ranchers. However, its success has been limited due to funding levels that were reduced shortly after the program was authorized. The lack of adequate funding has resulted in the rejection of many worthwhile projects that would have received cost-share assistance under the old Agriculture Conservation Program (ACP), the predecessor to EQIP, and forced a singular focus on broad-based watershed priorities.

As you might expect, this has created bitter feelings among some farmers and ranchers. We recommend additional funding for EQIP to address the tremendous demand for this program, which has been estimated at three times the current funding level.

Conservation Technical Assistance (CTA) –

This program is beneficial to farmers and ranchers that receive cost-share assistance for implementing conservation systems. However, action is needed to ensure that NRCS has the resources to provide technical assistance to those producers who want to adopt sound conservation practices but are not seeking cost-share assistance.

For example, if a producer already has terraces in place and wants to shift from a minimum tillage to no-till planting, he needs access to timely technical assistance in order to successfully make the transition to a higher level of applied conservation.

Conservation of Private Grazing Land Initiative (CPGL) -

This initiative is designed to provide technical, educational and related assistance to owners of private grazing lands in order expand the multifunction of this resource through better management, erosion protection, water conservation, habitat development and greenhouse gas sequestration. Although not a cost-share program, the technical assistance concepts contained in the CPGL are clearly consistent with the development of a mutually beneficial private/public partnership to enhance the productivity and sustainability of privately owned resources and should be supported.

New Initiatives

In addition to suggested improvements in the existing conservation, habitat and technical assistance programs, the National Farmers Union also urges consideration of several new initiatives that are complementary to the ongoing efforts to ensure the sustainability and high level of stewardship of our agricultural natural-resource base.

Conservation Security Act (CSA) -

The Conservation Security Act (CSA), a bipartisan congressional proposal, provides voluntary incentive payments to producers for the application of appropriate conservation measures on land that is currently and likely to remain in production. The CSA is designed to target conservation payments to family farmers and ranchers engaged in production agriculture in a way that is consistent with our obligations under the World Trade Organization (WTO), while encouraging increased levels of environmental stewardship. We support this framework for conservation payments as a way to reward both those who have undertaken the establishment of conservation practices in the past and those who implement future activities.

The Conservation Security Act creates the Conservation Security Program (CSP) that provides a comprehensive, flexible, voluntary approach to farm conservation policy by providing incentive payments to all farmers and ranchers ("farmers") for maintaining or adopting conservation practices on land in production. The stated objectives of the CSP are to promote conservation and protection of soil, water, and energy; protection of wetlands and wildlife habitat; and bio-diversity.

In order to participate in the CSA, farmers enter Conservation Security Contracts that contain a conservation security plan outlining the practices to be adopted, with the secretary of agriculture. There are three Tiers of practices. Tier III practices are the most extensive. Tier I contracts last 5 years and Tier II & III contracts last from 5 to 10 years at the option of the farmer or rancher.

Tier I practices including nutrient management, pest management, cover cropping, can be adopted individually. Tier II practices are system practices, including rotational grazing, buffers and borders, wetland restoration, in addition to Class I practices. Tier III requires implementation of practices that address all resources of the farm, in addition to Class I and II practices.

The Tier I annual payment cap is $20,000, while the annual payment caps for Tier II and Tier III are $35,000 and $50,000 respectively. As participants in the CSA, farmers and ranchers will receive a one-time immediate payment equal to the greater of 20 percent of the annual payment or $1,000 for Tier I, $2,000 for Tier II, or $3,000 for Tier III that is deducted from the total value of the contract. The payments would be categorized as non-trade distorting "Green box" payments and therefore not subject to WTO discipline.

Payment criteria are based on environmental benefits; forgone income for maintaining or instituting the practices, benefit to wildlife, cumulative watershed benefit (if a certain percentage of landowners in a watershed participate, the payment is higher), costs associated with farm research and demonstration projects and costs of monitoring the results.

The CSP complements current conservation programs, and does not take money away from other federal conservation programs. Farmers can still receive incentive and cost-share payments under federal agriculture programs that cover non-CSP land. In addition, a participant may receive payment and cost-share from any other non-federal source on the same land enrolled in the CSP.

Program funding comes from the Commodity Credit Corporation. In addition to the technical assistance provided to USDA (NRCS), the CSA includes funding for education, outreach, and monitoring.

Soil Rehabilitation Program -

In many parts of our country, adverse weather, disease, and pests have decimated significant areas of cropland. The incidence of these problems has reduced the productive capacity of the land and poses an ongoing threat to that capacity for at least an intermediate term of 3 to 5 years.

We support the implementation of a limited, intermediate-term soil rehabilitation program that would provide both technical and economic assistance to family farmers so they may undertake needed stewardship activities to restore these resources to at least a historic level of productivity.

For example, in the Northern Plains the disease fusarium head blight, also known as scab, has reduced the yield and quality potential of wheat, durum and barley production significantly in recent years. Due to the accumulation of disease innoculum in the soil, lack of resistant grain varieties and agronomic limitations on alternative crop production, producers must either assume excessive production risk or discontinue production of those traditional crops until the level of the pathogen is reduced to more manageable levels.

The program would apply to those who experience devastating droughts and floods causing soil productivity to be severely affected. Currently very limited tools exist to address reduced productivity and soil rehabilitation problems that are for the most part, beyond the economic capacity of most producers to rectify without federal assistance. In addition, this program will help mitigate the loss of Actual Production History for crop insurance purposes and reduce crop insurance indemnity payments as well as pressure for ad hoc disaster programs.

Carbon Sequestration Program -

The issue of global warming caused by greenhouse gas emissions is becoming more scientifically validated each year. Agriculture is in a unique position to provide an environmental offset to carbon dioxide releases into the atmosphere through sequestration of carbon in the soil.

We support appropriate greenhouse gas emission regulation, incentives and technical assistance to encourage the implementation of crop and livestock production activities to establish and compensate producers for on-farm carbon sequestration. In addition, this initiative should promote the development of a commercial market for carbon sequestration credits that is open to participation by producers and or their cooperatives.

Impact –

Our analysis of the conservation programs provides a projection of expected outlays, including an increase in the expected payment rates for new entries in the CRP and soil rehabilitation program above current average CRP levels. (table 14) While many of these programs will also likely result in improved commodity prices, we have not attributed any potential commodity program savings to their implementation.

POLICY RECOMMENDIATIONS – CROP INSURANCE

The NFU has historically supported strong and effective crop insurance program, including adoption of the "Agricultural Risk Protection Act of 2000". We do not believe, however, that crop insurance should be considered a substitute for other domestic economic safety net programs.

The crop insurance modifications approved in last year's legislation provide both increased participation incentives to producers as well as the opportunity to expand coverage for non-traditional crops and geographic regions. While we believe the program needs a reasonable amount of time to be fully implemented and reviewed, we remain concerned that, even with the program improvements, crop insurance still subjects the producer to significant economic risk before any indemnification begins. For this reason, we have proposed commodity program elements that allow a producer to reduce his risk while resulting in potential savings to the government for the commodity and/or crop insurance programs.

The production loss reserve (PLR) provides eligible producers with the option to hold a portion of their average annual production in a reserve that can be utilized to offset a portion of the losses they suffer before crop insurance coverage begins. This program can serve to reduce farm program outlays as well as the need for ad hoc emergency assistance. In addition, by requiring the purchase of "buy-up" insurance as a condition of eligibility, the PLR also provides an incentive that will encourage an even broader level of participation in the crop insurance program improving its actuarial soundness and reducing its public cost.

We believe the intermediate-term soil rehabilitation program is also consistent with our long-term risk management goals. By encouraging a limited number of acres to be retired from production for a period of time in order to restore their productivity, the program will reduce the level of indemnities paid on land that most would concur is "high risk" until the production problems can be resolved. At the same time the economic risk for producers is reduced in the short term while they are allowed to maintain their Actual Production History at a level more in line with the long term yield expectations.

POLICY RECOMMENDATIONS - RURAL DEVELOPMENT

It is remarkable that in this time of unprecedented prosperity, declining federal debt and large tax cuts that a significant number of people in this huge land mass we call rural America are being left behind. Farmers have become more dependent than ever on federal funds to survive. Small rural communities continue to decline and disappear. Just as in the 1930's and 1940's farmers and rural American's must be given the tools to find their own type of prosperity. We are beginning to see the re-emergence of the same spirit that caused our parents and grandparents to break new land, string electric wires, start new cooperatives, build homes, and build schools and whole communities. This renaissance of the old value of self help is expressing itself in the creation of new value added farmer owned cooperatives, new sources of energy including ethanol and wind, and increased desire to access the new technologies. It is incumbent on the federal government to recognize that since the time it gave away free land to encourage the settlement of the plains and prairies that it has held the role of developing the rural economy. It's primary tool for that development effort has been the programs provided by the United States Department of Agriculture.

In the seven years since it's creation in 1994, USDA Rural Development has taken on some of the most difficult, and-by necessity, most creative tasks in rural America. Whether it is the creation of new value added projects in farm country, a new cooperative housing project in the deep South or an Empowerment Zone on the Pine Ridge Indian Reservation, Rural Development has consistently stepped up to the plate and found solutions to tough problems.

National Farmers Union believes it's time to expand the mission of this agency by adding new tools to the toolbox and by expanding on the existing ones. We do not propose broad new programs but we do propose to expand on the philosophies that currently drive the mission area's four major thrusts. With our proposed adjustments we believe that hundred's of rural Americans will see an improvement in their standard of living. The price for these expanded services will be modest, approximately nine percent more then the current budget. Rural Development's four agencies, Rural Utilities Service, Rural Housing Service, Rural Business Cooperative Service and the Office of Community Development, are uniquely positioned among federal agencies to address the needs of rural America. With their local field office structure and experienced staff the agencies of Rural Development have the greatest potential for successfully addressing the needs of our rural citizens.

The adoption and implementation of our proposals will mean improved housing in our most rural areas, new value added cooperatives in our farm communities and greater access to technology in remote communities.

We believe it is imperative that USDA continues as the principal agency in development and delivery of these programs under the oversight of the House and Senate Agriculture Committees.

We have addressed our proposals to modifications in the law relative to each of Rural Development's four major missions:

Rural Business and Cooperative Service –

We believe that our proposed new emphasis on cooperative development, program adjustments and new programs will assist farmers in becoming part of a value added cooperative and help reduce the increased dependence of farmers on federal government payments for their income. These changes directly improve the capacity of the government to assist the formation of these new ventures. First, the Cooperative Development Centers should be expanded to all states and funding established on a three-year cycle to encourage these centers in their efforts. We also recommend that the Cooperative Stock Share Program be improved by making it available for expansion of existing cooperatives, removal of the requirement for review of farmer's financial statements and elimination of the requirement for additional collateral besides the stock. This program has not been implemented in the way Congress intended. We believe it is necessary to clarify these issues in order to insure it's full utilization.

We also support providing each state economic development office with $1 million of feasibility study money. The feasibility of any venture is critical and these funds will help make sure that these projects are in fact viable prior to the investment of larger amounts of capital.

Congress should increase the cooperative development staff by 50, one for each state. USDA has not been able to meet the growing demand for cooperative development services. These new FTE's are essential to accomplish the mission.

We recommend the creation of a forgivable loan program for investment in intangible assets that can't be funded by existing programs. Current programs require collateral before a loan can be made but some newly created marketing cooperatives do not have hard assets and have needs for capital.

We encourage Congress to authorize and fund a rural cooperative and business equity fund. Under-capitalization has been one of the significant downfalls of many cooperatives. Additional capital would make the difference between success and failure for some cooperatives.

In addition, we support the initiation of a cooperative stock share risk program for which the government accepts part of the risk for a small farmer to invest in a value-added cooperative. Many limited resource farmers are not able to become part of new generation projects by accepting part of the risk USDA would make it possible for them to be included in value-added ventures.

We also believe the fees on Business and Industry Loan Guarantee fees should be capped at 2 percent. Currently, there are proposals to raise this fee to 3 percent, capping it at 2 percent will help keep the program affordable.

Finally, the name of the service should be changed to the Rural Cooperative Business Service, to recognize the importance of development of new cooperatives and shift the agencies focus to this mission.

Rural Housing Service –

We believe these changes will assist thousand's of farmers and small town residents in accessing previously unavailable funds for housing. Additionally, families will see a reduced cost in achieving affordable housing in rural areas. In order to accomplish this, the program rules need to be changed to assist farmers and citizens of small communities in accessing affordable housing by adjusting the program to allow for the way farmers calculate income. There is a significant gap in availability for 30-year credit for homes on farms. Farms Service Agency programs seldom are used and Rural Housing Service programs were not designed for farms. The agency should also be required to aggressively offer the program to farmers. In addition, regulations should allow for appraisal adjustments in small towns. Small towns often lack available credit because appraisals frequently don't meet the requirements of the agency; adjustments would help make more loans possible. Finally, rollback the increased loan guarantee fees from the current 2 percent to 1 percent. The recent increase in loan guarantee fees have made these loans much less affordable and have negatively impacted on the program.

Rural Utilities Service –

These changes could improve access to technology, create new jobs and provide new alternative energy sources. We support adding tele-work as an eligible purpose to the distance learning tele-medicine program and increase its funding. Creation of distance working centers are one of the most creative new ideas for creating jobs in remote area's, this proposal allows for grants and loans to start these centers. Furthermore, we believe a grant/loan program for remote communities should be established to access delivery of high speed internet and other technology services. The program would work similarly to the existing water and sewer program, making technology as affordable in remote locations as in more heavily populated areas.

Office of Community Development –

These strategic proposals would reaffirm the empowerment process and continue the Office of Community Development's efforts to expand the agency's efforts in providing technical assistance. These proposals could directly benefit 75,000 rural Americans. We recommend that a new round of five rural Empowerment Zones and twenty Enterprise Communities be authorized. While there are other alternative proposals this empowerment process has proven itself and should be continued. State Directors should also be allowed to create and assist Champion Communities and Enterprise Communities within existing budget authority. Providing state directors greater latitude to use their resources to meet the needs of special circumstance communities would greatly improve effectiveness of the program. In addition, we support the authorization of a new grant program to assist small business facilitation programs.

The overall impact of these changes will dramatically expand the mission of USDA/Rural Development. During discussion of the farm bill, it is important that Congress recognize the need to aggressively expand the missions of USDA/Rural Development. If rural America is going to move toward a time of more sustainable economic development, we must address these priorities.

Impact –

The total cost for these programs is estimated to be approximately $625 million in FY 2002 and $225 million each year thereafter. (table 14)

POLICY RECOMMENDATIONS - TRADE

The National Farmers Union fully understands and appreciates the potential benefits that can be achieved through agricultural trade. We recognize these benefits can accrue not only to America's farmers and ranchers, but also our economy in general as well as a significant portion of the world's population that is, at least in part, dependent upon agricultural trade to ensure an adequate level of nutrition.

We are concerned however that U.S. agriculture has become so focused on the volume of exports as a panacea that will cure for all its economic problems and miraculously create prosperity for farmers that we fail to maintain any sense of objectivity when discussing trade issues. Instead, we find a variety of excuses for the inability of agricultural trade to meet the high level of expectation that we ourselves create while doing little to resolve those issues or recognize them as inherent long term limitations on our trade future. At the same time we generally ignore our domestic market that has provided the most consistent and highest level of growth for agriculture even while we experience greater competition in our own backyard. Furthermore, the U.S. market continues to present new opportunities for increased demand for not only food and fiber products but also alternative markets for farm commodities.

The policy direction of the 1996 farm bill was in large part based on the assumption that the volume growth in U.S. agricultural exports that in fact peaked in 1996 would continue unabated in the future. Growth in export demand from the U.S. was expected to be driven by world population growth, increased incomes overseas and a domestic farm policy that would force others to adjust to market conditions. None of these assumptions have been proven to be correct. In fact, the opposite has occurred.

Countries continue to place a high value on food self-sufficiency, security and national views concerning food safety, quality and the "value" of a domestic agricultural system.

In addition, for U.S. producers and farmers around the world, their inability to influence the prices they receive for their production results in a rational decision to maximize production even when commodity prices decline.

Agricultural trade continues to provide the residual supply necessary to supplement domestic food production when it fails to meet local demand due to weather or other factors.

We understand the emphasis export merchandisers place on sales volumes, as the major determinant of their economic success. We also note, that most exporters, including some U.S. cooperatives, operate multi-nationally, thus their company interest is not the same as our national objectives in terms of ensuring that benefits from trade accrue to U.S. farmers or the domestic economy in general. For our farmers, however, the situation is different, their market concerns are a combination of both sales volume and price associated with domestic and export markets as well as the effects of import competition.

In 1996 little attention was paid to farm prices, producer incomes or imports of competitive products because of the belief that U.S. farmers would be the "low cost" producers of commodities ensuring their competitive position in world markets if various forms of government intervention could be reduced or removed. As we should now be aware, our comparative production and trade advantage predicated on a superior natural resource base, adoption of advanced technology and an efficient marketing system no longer assures our competitiveness.

Compared to the 1990/91-1991/92 period, U.S. agricultural export volumes for wheat declined in the 1995/96-1996/97 period by 4.6 percent. Farm-gate export earnings however increased 50 percent. The positive improvement was due entirely to the prices received by wheat growers. For the 1998/99-1999/00 period export volume further declined to a level 9.3 percent below the base period while the producer value of exports fell 17.6 percent. Nearly one-half of the decline in wheat export earnings was due to reduced prices.

For corn, compared to the same 1990/91-1991/92 period, the 1995/96-1996/97 farm-gate export earnings increase of 57.2 percent was about 38 percent due to increased export volume and 62 percent the result increased producer prices. An increase in volume of 18.3 percent and decrease in the farm-gate export value of 4.3 percent characterized the 1998/99-1999/00 period. Declining corn prices from the base period resulted in a loss of nearly 23 percent of potential export earnings.

The soybean example provides a similar conclusion. In the mid-1990's volume increased nearly 47 percent over the base years, while producer export earnings increased about 83 percent. Over 43 percent of the improved soybean export situation was due to price. For the 1998/99-1999/00 period compared to 1990/91-1991/92 export volume increased 50.7 percent but export earnings were up only 26.8 percent due to producer price declines relative to the base period.

Commodity prices have had a much greater impact on producer income from exports than have export volumes.

While a great deal of attention was focused on our export performance in the mid-1990's, policy makers and analysts ignored the other side of the ledger, that of competitive imports - those imported products that are also produced in the U.S. In 1979, U.S. farm exports were about 53 percent of the 1996 level but competitive imports were only 28.4 percent of our agricultural exports, and our agricultural balance of trade was nearly $16 billion.

By 1989 our agricultural balance of trade had grown to over $18 billion, but competitive imports had increased to over 38 percent of our export levels and amounted to nearly 71 percent of all imports.

In 1996, our record export year, our trade balance declined about $1 billion from the 1989 level as competitive import products represented over 40% of our export level and 75% of all agricultural imports.

Preliminary data for 2000 project a positive trade balance of only $12 billion, about two-thirds of the 1989 level, while imports that compete directly with U.S. production increased to over 60 percent of our export sales and nearly 80 percent of all U.S. agricultural imports.

The U.S. can continue to blame periodic failure of the export market to achieve our expectations on one or more global events and/or trade policies such as the Asian financial crisis, trade distorting public policy or U.S. food sanctions. We agree these issues have an impact on our export potential. However, any objective person would not assume away these issues in planning for the future when no mechanisms have been put in place to fully mitigate their impact or when other, likely more important, concerns fail to be discussed or acted upon.

For farmers and ranchers, the test of trade policy and export promotion and sales programs is the impact those initiatives have on their income and future economic opportunity. Creating a "level playing field" to address a broad range of trade distorting and anti-competitive practices rather that some philosophical or moral "high road" in global trade should be the objective of our policies here at home as well as in negotiations with our trade partners and competitors.

Trade Issues

The U.S. has tended to view the traditional trade issues of export subsidies, market access, sanitary/phytosanitary regulations, dispute resolution and domestic agricultural support programs as the universe for trade negotiations and application of domestic trade law remedies. The farm bill provides an opportunity to further elaborate trade issues and develop a cohesive U.S. agricultural trade strategy. However, we too often have utilized this tool as a way to legislate a reaction to the policies of others or extend, without a full review of their effectiveness, current domestic trade objectives.

We support efforts to limit the most distorting characteristics of these issues as long as responsible food security and agricultural policy flexibility is maintained. We believe, however, this rather myopic view of agricultural trade has led us to promote and accept trade agreements that both ignore other important issues that impact our trade competitiveness and potential, as well as sacrifice significant protections against the unfair trade practices of others.

Issues such as exchange rate fluctuations and manipulation, labor standards and the application of environmental practices may well have more to do with our global competitiveness and ability to achieve consistent long term export demand growth than the traditional undertakings in trade negotiations.

The U.S. should expect limited export gains from further multilateral discipline of export subsidies or market access provisions unless and until the issue of exchange rates can be satisfactorily resolved. In addition, the growth in competitive imports should be expected to continue as relative currency values make foreign goods cheaper in our own market that remains one of the least protected from agricultural imports of any in the world. It is unlikely U.S. farmers will benefit from enhanced market opportunities as long as the U.S. dollar remains strong and overvalued compared to the currencies of our major export/import competitors as well as potential international customers.

For many producers, particularly those engaged in labor intensive, specialty crop production, the issues of labor cost and availability directly effect our ability to compete with other global producers. It should not be our goal to reduce the economic position of workers or the health and safety regulations that serve to enhance their productivity. The U.S. likely has more to gain than any other nation by ensuring that progressive commitments are made to establish comparable and enforceable labor standards as part of all future trade agreements.

Environmental standards impact not only the competitive position of the U.S. producers, but also represent increasingly important elements in ensuring long term global food security and natural resource sustainability that in many cases go hand in hand with efforts to improve and harmonize sanitary and phytosanitary regulations.

For U.S. producers, domestic environmental regulations provide "public" goods in a variety of ways including cleaner air and water and enhanced safety for both agricultural workers as well as domestic and international consumers. However, these regulations also require U.S. producers to incur costs that many of our competitors avoid. In many cases it is the application of U.S. domestic laws that contribute to the reduced competitiveness of our own growers. For example, last year, U.S. producers were precluded from purchasing a less expensive but equally safe and efficacious wheat fungicide from Canadian sources that was comparable to a product registered for use in the U.S. although we allowed Canadian wheat to be imported that was treated with the "illegal" product. Similarly, we do not allow U.S. producers to purchase products already registered in the U.S. from foreign sources, e.g. Canada, even though the only difference in the product is the price and style of the label.

These problems have only been exacerbated with the introduction of genetically engineered crops. These crops generally require the payment of premiums and technology fees as well as commitments to other contractual obligations by U.S. producers, while the same seed may be purchased by a competitor without any of the conditions imposed by the developer in the U.S. market.

Furthermore, many products that have either been banned for use by U.S. farmers or never registered in the U.S. are available to foreign producers who then export their production to us or directly compete with U.S. producers in overseas markets.

Whether in the area of crop production products or resource management, the U.S. should be proud of the efforts it has made to date as well as our future prospects that will promote a more environmentally friendly and sustainable production agriculture system. However, we must recognize these benefits accrue a cost to producers that cannot be passed on to consumers through higher commodity prices in the marketplace without further eroding our competitive position.

Environmental policy considerations should be a component of trade negotiations to ensure fair market competition and encourage higher, enforceable global standards for environmental stewardship. In addition, U.S. environmental and resource conservation policy should be a significant part of our domestic policy discussions to provide compensation to producers for the public benefits they provide while making sure that programs and regulations make sense and are consistently enforced within our country and at our borders.

Trade Objectives

As the U.S. engages in the negotiation of regional and global trade agreements as well as the development of domestic trade and export policy, we believe certain objectives must be achieved to create opportunities for farmers and ranchers to realize the benefits of agricultural trade.

The current U.S. position concerning trade agreements continues to focus on the traditional issues. We believe a critical component of that process is to seek the correction of many of the problems that exist with current agreements. These include: 1) strengthening our capacity to monitor compliance, particularly in the case of new agreements or the expansion of agreements to additional countries, 2) reforming the dispute resolution process in both the WTO and regional agreements; and, 3) ensuring that comparable health, safety, labor and environmental standards that apply to U.S. producers are implemented and enforced by our trading partners.

Furthermore, we should extend tariff and tariff rate quota coverage to imports that currently circumvent our customs schedules such as "stuffed molasses" and expand the application of end-use certificates to legally imported products where utilization is restricted under domestic law, e.g. milk protein concentrate. In addition, the U.S. should require country of origin labeling for imported agricultural products.

We will oppose further proportional reductions in trade and domestic policies that serve to reduce our capacity and flexibility to respond to unfair or unforeseen trade and economic circumstances until other nations achieve a comparable level of reduction relative to the size of their agricultural industry.

In terms of domestic trade policy, we oppose any effort to weaken or negotiate reductions in current U.S. trade law including the antidumping, countervailing duty, Section 201 and Section 301 trade remedies.

The NFU urges a full review of all current export promotion and sales incentive programs funded by the government to determine their impact on producer incomes. In addition, we support an expanded review of current practices, policies and barriers to fair trade employed by others to include the impact of exchange rates and the effects of differing labor and environmental standards.

We support legislation and/or executive action that eliminates the application of foreign policy sanctions on other nations with regard to agricultural or medical products, including Cuba.

Furthermore, we support domestic policies that provide and extend assistance to agricultural sectors or producers that have been adversely effected by the unfair trade practices of others or subject to the negative impact significant increases in the level of import competition. This should include full implementation of the so-called Byrd Amendment to the FY 2000 agriculture appropriations legislation as well as expansion of the Trade Adjustment Assistance Act to include appropriate provisions that would apply to production agriculture.

Addressing the aforementioned concerns and objectives can improve the potential for U.S. farmers and ranchers to benefit from agricultural exports. In addition, other opportunities should be pursued to increase both short and long-term demand for U.S. food products and achieve a better balance between global agriculture production capacity and real consumer demand.

We fully support and encourage both unilateral and multilateral action to expand the use of humanitarian food assistance for developing nations, including the implementation of an international school lunch program and appropriate commodity reserves to ensure supply adequacy during periods of production shortfalls.

The school lunch program will result in improved levels of education and nutrition for a population estimated to exceed 300 million children who are currently malnourished. Additionally, it will provide a solid foundation for future economic development and commercial demand for agricultural products in countries whose capacity for economic growth may remain severely limited without assistance. At a time when the developed countries and their agricultural producers face real problems due to an oversupply of farm commodities, this cooperative program can help achieve a better supply/demand balance globally. Furthermore such a program will reduce the incentives for surplus producing nations to utilize trade-distorting practices to maximize export volumes in order to maintain or expand market shares.

Even the best efforts to enhance global demand and distribution for agricultural products may still be inadequate to achieve a balance of supply and demand that provides reasonable returns to producers while ensuring global food security at affordable consumer prices. We believe the U.S. should seek international cooperation to address the potential for surplus production of agricultural commodities and contain and reduce the anti-competitive practices and results of increased integration within agriculture.

This should be accomplished in ways that are consistent with international food security objectives such as shared buffer stock responsibilities, global environmental needs including the reduction of greenhouse gases through on-farm carbon sequestration and national priorities that address non-food production benefits of agriculture and rural communities.

POLICY RECOMMENDATIONS - CREDIT

The NFU believes that future economic success for farmers and ranchers is dependent upon access to an adequate amount of reasonably and competitively priced credit that is available to all producers who meet consistently applied eligibility criteria without regard to race, gender or operating scale.

By many financial measurement tools, it would appear that U.S. agriculture is in reasonably good health and adequate credit is available from a wide range of traditional sources. However, the improved financial condition of agricultural lenders, reduced level of loan delinquencies and charge-offs and supply of credit are do in large part to a combination of factors that suggest the financial health of agriculture is not as rosy as the data may suggest.

Since 1996, the federal government has provided about $69 billion in payments to agricultural producers through farm programs and additional economic support through a more broadly available crop insurance program that has improved participation incentives. Program payments include: Agricultural Market Transition Act (AMTA) contract payments and loan deficiency payments or marketing loan gains as well as just under $30 billion in supplemental economic assistance since 1998. Subsidized crop insurance coverage has been expanded to more crops and regions and purchase incentives have been improved through both ad hoc programs as well as permanent legislative action in addition to the revival of annual production-loss assistance programs.

The financial situation of U.S. producers, agricultural lenders, other agricultural sectors and many rural communities would look entirely different if producers had been forced to rely solely on the market oriented promises of the FAIR Act and had not received annual infusions of new capital through the supplemental assistance provided over the last three years.

Although the current situation is significantly different than that which existed during the farm financial crisis of the 1980's, the underlying problem is much the same. The period leading up to the 1980's crisis was characterized by significant inflation in production costs, fixed asset values and high nominal interest rates that were unable to be sustained by either the earning capacity of individual farms or alternative uses for agricultural resources. Increased debt loads were accommodated through equity financing based on inflated assets. When policies aimed at reducing the level of inflation pervasive throughout the economy were implemented, both many farm families and their creditors were placed under great stress resulting in a large number of family farm bankruptcies, agricultural bank failures and the near collapse of the farm credit system.

As a direct result of the late 1980's experience, both farming and agricultural lending have undergone significant restructuring and consolidation. Agricultural lending standards have been modified to incorporate better analytical tools and focus more on cash flow and repayment capacity.

The structural change in agriculture today is less abrupt in terms of foreclosures, bankruptcies, bank failures and auction sales and therefore less noticeable to the public than that which occurred in the 1980's. However, at the farm level significant adjustments are continuing.

Changes in credit practices, when combined with a generally soft farm economy in terms of the relationship of prices received by farmers to prices paid have contributed to the further consolidation of commercial farms and a noticeable shift in farm operation characteristics to the extremes. Increasingly, agriculture is characterized by a relatively small group of very large farms, i.e. with sales over $500,000 per year, and a large number, about 80% of all farm operations, that are smaller farms with annual sales less than $100,000. Many of these smaller farms are part-time operations dependent on off-farm income.

Commercial Credit -

Commercial agricultural credit is generally obtained from four sources: commercial banks, Farm Credit System associations (FCS), life insurance companies and supplier credit provided input suppliers, merchandisers and processors.

Banks and the FCS provide the vast majority of agricultural credit across a wide range of needs, while insurance company agricultural portfolios are almost entirely comprised of long-term real estate loans.

An increasing amount of credit is provided by input suppliers and processors through intermediate-term credit for asset purchases such as machinery and equipment as well as short-term operating credit based on accounts receivable for production inputs or commodity delivery contracts.

The structural and operational adjustments made by commercial banks and the FCS as a result of the 1980's experience, the more general consolidation of financial institutions in recent years and increased use of agricultural credit guarantees provided through the Farm Service Agency has resulted in greatly improved financial strength of commercial lenders and, at least the appearance that an adequate level of agricultural credit is available at least for some borrowers.

The Farm Credit System had a 19.7 percent share of all farm operator debt. However, nearly 36 percent of its lending to farm operators was to operations with over $500,000 in sales but only 10.7 and 16.9 percent respectively of its lending was to operators in the Under $100,000 and $100,000 to $250,000 sales classes where farming was the primary occupation of the operator.

The Farm Credit Administration proposal for National Chartering within the FCS may as suggested, increase market competition among lenders. In the short term this could result in reduced interest and loan fees for borrowers. However, allowing national chartering may result in a new round of system consolidations and further reductions in local control that could exacerbate the distribution of credit among all producers, and result in a greater disparity in credit availability and borrowing costs among different sized farm operations.

Similarly, the number of commercial agricultural banks declined by about 2900 banks or over 25 percent between 1992 and 1999. In 1999, commercial banks provided 43 percent to 50 percent of the credit in each USDA sales class, comparable to its 46.6 percent share of all agricultural debt. However, 21.4% of its lending portfolio to farm operators was to those with over $500,000 in sales while 15.1 percent was to operators with less than $100,000 in sales and 17.1 percent to those with $100,000 to $250,000 in agricultural sales.

Farm Service Agency Credit Programs (FSA) -

USDA's Farm Service Agency is responsible for administering the direct and guaranteed loan programs for farm ownership and operating credit and direct emergency disaster loans. Portions of the non-emergency loan funds are reserved for socially disadvantage family farmers and beginning farmers.

Under the guaranteed loan program, USDA guarantees a private lender repayment of the interest and 90 percent of the loan principal. Qualifying borrowers may be eligible for interest rate assistance where FSA pays for a 4-percentage point reduction in the borrower's interest rate. USDA has also implemented a preferred lender program that allows qualified lenders to expedite the process of providing guaranteed loans to eligible borrowers. Direct loans are made and serviced by USDA with interest rates based on the cost of borrowing from the U.S. Treasury.

The quality of the government's agricultural credit portfolio has improved significantly in terms of the relative number and value of loan delinquencies for both the direct and guaranteed loan programs due in large part to supplemental payments to producers over the past three years.

For fiscal year 2001, FSA lending authority is $4 billion comprised of $3 billion included in the FY 2001 appropriations legislation and $1 billion in unused funds carried over from the prior year. This compares to $5.6 billion authorized in FY 2000 of which

$3.7 billion was utilized in that year's programs. The 2001 appropriations legislation provided authority for FSA to address funding shortfalls in specific programs by allowing it to transfer funds between the farm ownership and operating loan programs.

In addition, the 2001 program levels indicate a continuation of the trend toward greater reliance on the guaranteed loan program for both farm ownership and operating credit as the direct loan program level is reduced about 30 percent from the prior year.

Since the passage of the Agricultural Credit Act of 1987, farm credit legislation has attempted to determine the proper role for USDA as a "lender of last resort". Credit initiatives, including the credit title of the 1996 farm bill, have increasingly tightened the requirements concerning loan delinquencies and write-downs as well as program eligibility requirements. Like many legislative actions, these efforts tended to reflect the improved outlook for agriculture based on the conditions existing at the time of passage.

Recommendations -

We are concerned that the impact of these changes in agricultural lending is resulting in structural changes in production agriculture that encourage and disproportionately benefit large scale operations to the disadvantage of family farmers. We urge the Committee to authorize a study and solicit recommendations from a qualified third party to review the impact and effect of concentration and expanded financial service opportunities in the commercial and cooperative lending sectors on all scales of farming and ranching operations, related agricultural sectors and rural communities.

The National Farmers Union believes that all producers who meet the eligibility requirements for FSA loan programs should be assured access to credit in a timely fashion. We recommend that the Secretary of Agriculture be given even broader flexibility in transferring funds from program to program and state to state in order to ensure the timely availability of credit to producers. In addition, we urged the Committee to consider providing the Secretary emergency short-term borrowing authority from the Commodity Credit Corporation to address any temporary short-falls in appropriated funds that may occur in the programs.

In order to expedite the application, review and approval process, we request the Committee review on a regular basis USDA efforts to: 1) Expand the preferred lender program. 2) Ensure adequate personnel levels and training for credit specialists in local FSA offices. 3) Develop new, simplified application procedures, such as electronic decision trees, to ensure comparability in the qualification and application process. 4) Explore the need and desirability of providing a centralized, potentially electronic review, oversight and appeal process. 5) Review the conditions that encourage and/or require graduation from FSA lending programs to commercial credit, including the consistency of their application in all regions of the country.

Given the on-going economic problems faced by farmers and ranchers due to generally low commodity prices and weather-related production losses, the potential for an increase in the level of delinquent payments and need for loan restructuring and/or write-downs could increase. We believe the limitations concerning eligibility for FSA direct and guaranteed loan programs should be reviewed as they apply to producers who have availed themselves of previous loan reductions programs.

Anecdotally, we have also received may comments this spring from producers who were having difficulty obtaining operating credit due to their inability to make timely payments of prior loan obligations because of the uncertainty of payments under various federal disaster programs. It appears that either the Secretary's authority to mitigate these problems is not being fully utilized, or additional authority is required.

In addition, many shared appreciation agreements that were signed during the last agricultural credit crisis are maturing at a time when the ability of many to fulfill those obligations is diminished although farm asset values have been stable or increasing. There is also confusion concerning capital investment in assets after a shared appreciation agreement was executed and any producer liability for the asset appreciation due to those improvements. We support utilizing production value as a basis for shared appreciation and forgiveness of any appreciation resulting from conservation easements. The asset appreciation impact of any post agreement investment should also be deducted from the current value of the assets subject to shared appreciation, including those that matured prior to August 18, 2000. Also, FSA should be required to notify and offer the special financing of recapture repayments contained in the fiscal 2001 agricultural appropriations act to all producers subject to shared appreciation agreements.

Specific levels of FSA credit funding have been allocated and reserved for beginning farmers since 1994 to encourage new entrants into production agriculture. The direct supervised credit program programs have been successful, and should be expanded through an increase in budget authority of $100 million and a $1 billion increase in program level. Additionally, new, cost-effective innovations should be explored and implemented on a pilot program basis to further encourage the intergenerational transfer of farming operations.

While credit is one important component of such an objective, we believe additional options should be explored utilizing USDA's credit guarantee authority through programs such as "Aggie Bonds" and private sales contract guarantees for farm purchase transactions by beginning farmers.

Integration of FSA farm loans and grants to states in a "Farm Link" program could create a cost-effective opportunity for beginning farmers by providing assistance to both them and retiring producers. The expanded grant portion of this program would cost an estimated $25 million per year.

Additionally, a grant-in-lieu-of-credit program, limited to outlays similar to those associated with the cost of interest rate buy-downs could be effective in providing beginning farmers with the equity necessary to enter agriculture without the high leverage factor associated with credit programs.

Success in agriculture, particularly for beginning farmers, socially disadvantaged farmers and other smaller producers, is increasingly tied to market access and the ability to enhance the value of their commodities through processing and merchandising. Unfortunately, many of the producers who most need the ability to share in value added businesses, including farmer-owned cooperatives, are unable to generate the capital required for participation. We support expanding the FSA loan guarantee program to include loans to finance producer ownership of value added enterprises, and encourage the Committee to explore additional means to provide initial capital for the creation of new value-added cooperatives, including direct investments by agricultural lending institutions.

Finally, we urge Congress, at a minimum, to approve in a timely manner an additional of Chapter 12 extension through June 30, 2002 or until such time as the provisions are made a permanent part of the code.

POLICY RECOMMENDATIONS -CONCENTRATION

Price and competition are two issues that concern our members most. The rapid pace of agricultural concentration has played a significant role in reducing competition, and consequently reducing market prices. Today, the position of the family farmer has become even weaker as consolidation in agribusiness and food retail has reached all time highs. Farmers have fewer buyers and suppliers than ever before. The result is an increasing loss of family farms, a decreasing viability of rural communities and the smallest farm share of the consumer dollar in history.

Rapid consolidation is occurring in nearly every sector of agriculture. Today four firms control 81 percent of all beef slaughter, 73 percent of sheep slaughter, 57 percent of pork slaughter, 62 percent of flour milling and 50 percent of broiler production.[1] In addition, rapid consolidation at the retail level is changing the food distribution and marketing structure. At the retail level, the top five grocery chains now control over 40 percent of the U.S. grocery market. By comparison, the top five retailers accounted for 20 percent of food sales in 1993.[2] Moreover, the high levels of horizontal concentration are made worse compounded by the vertical integration that is occurring in the industry.

And yet, often people automatically equate mergers and consolidation with market efficiency. In too many cases, the opposite is true. As firms grow in size, they buy out their competitors, reducing the number of options in the market place. Consolidation is the antithesis of "market efficiency" for farmers and ranchers. Consolidation is patently ineffective for farmers, making it extremely difficult for farmers to compete in and earn their income from the marketplace.

---

[1] *Consolidation in the Food and Agriculture System*. Dr. William Heffernan, University of Missouri. February 1999.

[2] *Consolidation in Food Retailing and Dairy*. Drs. William Heffernan and Mary Hendrickson, University of Missouri. January, 2001.

Although farm families are witnessing low prices across many different commodities, these low prices have not translated to consumer savings. Instead, farmers and ranchers are receiving an ever-diminishing share of the consumer dollar, while processors and retailers gain more of the consumer dollar share.

Concentration Title -

While many of the issues pertaining to agricultural concentration that must be addressed are beyond the scope of U.S. agricultural policy, several topics should be included in new farm legislation to help ensure fair and open competitive markets for producers. Specifically, we support a competition and concentration title in the next farm bill that would serve to define the fundamental principles that should govern the agricultural marketplace and more effectively encompass the issues.

Anti-trust Enforcement –

We are pleased that several bills have been introduced to improve antitrust enforcement and concentration. We strongly support S. 20, the "Securing a Future for Independent Agriculture Act," introduced by Chairman Harkin, and others that seeks to restore fair and open competition in the agriculture sector. We urge the Committee to include its provisions into the new farm bill.

Contractor Bill of Rights –

We strongly support the language in S. 20 -- language similar to the legislation introduced last year by Chairman Harkin, the Agriculture Producer Protection Act of 2000 -- that pertains to contract fairness. The rapid increase in the use of agricultural contracts by large agribusiness has dramatically increased vertical integration in the U.S. There is growing concern among producers because of the large disparity in bargaining power between agricultural producers and contract companies that is resulting in unfair shifting of economic risk to the agricultural producer, unfair contract terms, and anticompetitive behavior. The bill language would: (1) require contracts to be written in plain language and disclose risks to producers; (2) provide contract producers three days to review and cancel production contracts; (3) prohibit secrecy clauses in contracts; (4) provide producers with a first-priority lien for payments due under contracts; (5) prohibit producers from having contracts terminated out of retaliation; and (6) make it an unfair practice for processors to retaliate or discriminate against producers who exercise rights under the Act.

Packer Ownership of Livestock –

In addition, we support legislation that is focused on addressing single issues, such as S.142, legislation introduced by Senator Tim Johnson to limit packer ownership of livestock, and S.280, a bill that requires mandatory country of origin labeling for meat products and fresh produce. We urge that the aforementioned bills be incorporated into the new farm bill.

Economic Impact Statements –

We recommend that pre-merger filings of large agricultural firms require the submission of an economic impact statement detailing the effect of the merger on farmers and ranchers. We also believe the Secretary of Agriculture should have the authority to review all mergers related to agriculture in terms of anti-competitive practices and economic impacts. The Secretary should be required to collect and publish information concerning the level of concentration within the commodity sectors and review the causes of the decline in farm-to-retail price spreads.

Merger Moratorium –

We support enacting a temporary moratorium on agricultural mergers, to give Congress time to review antitrust law and to determine the effect of mergers before they do irreversible harm to farmers, ranchers and rural communities. The moratorium should apply only to large firms, with a significant amount of sales in agriculture. We would recommend that the moratorium cover acquisitions by firms of $1 billion or more in voting securities and assets, acquiring firms with voting securities and assets of $100 million or more. The moratorium would be for a period of 18-24 months or until Congress revises agricultural antitrust and competition law, whichever comes first.

Joint Venture Disclosure -

We believe that Congress should pass legislation requiring agricultural firms to submit to USDA information on join ventures and strategic alliances that involve firms of a substantial size. Joint ventures, strategic alliances and other arrangements among large agricultural firms influence the level of market concentration and affect producers' ability to compete. In many cases, firms that are participating in joint venture arrangements behave just like firms that have merged; yet, joint ventures and alliances are not subject to governmental scrutiny.

GIPSA Authority –

We support expanding the authority of the Grain Inspection Packers and Stockyards Administration (GIPSA) to bring poultry under its jurisdiction. Likewise, we believe it is important to improve the internal structure of GIPSA including authorization and funding for GIPSA to hire investigators to look into anticompetitive practices and economists to analyze the impact of mergers.

Specified Thresholds for Disallowing Mergers -

We support establishing a trigger level of concentration that creates an automatic presumption against allowing agricultural mergers that result in high levels of concentration. We recommend basing the trigger on an indicator, such as the Herfindahl-Hirschman Index (HHI). The HHI is currently used by the Justice Department and the Federal Trade Commission when evaluating the level of concentration that would result from a proposed merger. We believe an HHI calculation should trigger a legal presumption against allowing a merger if the post-merger HHI would exceed 1800 and the merger would produce a change in the HHI of more than 100 points.

Illinois Brick -

Under federal antitrust law, only direct purchasers or sellers have the right to collect damages for antitrust harm. Indirect purchasers or sellers harmed by anticompetitive injury transmitted through the distribution chain have no right to a remedy in federal court, pursuant to Illinois Brick Co. v. Illinois, 431, U.S. 720 (1977). Illinois Brick harms producers by preventing them from filing federal antitrust claims against retailers or other "middlemen." As retailers gain more power within the marketplace, it is vital that they should be liable for antitrust violations that damage farmers or ranchers.

State action is not sufficient. Currently, the District of Columbia and 14 states have passed laws to override Illinois Brick and allow antitrust claims against indirect buyers and seller in state court. However, while federal rules of civil procedure allow price fixing cases to be brought as class actions, states require proof of individual damage, making class actions difficult. A federal repeal will provide an important remedy for both producers and consumers harmed by antitrust violations.

CONCLUSION

The National Farmers Union supports efforts to enact new, comprehensive farm legislation that creates a broad range of opportunities for producers, rural communities and consumers.

These opportunities must include a combination of: improved, more market responsive economic safety net programs, expanded access to credit and rural development funds, realistic trade expectations based on fairness and national priorities, and greater capacity to ensure an open, competitive marketplace.

We believe that many of these objectives can and must be advanced while maintaining a level of fiscal responsibility that is appropriate to an industry subject to many unpredictable and uncontrollable forces.

Our analysis indicates that a combination of commodity program components including an improved commodity marketing loan, limited reserves, discretionary cost containment measures, enhanced dairy program and an appropriate mechanism to target safety net benefits can significantly increase realized net income for producers over the baseline projections. We are confident these programs can be implemented while conforming to the available budget and WTO disciplines.

The conservation, credit and rural development recommendations will allow current, farm-level as well as broader environmental and economic development issues to be more adequately addressed, while helping strengthen net farm income and provide for a more equitable distribution of benefits across all production sectors.

The trade title of the farm bill should extend beyond the traditional approach of authorizing trade promotion activities and provide well-defined objectives for trade negotiations and agreements. These goals should include conventional trade issues, a broader range of factors that affect global market competitiveness and encourage greater international cooperation and harmonization of policies while recognizing the need to maintain maximum domestic policy flexibility for all nations.

Finally, the issue of ensuring a more transparent, competitive marketplace both here and abroad must be addressed through better enforcement of existing laws and authorization of new statutes to fully address the issue of integration and concentration throughout agriculture.

We believe this approach to U.S. commodity programs and agriculture policy represents a more equitable, less distorting and fiscally responsible method to provide economic security and opportunity to U.S. farmers and rural America.

We look forward to working with the Committee over the next several months as you develop of a more sound agricultural policy that can truly benefit America's family farmers and ranchers.

Mr. Chairman, I look forward to answering any questions you or members of the Committee may have.

Table 1

AGRICULTURAL EXPORTS AND IMPORTS - (Billion $)
(Fiscal Year)

Year	Total Exports	Animals & Products	Grains & Feeds	Oilseeds	Total Imports	Competitive Imports	Animals & Products	Grains & Feeds	Oilseeds	Percent Comp. Imports of Exports
1979	31.979	3.643	12.612	5.995	16.187	9.075	3.768	0.226	0.058	28.38%
1989	39.611	6.535	16.830	4.363	21.476	15.238	4.886	1.139	0.159	38.47%
1993	42.879	8.005	14.194	4.978	24.634	19.090	5.930	1.606	0.273	44.52%
1996	59.890	11.403	21.399	6.842	32.577	24.402	5.955	2.517	0.324	40.74%
1999	49.148	9.966	14.272	5.690	37.310	29.230	7.039	2.943	0.326	59.48%
2000*	50.936	11.662	13.788	5.782	38.923	30.875	8.143	3.059	0.31	60.62%

*preliminary

Source: USDA/ERS, "U.S. Agricultural Trade Update", November 29, 2000

Table 2

ENDING STOCKS
1990/91-2000/01
(million units)

COMMODITY	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01P
Wheat (bushels)	868.0	475.0	531.0	568.0	507.0	376.0	444.0	722.0	946.0	950.0	839.0
Corn (bushels)	1521.0	1100.0	2113.0	850.0	1558.0	426.0	883.0	1308.0	1787.0	1718.0	1891.0
Rice (hundredweight)	24.6	27.4	39.4	25.8	31.3	25.0	27.2	27.9	22.1	27.5	24.6
Soybeans (bushels)	329.0	278.0	292.0	209.0	335.0	183.0	132.0	200.0	348.0	290.0	345.0
Cotton (480 pound bales)	2.30	3.70	4.70	3.50	2.70	2.60	4.00	3.89	3.94	3.92	4.50

Source: USDA "Agricultural Outlook"
USDA "WASDE" 2/8/01

Table 3

NET FARM INCOME, 1990-2000
($ billion)

YEAR	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 P
Net Farm Income	44.7	38.7	47.9	44.5	49.2	37.2	54.9	48.6	44.6	43.4	45.6
Direct Government Payments	9.3	8.2	9.2	13.4	7.9	7.3	7.3	7.5	12.2	20.6	23.3
Net Farm Operating Income	35.4	30.5	38.7	31.1	41.3	29.9	47.6	41.1	32.4	22.8	22.3

Source: USDA "Agricultural Outlook", January-February, 2001

Table 4

PRICES RECEIVED BY FARMERS
1990/91 - 2000/01
($ per unit)

COMMODITY	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01*
Wheat ($/bushel)	2.61	3.00	3.24	3.26	3.45	4.55	4.30	3.38	2.65	2.48	2.65
Corn ($/bushel)	2.28	2.37	2.07	2.50	2.26	3.24	2.71	2.43	1.94	1.82	1.80
Rice ($/hundredweight)	6.70	7.60	5.89	7.98	6.78	9.15	9.96	9.70	8.89	5.93	5.70
Soybeans ($/bushel)	5.74	5.58	5.56	6.40	5.48	6.72	7.35	6.47	4.93	4.63	4.65
Cotton ($/hundredweight)	67.10	58.10	53.70	58.10	72.00	75.40	69.30	65.20	60.20	45.00	56.00^

*Mid-point of USDA price range forecast
^Average price received August-December, 2000
Source: USDA, "Agricultural Outlook" , "WASDE", I February 8, 2001

Table 5

INDEX OF PRICES PAID
PRODUCTION, INTEREST, TAXES, WAGE RATES
(1990-92 = 100)

YEAR	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*
Index	99	100	101	103	106	108	115	118	115	115	120

*Average June-November, 2000
Source: USDA/NASS, "Agricultural Prices" 10/31/2000, "Agricultural Outlook", January-February, 2001 and prior years

Table 6

RATIO OF PRICES RECEIVED TO PRICES PAID (%)
(1990-92 = 100)

YEAR	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*
Ratio	81	77	73	98	94	94	98	91	81	83	81

*Average June-November, 2000
Source: USDA/NASS, "Agricultural Prices", 10/31/00, "Agricultural Outlook", January-February, 2001 and prior years

Table 7

COMMODITY MARKETING LOAN RATES
(dollars per unit)

Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Baseline -										
Corn	1.89	1.89	1.89	1.89	1.89	1.89	1.89	1.89	1.89	1.89
Grain Sorghum	1.71	1.69	1.69	1.70	1.71	1.70	1.70	1.70	1.71	1.71
Barley	1.65	1.71	1.74	1.76	1.73	1.7	1.69	1.68	1.66	1.65
Oats	1.21	1.14	1.10	1.11	1.10	1.10	1.12	1.12	1.12	1.12
Wheat	2.58	2.58	2.58	2.58	2.58	2.58	2.58	2.58	2.58	2.58
Soybeans	5.26	5.26	5.26	5.26	5.26	5.26	5.26	5.26	5.26	5.26
Cotton	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52
Rice	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Marketing Loan, Reserves & S.A. -*										
Corn	2.34	2.40	2.44	2.44	2.35	2.28	2.27	2.27	2.30	2.33
Grain Sorghum	2.62	2.81	2.95	2.85	2.74	2.68	2.66	2.67	2.68	2.70
Barley	2.77	2.81	2.81	2.78	2.72	2.70	2.69	2.70	2.71	2.73
Oats	1.92	1.96	1.90	1.89	1.77	1.74	1.72	1.70	1.70	1.69
Wheat	3.69	3.87	4.01	4.05	3.99	3.98	4.01	4.06	4.12	4.19
Soybeans	5.44	5.30	5.08	4.90	4.84	4.90	4.97	5.04	5.10	5.17
Cotton	0.73	0.74	0.77	0.76	0.74	0.73	0.75	0.75	0.76	0.77
Rice	9.05	8.22	8.29	7.44	7.74	7.77	8.08	8.20	8.49	8.67

* Loan rates under the marketing loan only and marketing loan & reserves vary slightly

Table 8

SUMMARY
Projected Expenditures
Program Crops

CommodityPrograms	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Baseline -										
LDP's	3776	3220	2660	2087	1557	1100	590	210	125	90
AMTA	4057	3938	3938	3938	3938	3938	3938	3938	3938	3938
TOTAL-Program Crops	7833	7158	6598	6025	5495	5038	4528	4148	4063	4028
80% Marketing Loan Only -										
TOTAL (LDP's)-Program Crops	12343	14146	14457	14689	12535	10129	6797	4039	3808	3504
Marketing Loan & Reserves -										
LDP's	1806	3140	6861	9835	9809	7497	5250	3966	3836	3540
Government-Owned Reserves-										
Purchase	3179	0	0	0	0	0	0	0	0	0
Storage	0	308	308	308	308	308	308	308	308	308
F.O.R. Storage	0	721	892	925	925	925	925	925	925	925
TOTAL- Program Crops	4985	4169	8061	11068	11042	8730	6483	5199	5069	4773
Marketing Loan, Reserves & S.A. -										
LDP's	1806	3140	4685	6983	5442	3616	3153	3023	2818	2826
Reserves (purchase + storage)	3179	1029	1200	1233	1233	1233	1233	1233	1233	1233
TOTAL-Program Crops	4985.0	4169.0	5885.0	8216.0	6675.0	4849.0	4386.0	4256.0	4051.0	4059.0

Table 9

SUMMARY
Crop Acreage & Receipts
(billion dollars)

Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Baseline -										
Program Crop Acreage (planted)	253.5	254.7	253.9	254.5	254.9	255.5	256.0	256.5	256.9	257.3
Program Crop Value + Payments - Variable Expenses	24.9	26.8	28.0	29.1	30.2	31.3	32.5	33.5	34.6	36.0
Total Crop Cash Receipts (all crops)	100.3	102.8	105.3	108.2	111.3	114.4	117.7	120.8	123.7	126.8
Total Cash Receipts (all livestock)	100.8	99.1	102.7	103.9	103.2	102.9	104.1	105.7	106.8	108.2
Realized Net Income (all crops/livestock)	39.6	36.3	40.3	41.7	41.4	40.9	42.0	43.4	44.1	45.0
80% Marketing Loan Only -										
Program Crop Acreage (planted)	253.9	254.9	254.0	254.6	255.0	255.5	256.0	256.5	256.9	257.4
Program Crop Value + Payments - Variable Expenses	27.8	30.8	31.8	33.3	33.4	33.1	33.4	33.9	34.5	36.0
Total Cash Receipts (all crops)	99.9	101.5	103.2	105.4	108.4	111.8	115.7	120.2	123.9	127.1
Total Cash Receipts (all livestock)	100.8	99.0	102.7	103.7	103.1	102.7	104	105.5	106.9	108.3
Realized Net Income (all crops/livestock)	43.5	40.8	44.8	46.5	44.6	42.7	42.1	42.4	44.0	44.4
Marketing Loan & Reserves -										
Program Crop Acreage (planted)	253.9	254.9	254	254.6	255.0	255.5	256.0	256.5	256.9	257.4
Program Crop Value + Payments - Variable Expenses	34.3	33.4	33.8	33.7	33.4	33.0	33.2	33.9	34.6	35.9
Total Cash Receipts (all crops)	107.4	114.7	113.5	112.4	112.3	114.3	117.7	121.1	124.2	127.2
Total Cash Receipts (all livestock)	100.8	99.0	105.6	104.7	104.4	102.8	104.4	105.7	107.0	108.3
Realized Net Income (all crops/livestock)	40.4	40.0	50.0	48.2	47.7	43.0	43.7	44.2	45.3	45.6
Marketing Loan, Reserves & S.A. -										
Program Crop Acreage (planted)	253.9	254.9	247.4	248.0	248.4	248.9	249.3	249.8	250.2	250.6
Program Crop Value + Payments - Variable Expenses	34.3	33.4	34.3	34.6	33.8	34.2	35.7	37.3	38.6	40.2
Total Cash Receipts (all crops)	107.4	114.7	114.3	114.4	115.4	118	121.5	124.9	128.0	131.2
Total Cash Receipts (all livestock)	100.8	99.0	105.6	104.9	104.9	103.5	105.0	106.4	107.6	109.0
Realized Net Income (all crops/livestock)	40.4	40.0	48.8	47.5	46.5	43.2	45.2	46.8	47.8	48.5

Table 10

SUMMARY

Average Prices Received For Major Commodities

Program / Crop	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Baseline -										
Corn	2.05	2.10	2.14	2.18	2.24	2.30	2.36	2.41	2.47	2.54
Wheat	2.88	2.91	3.03	3.11	3.17	3.25	3.34	3.39	3.46	3.55
Soybeans	4.53	4.56	4.69	4.89	5.06	5.20	5.38	5.56	5.67	5.77
Cotton	0.55	0.56	0.56	0.57	0.57	0.58	0.59	0.60	0.60	0.61
Rice	6.29	6.55	6.96	7.05	7.26	7.41	7.69	7.80	7.99	8.21
Cattle	74.50	76.00	76.60	74.20	71.90	69.80	68.10	67.20	67.70	68.80
Hogs	40.60	34.50	41.50	45.60	42.90	39.20	42.50	45.90	43.50	40.90
80% Marketing Loan Only -										
Corn	1.85	1.74	1.67	1.68	1.81	1.98	2.25	2.5	2.5	2.6
Wheat	2.85	2.85	2.91	2.97	3.02	3.09	3.19	3.26	3.34	3.44
Soybeans	4.84	5.13	5.4	5.6	5.64	5.54	5.56	5.59	5.82	5.9
Cotton	0.53	0.53	0.53	0.54	0.54	0.55	0.56	0.57	0.57	0.58
Rice	6.29	6.55	6.96	7.05	7.26	7.41	7.69	7.8	7.99	8.21
Cattle	74.50	75.86	76.54	74.07	71.15	69.64	67.98	67.00	67.76	68.87
Hogs	40.60	34.40	41.43	45.47	42.74	39.04	42.36	45.66	43.53	40.98
Marketing Loan & Reserves -										
Corn	2.73	2.53	2.25	2.04	2.01	2.19	2.36	2.49	2.50	2.59
Wheat	3.93	3.67	3.43	3.29	3.2	3.19	3.25	3.28	3.35	3.44
Soybeans	6.12	5.85	5.84	5.61	5.62	5.52	5.54	5.65	5.83	5.91
Cotton	0.62	0.59	0.56	0.55	0.55	0.55	0.56	0.57	0.57	0.58
Rice	9.00	8.22	7.78	7.32	7.40	7.48	7.73	7.82	8.00	8.22
Cattle	74.50	75.86	79.65	75.43	73.06	69.90	68.31	67.22	67.85	68.91
Hogs	40.60	34.40	44.16	47.27	44.12	39.44	42.70	45.97	43.65	41.03
Marketing Loan, Reserves & S.A. -										
Corn	2.73	2.53	2.49	2.35	2.42	2.58	2.68	2.75	2.82	2.9
Wheat	3.93	3.67	3.60	3.43	3.40	3.43	3.52	3.62	3.70	3.80
Soybeans	6.12	5.85	5.97	5.89	5.76	5.81	5.96	6.12	6.23	6.39
Cotton	0.62	0.59	0.58	0.58	0.57	0.58	0.59	0.60	0.60	0.60
Rice	9.00	8.22	8.29	7.44	7.74	7.77	8.08	8.20	8.49	8.67
Cattle	74.50	75.86	79.65	75.61	73.57	70.57	68.91	67.93	68.50	69.57
Hogs	40.60	34.40	44.16	47.45	44.65	40.12	43.40	46.82	44.42	41.74

Table 11, page 1

PROGRAM CROP EXPORTS
(Million Dollars)

Program:	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average Exports/Yr.
Baseline -											
Corn	4406	4565	4722	5013	5357	5721	6067	6448	6823	7259	5638.1
Grain Sorghum	368	392	405	423	458	490	504	524	558	588	471.0
Oats	2	2	2	3	3	3	3	3	3	3	2.7
Barley	105	109	113	118	124	131	136	141	146	152	127.5
Wheat	3032	3038	3220	3367	3489	3634	3803	3906	4042	4211	3574.2
Soybeans	4726	5029	5288	5571	5762	5904	6121	6322	6471	6620	5781.4
Cotton	2178	2261	2287	2369	2413	2500	2588	2676	2716	2799	2478.7
Rice	515	564	605	601	616	617	632	625	629	633	603.7
TOTAL	15332	15960	16642	17465	18222	19000	19854	20645	21388	22265	18677.3
Marketing Loan Only -											
Corn	4046	3945	3919	4157	4655	5235	6018	6771	6920	7399	5306.5
Grain Sorghum	345	348	346	361	421	462	492	534	558	590	445.7
Oats	2	2	2	2	2	3	3	3	3	3	2.5
Barley	100	100	100	104	112	121	133	143	147	154	121.4
Wheat	2994	2962	3092	3224	3350	3508	3710	3859	4006	4186	3489.1
Soybeans	4841	5233	5534	5818	5980	6045	6201	6336	6537	6680	5920.5
Cotton	2175	2255	2281	2362	2407	2494	2582	2667	2708	2792	2472.3
Rice	515	564	605	601	616	617	632	625	629	633	603.7
TOTAL	15018	15409	15879	16629	17543	18485	19771	20938	21508	22437	18361.7

Table 11, page 2

PROGRAM CROP EXPORTS
(Billion Dollars)

Program:	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average Exports/Yr.
Marketing Loan & Reserves -											
Corn	5478	5089	4741	4649	4886	5535	6120	6651	6877	7359	5738.5
Grain Sorghum	417	425	409	398	419	464	491	519	544	574	466.0
Oats	3	3	3	2	3	3	3	3	3	3	2.9
Barley	118	119	116	114	118	127	136	143	149	155	129.5
Wheat	3563	3452	3295	3303	3360	3505	3702	3833	3997	4176	3618.6
Soybeans	5040	5356	5616	5826	5976	6037	6194	6360	6542	6683	5963.0
Cotton	2145	2256	2287	2368	2410	2495	2583	2669	2710	2792	2471.5
Rice	584	621	638	612	622	620	634	626	629	633	621.9
TOTAL	17348	17321	17105	17272	17794	18786	19863	20804	21451	22375	19011.9
Marketing Loan, Reserves & S.A. -											
Corn	5478	5089	5122	5131	5568	6144	6553	6978	7371	7833	6126.7
Grain Sorghum	417	425	431	431	468	508	524	545	579	609	493.7
Oats	3	3	3	3	3	3	3	3	3	3	3.0
Barley	118	119	122	122	128	139	144	149	157	161	135.9
Wheat	3563	3452	3402	3382	3495	3659	3867	4026	4173	4348	3736.7
Soybeans	5040	5356	5629	5887	6016	6131	6341	6538	6687	6859	6048.4
Cotton	2145	2256	2285	2369	2413	2500	2588	2676	2716	2799	2474.7
Rice	584	621	654	617	635	632	648	641	648	651	633.1
TOTAL	17348	17321	17648	17942	18726	19716	20668	21556	22334	23263	19652.2

Table 12

CATTLE AND HOGS
PRODUCTION AND PRICES RECEIVED
(million pounds, dollars per hundredweight)

Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Baseline -										
Cattle:										
Production	26212	25934	25974	26537	27071	27903	28739	29139	29069	29012
Prices Received	74.50	76.00	76.60	74.20	71.90	69.80	68.10	67.20	67.70	68.80
Hogs										
Production	19579	20144	19914	20017	20502	20987	20978	21139	21550	21969
Prices Received	40.60	34.50	41.50	45.60	42.90	39.20	42.50	45.90	43.50	40.90
80% marketing loan only -										
Cattle										
Production	26212	25955	25984	26559	27098	27933	28764	29179	29061	28997
Prices Received	74.50	75.86	76.54	74.07	71.15	69.64	67.98	67.00	67.76	68.87
Hogs										
Production	19579	20182	19940	20055	20555	21045	21027	21211	21547	21939
Prices Received	40.60	34.40	41.43	45.47	42.74	39.04	42.36	45.66	43.53	40.98
Marketing Loan & Reserves -										
Cattle										
Production	26212	25955	25508	26298	26863	27866	28701	29130	29041	28988
Prices Received	74.50	75.86	79.65	75.43	73.06	69.90	68.31	67.22	67.85	68.91
Hogs										
Production	19579	20182	19110	19456	20106	20867	20917	21111	21505	21919
Prices Received	40.60	34.40	44.16	47.27	44.12	39.44	42.70	45.97	43.65	41.03
Maketing Loan, Reserves & S.A. -										
Cattle										
Production	26212	25955	25508	26269	26773	27740	28579	28987	28907	28857
Prices Received	74.50	75.86	79.65	75.61	73.57	70.57	68.91	67.93	68.50	69.57
Hogs										
Production	19579	20182	19110	19406	19942	20624	20680	20845	21243	21662
Prices Received	40.60	34.40	44.16	47.45	44.65	40.12	43.40	46.82	44.42	41.74

Table 13, page 1

DAIRY PROGRAM ALTERNATIVES
(Estimated Outlays)

Base Data -	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number Dairy Cows - Thousand Head (FAPRI)	9173	9077	8969	8888	8826	8769	8716	8666	8620	8578
Milk Production (million cwt. - FAPRI)	1,701	1,708	1,725	1,742	1,761	1,782	1,802	1,823	1,844	1,866
Average Production Per Cow (pounds)	18540	18819	19231	19600	19958	20316	20674	21033	21394	21756
Dairy Operations (143+ Cows)*	14437	15153	16196	16490	16615	16615	16615	16615	16615	16615
Total Cows (Operations of 143+ Cows -Thousand Head)	5113	5367	5310	5247	5200	5164	5130	5099	5070	5043
Total Production (Operation of 143+Cows - million cwt.)	948	1010	1021	1028	1038	1049	1061	1073	1085	1097

* Adjusted upward each year thru 2005 by 4.96% times .99/2003,.98/2004,.97/2005

Option 1: Support Price at $12.50/cwt. -	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Milk Production (million cwt. - FAPRI)	1,701	1,708	1,725	1,742	1,761	1,782	1,802	1,823	1,844	1,866
Government Purchase Percentage	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Purchases (million cwt.)	51.02	51.25	51.75	52.26	52.84	53.45	54.06	54.68	55.32	55.99
Purchase Price (per cwt.)	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Government Purchase Outlays (million dollars)	637.7	640.6	646.8	653.3	660.6	668.1	675.7	683.5	691.5	699.8
Assessed Production (50% of 143+ cow herds)	474	505	511	514	519	525	530	536	542	549
Assessment Rate (per cwt.)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Total Producer Purchases (million dollars)	118.49	126.24	127.66	128.56	129.72	131.13	132.58	134.07	135.58	137.15
Government Purchase Outlays	637.74	640.58	646.82	653.26	660.56	668.06	675.74	683.53	691.55	699.84
Total Aggregate Measure of Support (AMS)	8928.99	8968.63	9056.10	9146.25	9248.37	9353.48	9461.01	9570.01	9682.26	9798.39

Table 13, page 2

DAIRY PROGRAM ALTERNATIVES
(Estimated Outlays)

Option 2: 80% Cost of Production Target Price - $9.90 Support	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Milk Production (million cwt. - FAPRI)	1,701	1,708	1,725	1,742	1,761	1,782	1,802	1,823	1,844	1,866
Government Purchase Percentage	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Purchases (million cwt.)	51.02	51.25	51.75	52.26	52.84	53.45	54.06	54.68	55.32	55.99
Purchase Price (per cwt.)	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90
Government Purchase Outlays (million dollars)	505.1	507.3	512.3	517.4	523.2	529.1	535.2	541.4	547.7	554.3
Assessed Production (50% of 143+ cow herds)	474	505	511	514	519	525	530	536	542	549
Assessment Rate (per cwt.)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Total Producer Purchases (million dollars)	118.50	126.25	127.75	128.50	129.75	131.25	132.50	134.00	135.50	137.25
Total Milk Production (million cwt))	1,701	1,708	1,725	1,742	1,761	1,782	1,802	1,823	1,844	1,866
Non-eligible Milk Production	474	505	511	514	519	525	530	536	542	549
Eligible Milk Production	1,227	1,203	1,214	1,228	1,243	1,257	1,272	1,286	1,302	1,318
Eligible Class III Production (42%, million cwt.)	515.2	505.4	510.0	515.7	521.9	527.9	534.1	540.3	546.8	553.4
Eligible Class IV Production (58%, million cwt.)	711.5	697.9	704.2	712.1	720.7	729.0	737.6	746.2	755.0	764.2
Annual Average Cost of Milk Production	15.93	15.79	15.95	16.07	16.16	16.28	16.43	16.60	16.77	16.95
Target Price (80% 3-year Cost of Production	12.74	12.63	12.76	12.86	12.93	13.02	13.14	13.28	13.42	13.56
Class III Price (FAPRI - not less than support level)	9.90	9.90	10.47	10.66	10.82	11.00	11.18	11.34	11.52	11.75
Class III Deficiency Payment	2.84	2.73	2.29	2.20	2.11	2.02	1.96	1.94	1.90	1.81
Class IV Price (FAPRI)	12.27	10.95	11.55	11.78	11.88	12.00	12.12	12.22	12.32	12.46
Class I, II & IV Deficiency Payment	0.47	1.68	1.21	1.08	1.05	1.02	1.02	1.06	1.10	1.10
Total Deficiency Payments (million $)	1802.5	2554.4	2020.0	1898.7	1855.4	1815.1	1804.2	1839.1	1864.2	1842.3
Government Purchase Outlays (million dollars)	505.1	507.3	512.3	517.4	523.2	529.1	535.2	541.4	547.7	554.3
Deficiency Payment Outlays (million dollars)	1802.5	2554.4	2020.0	1898.7	1855.4	1815.1	1804.2	1839.1	1864.2	1842.3
Total Government Outlays (million dollars)	2307.6	3061.8	2532.3	2416.1	2378.6	2344.2	2339.4	2380.5	2411.9	2396.6
Aggregate Measure Of Support (AMS) - support program	4507.7	4527.7	4571.8	4617.3	4668.9	4722.0	4776.2	4831.3	4887.9	4946.6
Additional AMS - deficiency payment program	1802.5	2554.4	2020.0	1898.7	1855.4	1815.1	1804.2	1839.1	1864.2	1842.3
Total AMS	6310.1	7082.1	6591.8	6516.0	6524.3	6537.0	6580.5	6670.4	6752.1	6788.9

Table 14

SUMMARY
PROJECTED EXPENDITURES
Conservation & Rural Development

Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Conservation Programs:										
("Green Box")										
CRP	1613.0	1745.0	1877.0	2009.0	2009.0	2009.0	2009.0	2009.0	2009.0	2009.0
Soil Rehabilitation	0.0	98.2	149.0	200.9	251.2	251.2	251.2	251.2	251.2	251.2
Conservation Incentives	390.0	1751.0	2351.0	3053.0	3707.0	3705.0	3704.0	3704.0	3703.0	3703.0
Total Conservation	2003.0	3594.2	4377.0	5262.9	5967.2	5965.2	5964.2	5964.2	5963.2	5963.2
Rural Development (increase)										
("Green Box")										
RBCS	488.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
RHS	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
RUS	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
OCD	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Credit	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
FSMIP	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Rural Development (increase)	625.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0

Statement of the American Farm Bureau Federation

TO THE
SENATE AGRICULTURE COMMITTEE
REGARDING
THE NEXT FARM BILL

Presented by

Bob Stallman
President

June 28, 2001

600 MARYLAND AVENUE SW • SUITE 800 • WASHINGTON, DC 20024 • (202) 484-3600 • FAX (202) 484-3604
225 TOUHY AVENUE • PARK RIDGE, IL 60068 • (847) 685-8600 • FAX (847) 685-8896
Internet: http://www.fb.com/

As the national voice of agriculture, AFBF's mission is to work cooperatively with the member state Farm Bureaus to promote the image, political influence, quality of life and profitability of the nation's farm and ranch families.

FARM BUREAU represents more than 4,800,000 member families in 50 states and Puerto Rico with organizations in approximately 2,800 counties.

FARM BUREAU is an independent, non-governmental, voluntary organization of families united for the purpose of analyzing their problems and formulating action to achieve educational improvement, economic opportunity and social advancement and, thereby, to promote the national well-being.

FARM BUREAU is local, county, state, national and international in its scope and influence and works with both major political parties to achieve the policy objectives outlined by its members.

FARM BUREAU is people in action. Its activities are based on policies decided by voting delegates at the county, state and national levels. The American Farm Bureau Federation policies are decided each year by voting delegates at an annual meeting in January.

**STATEMENT OF
THE AMERICAN FARM BUREAU FEDERATION
TO THE
SENATE AGRICULTURE COMMITTEE
REGARDING
THE NEXT FARM BILL**

Presented by

**Bob Stallman
President**

June 28, 2001

Mr. Chairman, I am Bob Stallman, President of the American Farm Bureau Federation, and a rice and cattle producer from Columbus, Texas. AFBF represents more than five million member families in all 50 states and Puerto Rico. Our members produce every type of farm commodity grown in America and depend on a strong and sound agriculture policy.

I want to begin today by talking about a "farm opportunity" rather than a "farm problem." I ask you as policy makers to commit to a view of agriculture in which it plays a vital role in solving world problems, and in the process, sets the stage for our industry to grow.

It is not an exaggeration to call our farm opportunities "issues of national security." American agriculture provides food security for this nation and much of the rest of the world. We contribute to our national economic security by running a positive balance of trade and generating off-farm employment. We contribute to the world's environmental security by making use of intensive, high-tech production that saves fragile lands.

We can do much more.

Our vision of the future is a vision of a growing industry that depends less on government payments and more on returns from the market place. But we must implement policies that will grow our markets.

We can build demand by continuing to pursue a level playing field in international markets. We must finalize the elimination of unilateral trade sanctions and open trade with these markets now. We must increase market promotion and market access. We must pass trade-negotiating authority. We must fight world hunger with increased food assistance programs. As markets grow, farm program costs decrease and farmer incomes grow from the market place.

Our vision of the future is for farm income to increase by farmers investing in and capturing more value-added dollars. Such farmer owned ventures provide for rural development, increase competition in the market place, as well as increasing farm income from the market.

A cornerstone of this vision is a major role for renewable fuels in our nation's energy policy. Agriculture can provide fuels that improve air quality and make the nation less dependent on foreign oil. This energy contribution improves the environment, decreases reliance on foreign oil, creates jobs, dramatically increases agricultural markets, and decreases farm program costs as markets grow.

Market forces can also be used to enhance environmental objectives. U.S. farmers have historically shown that if the market provides sufficient incentives, such as $3.00 per bushel corn or $4.00 per bushel wheat, we can produce an abundant supply of these commodities. Similarly, if a voluntary incentive is offered for a desirable environmental outcome, farmers will overwhelm America with improved soil conservation, water quality, air quality and wildlife habitats.

We have a vision of a profitable agriculture from growing markets, increasing value-added efforts, and providing voluntary, incentive based conservation programs. Our vision is to capture the "farm opportunity" and, on a long-term basis, capture more of our income from the market place and less from government payments.

However, bridging the gap between where we are now and where we want to be in the future requires an expanded public investment in agriculture.

Part of this public investment directly positions agriculture for renewed growth. Increases in conservation, research, and export promotion activities are needed to lay the base today for responsible growth in our industry.

Another part of our short-term reality is that we will continue to need income support, consistent with our international trade obligations. Part of this new spending authority would be "counter-cyclical," and therefore would decline as opportunities for market growth are realized.

The provisions that must be decided upon will have a large impact on the people who produce food and fiber for this country and the world. Our producers face decreased prices, increased input costs, increased global competition and increased regulatory cost and these factors are not expected to change soon. Each of these factors contributes to the profitability of our farmers and ranchers and their survival in this industry. Farmers and ranchers live in a changing economy and face many situations in which they have no control -- prices, weather and disease.

Farmers and ranchers continue to be faced with falling incomes. USDA predicts farm income will decrease to $42.4 billion in 2001, $2.8 billion less than 2000's $45.2 billion, and the trend is expected to continue the next couple of years. This forecast is based on chronic low prices and increasing input costs. As can be seen in the following chart, the outlook for lower farm income is also low due to the assumption that government payments will decline.

Government payments have provided a substantial portion of farm income over the past three years. A decrease in those payments now would be very detrimental to farm income and would begin to undermine the financial balance sheet of the farm sector.

Farmers and ranchers must be given the opportunity regain their footing and must be provided with a reliable safety net.

Agriculture is also facing a stagnant export market. Fierce competition and a strong dollar continue to erode the prospects for increasing U.S. agricultural exports. USDA estimates exports of wheat, corn, cotton and soybeans are coming up short of expectations, causing market prices to drop for the fourth straight year. While farm income continues to fall, production expenses are on the rise.

Part of the increase in production expenses has been the result of increasing energy costs, particularly in the energy-related manufactured inputs category. USDA indicated a 10.6 percent rise in manufactured input expenses (fertilizer, pesticides, electricity, fuel, and oils) in 2000 and it appears there will be an equally high 10 percent or $3 billion increase in 2001, a back-to-back two-year increase of over 20 percent.

Increased regulatory costs on all levels -- federal, state and local -- are also hitting farmers and ranchers. The annual cost of federal regulations borne by farmers and ranchers is estimated to be a staggering $20 billion. Farmers and ranchers understand the importance of protecting the environment. Their livelihood depends on it. However, the expenses that are incurred to meet compliance are taking a heavy toll on shrinking farm incomes.

Before I move forward with our specific recommendations for the next farm bill, I want to share the parameters used by our board in making the recommendations.

(1) We believe it is extremely important for the new farm bill to stay within the WTO amber box commitments.

(2) While some producers do not believe the crop insurance program is an effective risk management tool, we did not consider changes in the crop insurance program during our debate. Congress recently spent 18 months and $8 billion reforming the program. It would not be prudent to recommend additional reforms until we can evaluate the effectiveness of the recently-passed revisions.

(3) We seek passage of a new farm bill at the earliest opportunity to secure additional funding provided by the FY 2002 Budget Resolution.

It is important to note that Farm Bureau is the only group that represents producers of all agricultural commodities in all 50 states. Because of this diversity in American agriculture, our recommendations constitute a toolbox approach. We, like this Committee, must ensure balance between all those interests. It certainly would have been easier to represent one commodity and to ask for a certain percentage of the "budget pie" and the "WTO amber box pie" without having to be too concerned about what was left over for other program commodities, non-program commodities and the livestock sector. We believe our recommendations achieve that balance, as well as stay within our WTO commitments.

The price of commodities has declined dramatically in recent years. Our current problems are caused by a complex web of factors, the most important of which is weak worldwide demand. It has been popular in some circles to pin all our problems on the 1996 farm bill. The 1996 farm bill did not cause the current economic crisis in agriculture and abandoning it is not the answer.

Farm Bureau members continue to support a more market-oriented approach to farm policy -- an approach that allows farmers to make the production decisions for their operations and focuses on building demand for commodities both domestically and abroad. In retrospect, we now know that the last farm bill did not provide a perfect safety net to prevent the need for ad hoc emergency assistance over the last three years. However, it is important to keep in mind that:

(1) We have had several consecutive years of high crop yields and large production in the United States and throughout the world;
(2) In the late 1990s, we experienced a world depression in regard to our export markets both in Asia and Latin America;
(3) The European Union continues to "out-spend" us in domestic farm support programs by a four-to-one margin;
(4) The European Union continues to provide export subsidies to their products to make them attractive in world markets. In fact, the EU currently accounts for 83 percent of all agricultural export subsidies worldwide.
(5) A strong U.S. dollar had a negative impact on the level of farm exports and farm prices. Economists suggest that each one percent increase in the value of the dollar, vis-a-vis the currency of countries importing U.S. agricultural products, generates a 1.1 percent decrease in the price of corn and a 1.5 percent decrease in the price of wheat.

As we moved to a more market-oriented farm policy in 1996, it was very evident that we would need an aggressive trade policy to further develop export markets. In that regard we note that:

a. Congress has not passed trade promotion authority.
b. Congress did pass permanent normal trade relations for China, but now the Chinese must follow through on their commitments.
c. We made progress in sanctions reform just a few months ago, but didn't completely eliminate sanctions – a negative message sent to our trading partners.
d. The last administration refused to help us maintain our competitiveness by using the Export Enhancement Program. This program has been authorized at almost $500 million per year and used less than $5 million per year for the last four years.
e. Agriculture talks within the WTO are progressing, but we can't make real progress toward additional reform until we launch a comprehensive round of negotiations.

Based on the conditions and issues outlined above, and recent adoption by the House and Senate of the FY 2002 Budget Resolution providing an additional average of $8 billion in budget authority for agriculture over the next few years, Farm Bureau prioritized its farm bill proposals to comply with that funding limit. Our priorities include:

PROGRAM CROPS

An adequate safety net for program commodities is best provided by a combination of the following support mechanisms:

(A) Continue Production Flexibility Contracts

The 1996 farm bill provided income support for producers who participated in the wheat, feed grains, cotton and rice programs in any one of the five years prior to the signing of the bill. Eligible producers could enter into seven-year Production Flexibility Contracts (PFCs) for 1996-2002. **PFC payments to current contract holders should be continued.**

Contract acreage does not have to be planted to a contract commodity or any commodity in order to receive PFC payments but contract acreage may generally not be planted to fruits or vegetables. **Current provisions limiting the planting of fruits and vegetables on land receiving PFC payments should be continued.** This provision minimizes competition between commodities receiving government aid and those not receiving it.

Farm Bureau considered the need for updating bases and yields if these contracts were to continue. Under the current program, 85 percent of planted or "considered planted" acreage in the years 1991-1995 is used. Yields for PFC contracts are those used in place in the years 1981-1985. While we acknowledge the acreage and yield used for making PFC payments is out of date, we were unable to ascertain a way to update those bases and yields without negatively impacting many producers. In order to be classified as green box, the new base years would have to be based on a fixed period rather than a rolling period. This would mean the new base period would soon be again outdated or we would be forced to redo this portion of the farm bill more frequently than in the past. **Until more analysis is available, bases and yields should not be updated.**

The $4.0 billion PFC baseline should be increased by $500 million in order to allow oilseed production to be eligible for a PFC contract. This amount is based on an average of what soybean producers have received for market loss assistance payments over the last two years.

The soybean payments should be allocated to the farm level based on the average soybean production during 1998-2000. The other PFC payments are based on the 1991-1995 average. We suggest using three years rather than five years because of recent shifts into soybean production.

Producers who are already receiving a PFC payment from another crop on land planted to soybeans would receive only one payment for that land. They would be able to choose the higher of the soybean payment or the other crop payment, but not both payments. (i.e. the total PFC payment acres could not exceed the total cropland acres on the farm).

By looking at planted acres of soybeans over the past six years, we can make some estimates. In 1998, 1999 and 2000, the average acreage planted to soybeans was 71.8 million acres. In 1995, before the 1996 farm bill, 61.5 million acres were planted to soybeans. If we assume that all of the additional acres came from other program crops, about 61 million acres would be eligible to receive soybean PFC payments. The per-bushel payment would be calculated by dividing the $500 million by the number of bushels enrolled in the program.

Our proposal (a) would be classified green box; (b) would increase government expenditures by about $500 million annually; (c) allows producers and their lenders to plan ahead since they would know exactly what payments to expect; (d) provides flexibility; (e) allows producers to plant for the market rather than the government; (f) would have a limited impact on other commodities because it does not encourage the production of specific commodities; (g) minimizes competition between producers receiving PFC contracts and those not receiving them; and (h) would make major program crop commodities more equitable in terms of a safety net.

(B) Rebalance Loan Rates

Loan rates are calculated as 85 percent of the simple average of market prices for the preceding five-year period, excluding the years with the highest and lowest market price. An exception is made for rice, which was frozen at $6.50/cwt through 2002.

Our recommended loan rate rebalancing plan would (a) be classified as amber box and increase the amount that must be reported amber box by $2.3 billion in FY2001; (b) increase government expenditures by $2.3 billion in FY2001; (c) reduce the distortion between soybeans and other program commodities; (d) enhance the safety net by providing counter-cyclical income support; (e) provide farmers with additional short-term funds to meet expenses until commodities are marketed; (f) continue to encourage orderly sales throughout the marketing year; and (g) be operated so that markets clear, therefore not raising feed costs. In fact, it could slightly lower feed grain costs if acreage for feed grains expands in response to the higher loan rate.

Loan rates should be rebalanced to be in historical alignment with the current $5.26 soybean loan rate. Our realigned rates and budget exposure are based on USDA projections to realign soybeans for the 2001 crops (with acreage shifts):

Commodity	2001 Announced Rates	2001 Re-aligned Rates	Cost
Corn	$1.89	$2.01	$1,045
Wheat	$2.58	$2.88	$647
Soybeans	$5.26	$5.26	$0
Upland Cotton	$.5192	$.5557	$271
Rice	$6.50	$7.54	$204
Sorghum	$1.71	$1.78	$39
Barley	$1.62	$2.14	$131
Oats	$1.16	$1.27	$9
TOTAL			$2,346

(C) Implement a Counter-Cyclical Green Box Program

Long-term farm policy should include a counter-cyclical income support component to stabilize revenue on a year-to-year basis and complement revenue insurance products that stabilize revenue within the growing year. Producers need assistance from year to year to meet the challenges posed by weather and changes in price. While risk management tools such as crop or revenue insurance may adequately protect producers from yield or price declines within a crop year, they do not make up for declines from previous year's price levels. Producers need a policy that will address such sharp year-to-year variations, particularly those arising from external market events such as the devaluation of the peso, the Asian financial crisis, or increases in interest rates.

The farm bill should include a new counter-cyclical income assistance safety net that would be classified green box.

Our proposal would provide payments to producers of a crop when the state's gross cash receipts for that crop falls below a set percentage of the four-year average of the state's gross cash receipts for that crop during fiscal years 1996 through 1999. This revenue level is the payment trigger. Eligible crops are wheat, oilseeds, cotton, rice and feed grains. No payments would be made if income were above the payment trigger. Payments would be decoupled from current prices and yields for each commodity.

The program works best when based on state data rather than national or regional data. A program based on national cash receipts will not capture all regional disasters and, consequently, would fail to be counter-cyclical. In addition, a program based on national cash receipts will also result in payments being made to producers in a region that has not suffered a loss. For example, in the 1988 drought year, most Nebraska farmers enjoyed both high yields, due to irrigation, and high prices, due to drought conditions in the rest of the Corn Belt. If a national program had been in place, Nebraska farmers would have received a payment.

Under our proposal, payment triggers would be based on the four-year average of cash receipts for each crop at the state level. The price employed in calculating receipts is measured at the national level, but production would be measured at the state level. The National Agricultural Statistics Service provides this level of crop production and price information.

We note that as the level of aggregation decreases (from national to regional to state) the government costs and producer benefits increase. Farm Bureau is willing to trade a lower trigger level for a local rather than national level of aggregation.

In order to be classified as green box, the program has to meet certain basic parameters:

- Payments cannot be related to, or based on, current commodity prices or current production levels.
- Payments cannot be made to producers based on their current production.

- Payment recipients could not be required to produce anything currently to receive a payment.

Our proposal was designed in the following way because we believe it will be the most successful if it is (1) based on a recent average (1996-1999) of cash receipts; (2) applied on a commodity-by-commodity basis rather than an aggregate measure of major program commodities; and (3) based on state receipts rather than national receipts.

Our proposal would (a) be classified as green box; (b) increase government expenditures by $2 billion annually; (c) decouple payments from current production and prices to limit production distortions; (d) reduce the need for ad hoc disaster assistance; (e) allow payments to be made in a timely fashion; and (f) have minimal impact on producers of other commodities since it would be based on past rather than current production.

Our interpretation of the rules of the World Trade Organization is that a program could be developed on a commodity-by-commodity basis and still be classified as green box. However, if that is not the case, we would support this proposal based on an aggregate of the gross income of the eight major program crops.

(D) Oppose a Return to Supply Management or Targeting Benefits

Over the last 50 years, we have tried agriculture policies that idled acreage as a means of improving farm income. They did not work. We idled acres, but we farmed the remaining acres more intensely to make up for the lost market opportunities from idling land. When we idled land, our competitors kept increasing acreage. In fact, we can learn an important lesson from history. In the 1980s, the United States cut back production by 37 million acres and our competitors increased their production by 41 million acres. When we changed our policies in the 1996 farm bill to stop set-asides and paid diversions, the whole picture changed. From 1996 to 1999, the US cut back production two million acres and our competitors reduced their production 28 million acres. **Congress should oppose new supply management programs.**

In the past, we also tried storing our way to prosperity. That did not work either. We tried having the Commodity Credit Corporation store grain in bins across the country. We then tried having farmers store the grain on their farms. The results were the same. We stored grain and cut acreage while the rest of the world increased production and took our markets. **Congress should oppose a farmer-owned reserve or any federally controlled grain reserve with the exception of the existing, capped emergency commodity reserve.**

If we are able to produce and sell, we need new markets. With conventional market demand for food and fiber growing relatively slowly, we have to look to other markets at home and abroad for growth opportunities.

Congress should oppose the extension of the Commodity Credit Corporation loans beyond the current terms, means testing, all payment limitations and targeting of benefits.

NONPROGRAM CROPS

(A) Extend the Dairy Price Support Program

Reauthorization of the dairy price support at $9.90/cwt is necessary prior to October 2001 to make the program consistent with other price support programs and maintain this safety net for dairy producers. The program provides a standing offer to purchase butter, powder, or cheese if market prices are less than established levels that would allow processors to pay producers the support price. **The dairy price support program should be extended with a support price of $9.90/cwt.**

Our proposal would (a) be classified as amber box and increase our commitments in the amber box by $150 million annually; (b) increase government expenditures by $150 million annually; and (c) continue to provide a necessary safety net for dairy producers.

(B) Wool and Mohair Marketing Loan Program

The Wool Incentive Payment program operated between 1955 and 1991, but was eliminated in 1992. Before elimination, the support price was $1.97 per pound for wool. The program resembled a target price/deficiency payment system. The government expenditure on the incentive payment was approximately $130 million per year.

A non-recourse marketing loan program for wool and mohair that would operate similarly to other commodity marketing loan programs should be implemented, with a loan rate of $1.00 per pound for wool and $5.26 per pound for mohair.

Our proposal would (a) be classified as amber box and add $20 million annually to the amber box; (b) increase government expenditures $20 million annually; (c) provide wool and mohair producers a safety net similar to that available for other commodities; and (d) enhance producer income.

CONSERVATION STEWARDSHIP PROGRAMS

Farm Bureau supports an increase of $2 billion in funding for conservation stewardship. Conservation stewardship should include a mix of cost-share funding and conservation incentive practice program payments.

We support a voluntary environmental program that provides producers with additional conservation options for adopting and continuing conservation practices to address air and water quality, soil erosion and wildlife habitat. This would be a guaranteed payment to participants that implement a voluntary management plan to provide specific public benefits by creating and maintaining environmental practices. The management plan would be a flexible contract, tailored and designed by the participant to meet his or her goals and objectives while also achieving the goals of the program.

We support allowing farmers and ranchers the opportunity to voluntarily participate in a program that provides the public with the environmental features they actually want in agricultural areas. It would also provide participants with an alternative source of income that would, in some cases, provide an additional safety net. The proposal is based on the concept that farmers and ranchers can produce and market more than traditional agricultural commodities. They can also produce and market what might be called public environmental benefits. Not only would agriculture be able to produce and market food and fiber, but also to produce and market environmental amenities that the public desires.

Examples include erosion control and improved water quality, ecological services such as nutrient filters and carbon sinks, habitat, bio-diverse landscapes and recreational opportunities, and rural amenities – visual aesthetics and scenic vistas.

A management plan and any information resulting from it would be confidential and the property of the producer. If any incidental or minor regulatory noncompliance within the scope of the management plan is discovered in the course of plan development, the producer would have a grace period of one year to get in compliance without being liable for civil or criminal penalties. Producers who are in good faith compliance with their management plans, but through no fault of their own become non-compliant with environmental regulations, would have one year to correct the noncompliance without being liable for civil or criminal penalties.

The current EQIP program does not provide livestock and crop producers the assistance needed to meet current and emerging regulatory requirements. The EQIP program must be reformed or a new cost-share program established with funding increased in order to assist producers with the cost of meeting federal, state and local environmental regulations. We support a cost-share program that would provide:

- Cost-share payments to all producers no matter their size; total payments should be limited in a manner comparable to that for row crop producers. The current EQIP program does not make assistance available for the structural components of livestock waste management systems for large livestock operations, defined in most states to be those with more than 1,000 animal units. Excluding large livestock operations from structural assistance limits means that EQIP will never be able to attain its water quality and environmental objectives. This exclusion is entirely inconsistent with a program designed to improve agriculture's environmental performance.

- Cost-share dollars should be allocated to assist producers in meeting federal, state and local mandatory manure management and water and air quality protection requirements. The program should provide the proper assurances that cost-share funding will result in the highest value possible for the tax dollars spent. But the priority setting approaches must be flexible and allow the Secretary to address all of agriculture's' top conservation needs. Some priorities will be best addressed through the adoption of certain conservation practices over a large area of a state or the country. Many of these needs most certainly will not be defined by a geographic scope like a 14-digit watershed. In other situations, producers in a defined geographic area like a watershed will be in need of priority attention. Certain practices or needs could be of such national or statewide priority that they would be eligible for funding without going through a local bidding process.

The program should provide funding to all producers including crops, livestock, fruits and vegetables.

Livestock producers in several states face, or will soon face, costly environmental regulations as a result of state or federal law designed to protect water quality. Crop producers in many states are preparing to deal with similar environmental requirements. The federal regulations under the Clean Water Act include the Total Maximum Daily Load Program (TMDLs) and the new Concentrated Animal Feeding Operations (CAFOs) permit requirements. Federal regulators are also exploring the possibility of expanding federal regulation of agriculture under the Clean Air Act. Producers need now, more than ever, federal financial and technical assistance to help them meet these challenges. In many instances, the new federal or state requirements will be very costly for producers.

We support a cost-share proposal that would authorize payments to:

--help producers build, plan and operate nutrient and manure management measures and systems;

--implement pesticide best management practices (BMPs) known to improve water quality;

--help producers improve and computerize their farm decision support data and record-keeping systems;

--help producers plan and implement agricultural BMPs designed to improve air quality; and

--ensure that producers could get private sector conservation technical assistance that meets NRCS standards and guidance with nutrient, pest and information management.

Implementation of a program to provide financial assistance to farmers and ranchers to help them execute unfunded state and federal regulatory mandates must be approved. The proposal would (a) be classified as green box; (b) provide incentives to all agricultural producers; (c) provide participants with an annual guaranteed per acre incentive payment; (d) provide incentives for implementation and maintenance of conservation and environmental practices; and (e) provide support to all size of producers.

CONFIDENTIALITY

Confidentiality of USDA information has become an increasing concern and priority for farmers and ranchers. We have seen attempts by other government agencies to secure NRCS and NASS data for regulatory purposes. There have also been attempts by non-governmental organizations to secure farm and ranch data from FSA and APHIS.

Congress must provide statutory authority to protect the confidentiality of all data collected by USDA on individual farms and ranches.

PEANUT PROGRAM

To date, peanut producers have two competing proposals that continue to be debated among the various grower groups and Farm Bureau—a market competitiveness program and a marketing loan program.

Under the Market Competitiveness Program, the two-price quota system will be converted to base and two-tier pricing would continue. The new program provides a price support of 39 cents per pound ($780 per ton) on base peanuts with government outlays paying the difference between the world market price and price support. The no-net-cost provision is eliminated.

Under the Marketing Loan Program, a loan rate would be set between $350 and $500 per ton, and AMTA payments, based on either 1997-2001, or 1996-2000, would be set between 8 cents and 14 cents per pound.

Based on discussions and preliminary analysis, we believe government cost exposure on either proposal is likely to be $600 million annually. Farm Bureau supports $600 million annually to develop a workable peanut program.

SUGAR PROGRAM

Sugar producers support (a) eliminating the marketing assessment for FY02 and FY03; (b) eliminating the sugar forfeiture penalty; (c) providing funding for sugar forfeiture to the Federal government; and, (d) allowing the sugar loan rates to be rebalanced to be in historical alignment with the soybean marketing loan.

The sugar industry endorsed Farm Bureau's re-balancing policy initiative. Similar to other commodity programs, sugar producers have access to non-recourse loans, which give producers the option of forfeiting their crop to the government to satisfy their loan if market prices fall below loan repayment levels. The U.S. raw sugar loan rate has been unchanged since 1985 at 18 cents per pound; the refined beet sugar loan rate has been frozen at 22.9 cents per pound since 1996. Re-balancing the sugar loan rate in historical alignment with soybeans would increase loan rates for sugar cane from 18 cents per pound to 18.7 cents per pound. The loan rate for sugar beets would increase from 22.9 cents per pound to 23.7 cents per pound.

Farm Bureau supports realigning the sugar loan rate to be in historical alignment with the soybean loan rate, maintaining the current rate as a minimum.

Since 1996 sugar producers have paid a penalty of one-cent per pound on sugar forfeited to CCC. This effectively reduces producers-intended support price by that amount – a range of $50-100 per harvested acre. While there were no forfeitures in 1985-1999, since 1999, during a period of chronically low commodity prices, sugar producers have forfeited sugar. This penalty, subjected to no other commodity, is unfair to sugar producers, especially in times of chronically low commodity prices.

Farm Bureau supports eliminating the forfeiture penalty and marketing assessment fees. Farm Bureau supports $600 million annually to carry out the above sugar programs.

Summary of Farm Bureau's Commodity Proposals		
Recommendation	**Additional Amber Box Funding**	**Additional Funding Needed**
Continue and supplement PFC contracts	0	$500 million
Rebalance loan rates	$2300 million	$2300 million
Conservation Stewardship		$2000 million
Implement a counter-cyclical program that is green box	0	$2000 million
Extend the dairy price support program	$150 million	$150 million
Sugar Program	$600 million	$600 million
Peanut Program	$600 million	$600 million
Implement a wool and mohair marketing loan program	$20 million	$20 million
SUBTOTAL	**$3,670 million**	**$8,170 million**

Over the past few months, the American Farm Bureau Federation has stressed the importance of passing a budget resolution that provides sufficient support for agriculture. Farm Bureau, along with 23 other farm and commodity groups, strongly urged Congress to authorize $12 billion in additional annual spending for improvements in the farm bill. The U.S. agricultural economy continues to face historic low prices and producer income as well as increased input costs. We are concerned that the budget resolution only includes an additional $8 billion on average in agricultural funding for the next five fiscal years for the Agriculture Committees to draft a bill that will provide an adequate safety net for farmers and ranchers in the future.

We have prioritized the needs just outlined for the farm bill to comply with the average $8 billion in additional budget authority as passed by the House and Senate. We will work diligently to help draft a farm bill that complies with that funding limit. However, we are skeptical that $8 billion in additional annual assistance will allow for passage of a comprehensive bill that alleviates the need for yearly ad hoc assistance.

A similar budget situation occurred last year with the passage of the Agricultural Risk Protection Act of 2000. Prior to that debate, the budget resolution provided $6 billion to reform the crop insurance program. Once the legislation was drafted, it was apparent that meaningful reform could not be accomplished for $6 billion. Congress agreed, and an additional $2 billion was appropriated. Farm Bureau continues to believe an additional $4 billion in funding will be necessary to carry out our priorities. In addition to farm income support and conservation programs, our priorities include rural development, research and export programs.

Farm Bureau's priorities for the additional $4 billion in spending includes:

ALTERATIONS TO THE LOAN DEFIENCY PAYMENT MECHANISM

(A) LDPs without a PFC contract

The 1996 farm bill stipulated that in order to use the marketing loan program for corn, wheat, cotton and rice, a production flexibility contract (PFC) needed to be signed during the enrollment period. There was no provision to enroll land at a later date. Producers farming additional acreage not enrolled in the farm program by the previous owner or tenant have no means of receiving program benefits on the newly acquired land. During crop year 2000, producers were allowed to take LDPs even if they did not have a PFC.

All producers of program crops should be eligible for LDPs regardless of whether the producer has a production flexibility contract.

This proposal would remove the penalty on current producers for decisions by previous tenants or owners.

(B) LDPs for Grazed-Out Wheat

USDA believes it does not have the authority to establish LDPs for grazed-out wheat because of the need to have beneficial interest in a crop that could be put under loan. Farm Bureau disagrees and believes that if USDA has the authority to provide LDPs for silage crops, they also have the authority to provide an LDP-type payment for grazed-out wheat. Last year Congress "clarified" the Department's authority on this issue. Authorization to provide an LDP-type payment was obtained for the 2001 crop, but authority is needed for a similar payment to be made in 2002 and for a permanent extension for future farm bills.

A payment in lieu of LDPs should be provided to producers who choose to graze out wheat.

This proposal would (a) allow producers to utilize grazed out wheat as an important risk management option and as a rotational cropping pattern for conservation practices; and (b) possibly alleviate some of the potential for rising wheat stocks, thereby lowering government financial exposure and increasing market prices.

(C) Lock in LDPs Before Harvest

Under current law, beneficial interest in a commodity is required in order to take out a CCC loan or receive an LDP. There is no beneficial interest in a commodity until that crop has been harvested.

Producers should be allowed to lock in a published LDP rate at any time after a crop is planted, with payment being made only after harvest and yield determination.

This proposal would likely result in higher farm income due to producers being able to attempt to capture a larger LDP than might likely be available after harvest. While the circumstances could shift, those producers harvesting early in the crop year have, over the past few years, generally been able to collect a higher LDP than producers harvesting later in the year.

(D) Allow LDP Sign-Up to the End of the Marketing Year

Producers may either obtain a marketing loan or receive an LDP on all or part of their eligible production during the loan availability period. Final dates for requesting LDPs are March 31 for wheat, barley and oats and May 31 for corn, grain sorghum and soybeans. Dates are set this early to avoid mixing crops from two different production years. For example, in some areas corn harvest starts for the new crop before the old crop marketing year ends on August 31.

The final LDP dates should be extended to coincide with the USDA crop-marketing year.

This proposal could help producers by extending the safety net another three months if prices drop sharply late in the marketing year.

As a whole, all of the LDP changes recommended would (a) be classified as amber box and increase amber box spending by $300 million annually and (b) increase government expenditures by $300 million annually.

CONSERVATION AND ENVIRONMENTAL PROGRAMS

(1) Conservation Reserve Program (CRP)

Under the CRP producers bid to enroll environmentally sensitive lands into the reserve during signup periods, retiring it from production for 10 years. Successful bidders receive cost-sharing and technical assistance to plant conserving vegetation and annual rental payments.

Twenty-one signups have been held between 1986 and 2000. There are currently 33.4 million acres enrolled out of the maximum 36.4 million acres provided for in legislation. USDA estimates that average erosion rates on enrolled acres are reduced from 21 tons per acre to less than two tons per acre per year.

The amount of acreage eligible to be enrolled in the CRP should be increased to 38 million acres. New acreage should be targeted toward buffer strips, filter strips, wetlands, or grass waterways.

The proposal (a) would be classified green box; (b) would increase government expenditures $500 million per year; (c) provides incentives for reduction in soil erosion, enhancement of water and soil quality, and additional wildlife habitat; and (d) provides a steady income to participants who enroll in the program. In order to ensure that rural and agricultural infrastructure is not hurt by even a slight increase in CRP acreage, we continue to oppose more than 25 percent of the county acreage being included in CRP contracts, Conservation Reserve Enhancement Programs and all experimental pilot projects.

(2) Conservation Stewardship

An additional $500 million for Conservation Stewardship Programs.

(3) Expand Agricultural Exports

Farm Bureau supports a greater percentage of increase for expansion of agricultural exports than any other percentage in our proposal -- $400 million in additional funding annually. With over one-third of our production moving into the export market, expanding those markets rather than allowing them to continue to shrink is key to the recovery of the current farm economy crisis. Opening markets and leveling the playing field is more important than ever. We cannot afford to remain on the sidelines while other countries use similar export programs to capture our markets.

The GSM program is an export credit guarantee for commercial financing of U.S. agricultural exports. The programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees.

Title I of the PL 480 program is used to provide overseas food aid, also known as Food for Peace, which includes concessional sales.

The Market Access Program (MAP) uses funds to aid in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products by forming a partnership between non-profit U.S. associations, cooperatives, small businesses, and the USDA to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

The Dairy Export Incentive Program (DEIP) helps exporters of U.S. dairy products meet prevailing world prices for targeted dairy products and destinations. The major objective of the program is to develop export markets for dairy products where U.S. products are not competitive because of the presence of subsidized products from other countries.

The Export Enhancement Program (EEP) helps products produced by U.S. farmers meet competition from subsidizing countries, especially the European Union. The major objective of the program is to challenge unfair trade practices. The EEP authorization level has been at least $478 million over the past four fiscal years; however, the past administration never utilized any more than $5 million in any of those fiscal years.

Additional funding (up to the WTO allowed limits) for all export programs should be approved. We have participated with other agricultural groups to try to ascertain the necessary amounts for each of the export related programs and are still working on those figures.

However, we are very interested in USDA numbers for the Foreign Market Development (FMD) program which examine the global inflation and exchange rate changes that have reduced the "real" or "effective" levels of market development funding since 1986 (the year following the 1985 farm bill which was really the first push for expanded export programs). The numbers show that "real" FMD allocations, after being adjusted for inflation and exchange rate movements have gone down by almost $12 million since 1986.

The Market Access Program, after being adjusted for inflation and exchange rate movements has declined $45 million since 1986. In order to arm U.S. agriculture with the same amount of market development funding it had in 1986, the FMD program would need to be authorized at a minimum of $43 million rather than the current level of $33.5 million. Using the same assumptions, the MAP program would need to be funded at a minimum of $155 million rather than the current $90 million. **The FMD program authorization and appropriation should be increased to $43 million and the MAP program to $155 million.**

Food aid and export promotion funding should be increased by 10 percent and EEP and DEIP should be reauthorized at the maximum levels consistent with export subsidy reduction commitments made in the WTO agreement. This will cost about $120 million per year.

(4) Increase Rural Economic Development

The Agriculture Marketing Equity Capital Fund was authorized last year and funded at $25 million for FY2001. The fund provides competitive grants for developing new value-added agriculture markets for independent producers. Funds may be used to develop a business plan for viable marketing opportunities for value added commodities or to develop strategies for ventures that are intended to create marketing opportunities.

Additional authorization and funding of $100 million annually for the Agricultural Marketing Equity Capital Fund to help producers develop value-added enterprises should be approved. A significant portion of this funding should be targeted toward soy diesel and ethanol development programs.

Biodiesel and ethanol represent an important opportunity for the U.S. to reduce growing dependence on imported petroleum, improve air quality, create jobs and economic activity, and expand demand for surplus vegetable oil and other agricultural feedstocks. The urgency of the current energy situation is enhanced in the agriculture sector by depressed commodity prices and farm income. Biodiesel and ethanol are rapidly expanding the potential to increase commodity prices and reduce reliance on fossil fuels.

Our proposal would (a) be classified as green box; (b) increase government expenditures $100 million annually; and (c) provide additional opportunities for producers to integrate toward further processing and capture a large share of consumer spending.

(5) Increase funding for agricultural research

Funding in agricultural research has remained flat in real terms for 15 years, while other federal research has increased significantly. USDA received a four percent increase in research funding for FY2001, well below the average increase of 12 percent for other federal agencies. Agricultural research is currently funded at about $2 billion annually.

Federal funding for agricultural research should be increased by $500 million annually.

Our proposal would (a) be classified as green box; (b) increase government expenditures $500 million annually; (c) benefit producers of all commodities; (d) contribute to the U.S. becoming the best-fed nation with the lowest share of income spent on food; (e) help us retain and expand a competitive edge in the global marketplace, while maintaining the proper balance with human and environmental concerns; and (f) enable producers to produce better and safer foods, find new uses for agricultural products, minimize the use of potentially harmful chemicals, and curb deterioration of natural resources.

Federal funding for Johne's disease indemnification and eradication program should be funded by $200 million annually.

A "National Voluntary Johne's management, Testing, Research and Indemnity Program for Cattle" (the Johne's Indemnity Program) has been proposed. A group from the U.S. Animal Health Association is working on a program designed to encourage testing and removal of animals through cost-sharing and payment of an indemnity for any animals that test positive and are removed. Animals would be rendered and would not enter the human food chain.

The indemnity program must compensate farmers for any animals removed due to a positive test for Johne's, but the program must be designed so as not to act as a "buy-out" program. Currently the discussion is that an indemnity of $1,500 per animal would accomplish this.

The program is designed to encourage testing for Johne's disease and removal of positive animals from that population through cost sharing and payment of an indemnity for positive animal removal.

Summary of Farm Bureau's Additional Recommendations	Additional Amber Box Funding	Additional Funding Needed
Expand the Conservation Reserve Program	0	$500 million
Conservation Stewardship		$500 million
Counter-cyclical Program		$1000 million
Increase funding for agricultural export programs	0	$400 million
Expand rural economic development	0	$100 million

Alter LDP Mechanisms		$300 million
Additional Sugar Program		$125 million
Additional Peanut Program		$ 50 million
Johne's disease indemnification and eradication		$200 million
Increase funding for agricultural research	0	$500 million
SUBTOTAL	**0**	**$3,675 million**
TOTAL	**$3,670 million**	**$11,845 million**

Mr. Chairman, we sincerely appreciate the opportunities to share our views on changes necessary in the next farm bill to ensure farmers a viable safety net.

Rural Policy Research Institute
IOWA STATE UNIVERSITY - UNIVERSITY OF MISSOURI - UNIVERSITY OF NEBRASKA

PREPARED STATEMENT OF

CHARLES W. FLUHARTY, DIRECTOR

RURAL POLICY RESEARCH INSTITUTE

before the

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

UNITED STATES SENATE

June 28, 2001

The Rural Policy Research Institute provides objective analyses and facilitates dialogue concerning public policy impacts on rural people and places.

135 Mumford Hall • Columbia, MO 65211 • e-mail: office@rupri.org
(573) 882-0316 • Fax: (573) 884-5310 • http://www.rupri.org

Chairman Harkin , Senator Lugar, and Members of this Committee, I appreciate this invitation to discuss the context, framework, and content of the comprehensive federal Farm Bill reauthorization you are about to undertake. As you are well aware, our nation's rural people and places are facing a host of significant challenges today. Indeed, many communities, firms, farms and ranches, and families are in very real crisis. Conversely, this is also a time of great opportunity in many other rural communities, which are experiencing, for the first time, the infrastructure and cultural challenges which accompany significant inmigration, growth, and development. Indeed, one of the greatest challenges this Committee faces is crafting a comprehensive Farm Bill framework which fully acknowledges and addresses the tremendous diversity of rural America, across space, geography, demography, and culture.

First of all, allow me to commend your commitment to building a more integrative, comprehensive, and community-based framework for this federal commitment to rural people and places. We all realize this is a daunting challenge. However, I firmly believe the diverse constituencies represented in this hearing room today acknowledge and are willing to act upon the mutual interdependence which their members and stakeholders in rural America have long understood and acted upon in their home communities. It is far past time that the agricultural and rural community siblings unite around this basic family truth. I commend this Committee, and its leadership, for the foresight and courage to initiate this national dialogue with such a framework in mind.

Mr. Chairman, this hearing unfolds at an historic moment. The people and places of rural America, and the organizations and institutions which serve them, have never been in more general agreement that rural America is no longer well served by mere incremental tinkering at the edges of national policy. You must no longer accept this fragmented approach. Instead, comprehensive, contemporary policies need crafted, designed to sustain a diverse rural America in a dynamic global environment. You must challenge historic naysayers, who have successfully denied rural people this outcome in the past. These failed, incremental approaches are no longer sufficient. Our nation needs a forward looking, contemporary rural policy.

This goal can only be achieved through a thoughtful, inclusive, and informed public dialogue regarding the unique character of today's rural America, so that creative public policies crafted to address these realities, not the mythologies of the past, are developed. However, this cannot occur without the bipartisan national leadership necessary to initiate, sustain, and complete such an effort. As we enter the 21st Century, the rural people of our nation are badly in need of such a commitment. I urge your leadership in developing such a comprehensive rural policy for our nation, and a Farm Bill that is different in kind, not just degree, from those of the past. The constituencies to support such an effort stand ready to assist. If this can be achieved, we will have seized the most unique rural policy opportunity of our generation.

President Theodore Roosevelt recognized the importance of such a moment, and initiative, in 1908, when he appointed the Country Life Commission to consider, and solve, the so-called "rural problem," with these words:

"... the social and economic institutions of the open country are not keeping pace with the development of the nation as a whole."

Sadly, nearly a century later, Roosevelt's words still apply to the social, economic, and demographic realities of rural America. While much progress has been achieved in the last century, significant disadvantage remains. This is not to suggest a lack of federal effort. Hundreds of federal programs direct assistance to rural areas, and most rural communities are eligible for as many as 30 different federal programs, across multiple federal departments and agencies.

However, programs do not a policy make. While individual families, firms, and communities have benefitted from these programs, a comprehensive, goal-driven, community-based and regionally appropriate national rural policy doesn't exist. Therefore, we do not capture synergies or economies of scale, and federal funding does not achieve its optimal impact. The U.S. does not have a rural policy, and that definitely matters!

Sadly, the U.S. lags many other developed nations in this regard. The countries of the European Union, Canada, and Australia, among others, have recognized the nature of fractured programmatic rural policy efforts and instituted important national efforts to build such an integrated rural policy framework. It is far past time for the development of a similar process and policy in our country. I sincerely hope this hearing is the first small step in such a journey!

In this brief testimony I would like to address three principle considerations: 1) the critical components of current rural realities which must be addressed in crafting a contemporary federal rural policy; 2) the importance of developing a comprehensive national rural policy; and 3) what should be the key components of such a rural policy?

1. The Critical Components of Current Rural Realities Which Must Be Addressed in Crafting a Contemporary Federal Rural Policy

As an astute rural sociologist once observed, "Once you've seen one rural community, ... you have, indeed, seen one rural community!" One of the greatest challenges which federal policymakers face is rural America's tremendous diversity, across space, circumstance, demography and culture. However, several specific rural realities both define these differences and cross place-specific boundaries, and must be addressed in crafting a more integrative rural policy for our nation. The most critical of these are briefly discussed below.

<u>The interdependence of agriculture and the broader rural economy</u>

Rural America is much more than agriculture, and the fortunes of our nation's farm families are directly tied to the economies of their rural communities. Today, only 6% of rural Americans live on farms, and less than two percent of the U.S. <u>rural</u> population is engaged in farming as a primary occupation. In fact, fewer than one in four farm families receive the majority of their income from farming, and nationwide only 12 percent of the total income earned by farm households comes from farming. Furthermore, farming accounts for only 7.6% of rural employment; while 90% of rural workers have non-farm jobs. (Economic Research Service / USDA data)

Even in ag-dependent counties, the link between the farmgate and main street has never been more clear. If a broad-based rural renaissance is to occur, and if farm families are to fully benefit from its development, this will require new economic engines, configured to regionally appropriate economies. As is seen below, most farm families today are very dependent upon the rural economies around their farms. This table reflects 1999 U.S. Farm Income data, compiled by the Economic Research Service / USDA. As it clearly shows, the future success of our nation's family farmers is clearly linked to the rural economies within which they are located.

ERS Farm Typology	Number of House-holds	Average HH income	Average Off-farm income	Average *earned* off-farm income	Percent of HH income from *earned* off-farm sources	Percent of HH income from *total* off-farm sources
Small Family Farms						
Limited resource	126,920	$9,534	$13,114	$5,862	61.5%	137.5%
Retirement	297,566	$40,643	$41,991	$11,254	27.7%	103.3%
Residential/lifestyle	931,561	$83,788	$87,796	$79,982	95.5%	104.8%
Farming-occupation low sales	480,441	$39,764	$39,892	$22,379	56.3%	100.3%
Farming-occupation high sales	175,370	$53,322	$26,621	$19,194	36.0%	49.9%
Large Family Farms	77,314	$85,685	$34,598	$24,011	28.0%	40.4%
Very Large Family Farms	58,403	$201,206	$35,572	$23,371	11.6%	17.7%

Source: Economic Research Service, USDA. Agricultural Income and Finance: Situation and Outlook Report, AIS-76, February 2001

Farm Typology Definitions:

Family farms include farms organized as sole proprietorships, partnerships, or family corporations. Farms operated by hired managers are excluded. As defined here, small family farms have gross sales of less than $250,000. Large family farms have sales between $250,000 and $499,000. Very large family farms have sales of $500,000 or more.

Limited-resource family farms meet three conditions: household income less than $20,000, farm assets less than $150,000, and gross sales less than $100,000. Small farms other than limited-resource farms are classified according to the major occupation of their operators. Operators of retirement farms are retired. Operators of *residential/lifestyle farms report a nonfarm occupation. Operators of farming-occupation farms report farming as their major occupation. Farming-occupation farms are further divided into two groups: low sales (sales less than $100,000) and high sales (sales between $100,000 and $249,999).*

New Rural Demographics

As the 2000 Census results continue to be reported, it is clear that the rural America which exists is quite different from that which is perceived by most Americans. From 1990 to 2000, the U.S. population grew by 13 percent (13.9 percent in metropolitan areas, 10.2 percent in nonmetropolitan areas). Nationally, that was the largest growth rate since the 1950s and the largest absolute increase ever. Furthermore, each state's population grew – the only time in the 20th century this occurred. However, while nonmetro counties as a whole fared better than they did in the 1980s, one-quarter (approximately 500) continued to lose population.

Not surprisingly, nonmetro counties adjacent to a metropolitan county still hold the advantage, growing by 12 percent. However, nonadjacent counties as a whole also grew, by 8 percent. In the 1980s, they lost population. In many rural counties, the decline in non-Hispanic, white population was more than offset by growth in the Hispanic population, allowing some counties to grow rather than decline. Indeed, Hispanics accounted for 20 percent of the nationwide nonmetro growth, even though they only account for 5 percent of the population.

The People Still Left Behind

While the economy of rural America, in general, shared in the broader economic expansion of the last decade, persistent pockets of intractable rural poverty remain. In general, poverty rates are higher in rural areas than in urban areas (15.7% urban vs. 12.6% rural: 1997). In the last three years, while metropolitan poverty levels have slowly decreased, rural poverty levels remain unchanged. Sadly, rural poverty is much more often working poverty, and child poverty is also higher in rural areas (22.7% vs. 19.2% in urban areas:1997). In fact, over half of America's rural children in female-headed households (3.2 million in 1996) live in poverty.

This is particularly daunting in the nearly 600 persistent poverty counties, defined by the federal government as those with 20% or more of their population in poverty from 1960 to 1990. These counties comprise 23% of all rural counties, and are mainly in the South, core Appalachia, the lower Rio Grande valley, and on American Indian reservations.

The Bifurcation of Rural America

While the rural realities outlined above are far from the complete picture of the "new" rural America, they do present a disturbing picture of a bifurcating rural America. Recent media attention to the rural implications of the new Census data only reinforces a growing public perception that rural America is either the home of the very poor or the next playground of the suburban well-to-do. As Karl Stauber, President of the Northwest Area Foundation and Past USDA Under Secretary for Rural Development, recently highlighted in his very insightful keynote to the Kansas City Federal Reserve Bank's recent rural conference, one of our nation's greatest challenges is sustaining a rural middle class while also addressing these areas of concentrated rural poverty and assuring continued maintenance in the quality of our natural environment.

2. The Importance of Developing a Comprehensive National Rural Policy

The importance of developing a comprehensive national rural policy cannot be overstated. Existing federal rural efforts, while worthy in intent and effort, suffer from their incremental, categorical, and unfocused nature. While the Senate and House Agricultural Committees and the U.S. Department of Agriculture maintain primary legislative and executive oversight of the federal rural mandate, a broad-based, comprehensive rural policy for our nation has not been achieved. If we are to accomplish this goal, a thoughtful public dialogue which addresses the contemporary character of rural America and the concomitant public policies necessary to address her needs must be crafted. Public policies must acknowledge and address the significant diversity in rural America, and the cross-sectoral implications of categorical programs within rural communities.

We can no longer justify a "one size fits all" rural policy, whose components are often poorly designed modifications of urban-based approaches. Instead, we must begin a national dialogue to develop a contemporary rural policy for our nation, and build a policy framework which assures that rural implications are addressed, across the broad public policy decision making process.

This failure is not the result of lack of effort. Past Agricultural Committees have sought to expand the rural agenda, and each Administration since that of Dwight Eisenhower has developed specific rural initiatives. However, none have successfully achieved an integrative federal framework. Recently, both the Consolidated Farm and Rural Development Act of 1972 (Public Law 92-419, 86 Stat. 657) and the Rural Development Policy Act of 1980 (Public Law 96-355, 94 Stat. 1171) specifically called for this more integrated approach.

The Rural Development Policy Act of 1980 specifically directed the Secretary of Agriculture to prepare "a nationwide rural development program using the services of executive branch departments and agencies . . . in coordination with rural development programs of State and local governments." This strategy was to be "based on the needs, goals, objectives, plans, and recommendations of local communities, substate areas, States, and multi-state regions." The 1996 Farm Bill called for the establishment of an Interagency Working Group, comprised of senior-level officials from all federal agencies that provide services in rural areas. Unfortunately, neither of these efforts were fully implemented or sustained.

Recently, the bipartisan Congressional Rural Caucus highlighted this concern in a letter to President Bush, urging that his Administration take the following four specific actions:

- Appointment of a Special Assistant to the President for Rural Affairs
  This senior White House level position would coordinate efforts within the Council of

Economic Advisors and Domestic Policy Council, provide liaison across federal departments through the Inter-Agency Working Group, and serve as a liaison to rural efforts within Congress.

- A White House Conference on Rural America
  Through a consultative process, the Administration, Congress, state, regional, and local leadership and our private sector partners would design, develop and implement a White House conference on rural America. This would begin a year-long national dialogue designed to assist the new Administration and Congress in developing a common framework for addressing the integrative challenges in American rural policy.

- Designated Rural Policy Leadership within each Federal Department
  A senior-level rural policy position would be designated within the office of the Secretary in each federal department. Currently several departmental examples approximate this goal and could be used as models for this effort.

- An Interdepartmental Working Group for Rural Affairs
  These senior level positions would represent each department on an Interdepartmental Working Group for Rural Affairs, to be chaired by the Special Assistant to the President for Rural Affairs.

These recommendations, if implemented, would offer the Congressional and inter-Departmental collaboration necessary to begin this national dialogue, and initiate the crafting of such an integrated federal approach.

3. What Should Be the Key Components of Such a Rural Policy

While I have not sought in this testimony to offer specific funding and/or programmatic recommendations, I would offer several overarching principles which should be carefully considered as potential core components of a more contemporary rural development framework. Each of these recommendations enjoys quite broad consensus within the rural policy and practice communities. These suggestions are briefly reviewed below, and a brief rationale for their inclusion is offered:

1. Develop a comprehensive national rural policy, driven by specific federal policy goals and outcome measures.

For all of the recommendations below to reach fruition, a national commitment to the design, development, and implementation of a comprehensive rural policy is essential. Absent this, and the inclusive national dialogue which must be a central component of its development, the incremental approaches of the past will continue to obtain. This effort will require the personal and organizational commitment of the most influential leaders and organizations within our nation's public and private sectors.

While the nature, context, and content of this process and policy obviously remain undetermined, the following outcomes are essential:

- The development of an integrated set of national policy goals for rural America, sensitive to the unique rural challenges and opportunities which exist throughout our nation,
- An accompanying set of legislative, administrative, organizational, and structural recommendations to implement these goals,
- A national consensual process to discuss, develop, and implement these policies.

Until our communities of concern can articulate the established goals for rural policy, we will have great difficulty in convincing our urban and suburban constituencies of the merit in this mission, and the relevance these have to their common futures.

2. Sustain existing categorical program and funding support.

Obviously, existing federal rural policies, programs, and funding streams are essential to the continued viability of many rural communities, firms, farms and ranches, and families. As these diffused, fractured, and incrementally developed programs are reassessed, it is very important we are sensitive to the fragility of the rural infrastructure which these seek to sustain. Care must be given, and the "first do no harm" principle must be at work, as transition strategies are designed and developed.

Above all else, in seeking a more comprehensive framework, we must explore the gaps which currently exist across this federal portfolio, as well as those policies and programs which inhibit or constrain the development of more collaborative, regionally-appropriate, community collaborations.

3. Build rural community capacity, collaboration, and leadership development.

If rural communities are to fully benefit from a more focused national federal policy, a coordinated federal effort must be developed to fund the essential community capacity building which is most often not available through existing grant and loan programs. These funds should be available to community-based organizations, local governments, and regional organizations.

Since all too many federal programs designed to assist rural localities are poorly adapted models of largely urban-based initiatives, often of the "one size fits all" approach, the unique opportunities and challenges of rural communities are often missed. The rural practice and policy community is overwhelmingly in agreement that the most critical step in overcoming this challenge is the necessity of building a community-based, collaborative framework for federal rural development, which specifically advantages those localities, governments, organizations, and communities which choose to work <u>collaboratively</u>, <u>regionally</u>, and <u>across</u> <u>sectors</u>. Specific attention should be given to the following:

- Building of a full partnership relationship between the federal government and all local collaborators, including local governments, community-based organizations, NGOs, and the private sector.

- Increasing incentives which encourage regional approaches. Regulatory approaches should increase the flexibility necessary for these to succeed.

- While a significant increase in community capacity building is generally necessary, small and rural communities should be assured access to and use of these resources.

- Where possible and appropriate, these programs should be channeled through existing sub-state areas and/or collaborations.

- Resources and/or allowances should support significantly expanded local and area leadership development efforts, to enhance the capacity of local officials to effectively partner in federal policy and planning efforts.

- Resources should be provided to support more comprehensive strategic policy planning, and incentives should encourage multi-governmental planning and collaboration.

- Attention should be given to the need in small and rural communities for "place-based information systems," to improve the nature and effectiveness of their community decision support systems.

These recommendations are informed by the following considerations below:

The Nature of Federal Funding in Rural America

Hundreds of federal programs direct assistance to rural areas, and most rural communities are eligible for as many as thirty different federal programs, across the multiple departments and agencies which operate specific rural programs. In 1997, federal spending in rural America was over $250 billion, more than $4,800 per person. While this was a significant commitment, it was below the $5,300 spent each year per urban citizen.

Since then, the gap between metro and nonmetro residents in per capita federal spending has narrowed, primarily due to increased farm payments. In fiscal year 1999, the federal government spent $5,601 per metro resident and $5,306 per nonmetro resident. However, subtracting agricultural and other natural resource payments from those numbers changes the final differential to $5,566 urban vs. $4,890 rural. Absent these farm payments, rural residents would have received only 88 percent of the federal support from which their urban counterparts benefitted. (ERS Federal Funds data)

Of perhaps greatest import for rural public policy is the wide differential in the type of federal funding which rural and urban areas receive. Nearly 70% of federal funds flowing to rural

America represents federal transfer payments to individuals. In urban America, transfers account for less than 40% of federal spending, with the remaining funds targeted to infrastructure and community capacity building for government and non-governmental organizations. These rural federal transfers make up more than 20% of per capita income in rural communities, and are critical to their economies. However, the resultant lack of capacity building support from the federal government decidedly disadvantages the long term viability of these communities.

The Challenge of Local Governance

Three-fourths of our nation's counties are rural, most of which have populations under 50,000. A quarter of these counties have populations under 10,000. Of the nearly 40,000 governmental units in the United States, two-thirds have populations under 2,500, and nearly half have populations of less than 1,000. The elected officials in these jurisdictions are mostly part-time public servants, with minimal staff and/or decision support resources. In fact, a soon to be released study by the National Association of Counties finds that:

- 60% of metro county governments have an economic development professional on staff, as opposed to 34% of nonmetro governments.
- 73% of metro governments have a land use planner on staff, but only 32% of nonmetro governments.
- 70% of metro governments engage in comprehensive planning, as opposed to only 40% of nonmetro governments.

As we continue to devolve federal policy programs and funding to the state and local level, these organizations, and the rural people and places they serve, become even more disadvantaged, unless additional resources to assure technical assistance, strategic planning, and interorganizational collaboration can be developed.

4. Develop a more integrative, cross-sectoral, community-based policy approach.

During the past six months, the Rural Policy Research Institute developed and facilitated two national dialogues, intended to create a framework in which rural policy decision makers, analysts, and community and sector practitioners could address the challenge of a more focused, cogent integration of federal rural development efforts. Both dialogues focused upon interjurisdictional and intersectoral relationships which must unite local, regional, and state organizations with federal agencies whose primary responsibility is the creation of rural programs and policies.

While each discussion initiated with an overview of the USDA program portfolio, participants agreed that these USDA challenges were also reflected within each federal department. However, a first critical step in addressing this integration should occur within the multiple programs of USDA. Congress should encourage and support emergent efforts within USDA to build this more integrative framework, including:

- The establishment of specific criteria to assess whether rural development programs are reaching their intended goals. While outcomes intended could be many and varied, they could include, among others:
  - increased sensitivity to, and appreciation of, the unique needs of the minority community, and new immigrants,
  - a geographically disbursed family farm system,
  - increased economic opportunities in rural communities,
  - expanding agricultural entrepreneurship,
  - natural resource conservation,
  - environmental improvements and enhancements,
  - on-farm and local value-retaining enterprises,
  - expansion of higher-quality jobs in local labor markets, and
  - economic linkages between urban / suburban and rural businesses, communities, and citizens.

- Increased integration and coordination within key USDA agencies addressing rural policy concerns. Among other options:
  - interagency working groups,
  - targeted program integration (e.g., SARE, Fund for Rural America, NRI, Extension and Ag Experiment Station programs, among others), and
  - direct program integration between USDA's Rural Development and Research programs, through the development of specific "target outcomes."

5. Address the challenge of venture and equity capital in rural communities.

Venture capital markets are unorganized, and most often nonexistent in rural communities. Traditional venture capital remains concentrated, both geographically, and in high-tech sectors, and a minuscule share of public and private equity capital went to entrepreneurial firms in rural America over the last decade.

Traditional venture capital institutions have seldom invested in rural enterprises, due to limited deal flow, higher cost per investment, limited exit opportunities, and lack of local business support service. Public efforts to encourage private rural entrepreneurship are particularly challenged due to this lack of institutional capacity.

Over the past three years, the Rural Policy Research Institute has coordinated a national study of the venture and equity capital institutions operating in rural America, with funding providing through the Fund for Rural America. As a result of this research, we believe the greatest potential for rural equity capital development is in the innovative non-traditional venture capital institutions, which operate outside regions and sectors where traditional venture capital is concentrated, expect lower financial returns that traditional venture capital firms, generally operate without geographic focus, and often have dual bottom lines, targeting both financial and social returns.

Public sector attention to the challenge of rural venture and equity capital is an essential "sini qua non" to the development of a thriving entrepreneurship community in rural America.

*6. **Support approaches which exploit the interdependency of agriculture and the broader rural economy.***

For far too long, agricultural development and rural development have been worlds apart, although the constituencies they serve are the very same rural people and communities. In a thriving rural America, these path dependencies are a luxury we can no longer afford. This Committee is uniquely positioned to begin a dialogue intended to better integrate these efforts. Among potential opportunities are:

- better integration of USDA / SBA / EDA programs, with recognition that agricultural entrepreneurship is also rural entrepreneurship,
- targeting some rural development funds to new generation, entrepreneurial cooperatives, farmer-owned cooperatives, and rural small businesses serving agriculture,
- including a rural development / entrepreneurship program as part of the expanding portfolio available to new and minority farmers, and
- developing joint USDA / SBA coordinated programs to assist farmers with the funding of value-added enterprises, among others.

*7. **Support rural entrepreneurship, in both the public and private sector.***

If we are to be successful in each of the ventures above, we must move, over time, from a federal framework too often characterized by dependency, to one which encourages entrepreneurship in both the public and private sectors. We must encourage coordinated approaches between those entrepreneurs in both the public and private sector who realize and act upon the criticality of regionally-appropriate economic development strategies. Absent this, much of the above public sector effort will be for naught.

Mr. Chairman, I thank you for your consideration of this perspective and welcome the opportunity to provide additional information to you and the Committee, should you desire. I wish you the very best, and urge your commitment to this very critical public policy opportunity.

Written Statement of Remarks

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

By
Craig Cox, Executive Vice President
Soil and Water Conservation Society

June 28, 2001

Mr. Chairman, Senator Lugar, members of the Committee, I want to thank you for the opportunity to appear before you today representing the Soil and Water Conservation Society (SWCS). My name is Craig Cox; I serve as Executive Vice President of the Soil and Water Conservation Society.

SWCS is an international, not-for-profit professional society, founded in 1943. Its mission is to foster the science and art of natural resource conservation. Our 10,000 members include professionals ranging from technicians who work one-on-one with landowners to researchers who seek to improve our basic understanding of conservation problems and solutions. Our members provide the scientific and technical foundation for implementing farm bill conservation programs. Agricultural policy and the farm bill, therefore, are critically important to our members.

In the spring of 2000, SWCS initiated a two-year project, *Seeking Common Ground for Conservation,* to help shape the conservation provisions of the 2002 farm bill. We invited state and local leaders with first-hand experience of the strengths and weaknesses of current agricultural conservation policy and programs to a series of five regional workshops. Participants representing the agricultural, water resources, and fish and wildlife communities mapped out a continuum of reforms to conservation and farm policy. On March 1, 2001, I testified before this committee regarding what we heard at those workshops as well as our preliminary thoughts about the implications of what we heard for the conservation title of the 2002 farm bill.

Since that time, SWCS has taken the map workshop participants had drawn and developed specific recommendations for policy reform that, in our best professional judgment, hold the most promise for addressing the hopes and concerns of the workshop participants. Those recommendations are detailed in our new report, released on June 6, 2001, entitled "A Farm Bill Proposal: Responding to the Grassroots." We have provided members and staff with copies of the report. Additional copies can be obtained by contacting us at *pubs@swcs.org* or by clicking on the Seeking Common Ground logo on our homepage at www.swcs.org.

CONSERVATION IN A COMPREHENSIVE FARM BILL

What we heard at our workshops seems particularly relevant to today's subject—the outline of a comprehensive farm bill. In brief, workshop participants told us that the next farm bill must be about more than the price of corn—or wheat, or cotton, or rice, or any other agricultural commodity. It must be about caring for the land and keeping the people who work the land on the land. Participants told us—often passionately—that current farm and conservation policy were failing to achieve that goal.

We think the reason agricultural policy is failing to achieve that goal is because it is imbalanced. Conservation policy leans too heavily on taking land out of production to devote it to conservation purposes. Farm policy leans too heavily on programs that seek to raise the price received by, or subsidize the income of, farmers who produce a handful of selected commodities.

On the conservation side, for example, 85 cents of every conservation financial assistance dollar was spent in FY 2000 to take land out of production—only 15 cents was spent to help farmers and ranchers continue to work the land, but work it in a more environmentally sound fashion. We simply cannot keep people on the land and enhance the environment if the only well-funded and effective tools in the conservation toolbox are designed to help farmers and ranchers quit working the land.

On the farm policy side, for example, about 47 percent of government payments in 1999 went to the 8 percent of farmers operating about 32 percent of farm acres and producing about 20 percent of the value of agricultural production. Because farm subsidies are tied to the production of a small set of selected commodities, the distribution of government subsidy payments has concentrated in fewer and fewer hands as production of subsidized commodities has concentrated on fewer and fewer farms.

Because of these imbalances, the reach of agricultural policy is seriously limited. Without major reform, current policy cannot achieve either of the goals our workshop participants sought—keeping people on the land and caring for the environment. But that reform can only take place within the context of a comprehensive farm bill—a farm bill in which conservation, rural development, research, and other elements of agricultural policy take their rightful place as more equal partners—in policy attention and in some cases funding—with traditional, commodity-based price and income support programs.

Moving conservation to the center of the next farm bill has unique advantages for restoring balance to farm policy. Because conservation is tied to the land rather than the production of a selected set of commodities, it can legitimately reach all agricultural producers, producing all kinds of food and fiber, on all types of agricultural land. Conservation keeps people on the land by helping them improve their environmental performance—an increasingly important determinant of commercial viability—and by rewarding them for enhancing the environment. Taxpayers get a cleaner environment and a higher quality of life.

At a minimum, conservation policy and programs need to be strengthened so they can continue their traditional service to agriculture—but updated to address the environmental challenges that now confront farmers and ranchers. That will require a doubling of the current investment in U.S. Department of Agriculture (USDA) conservation technical services and financial assistance programs to about $5 billion annually. New investment should ensure that all three compartments in the conservation tool box—technical services, financial assistance for conservation on working land, and financial assistance for land retirement and restoration—are well stocked with effective tools that work for agriculture and the environment. The first priority for the $2.5 billion in new investment should be a doubling of funding for technical services and a tripling of funding for conservation on working land.

But settling for the minimum would be a mistake at this juncture. Instead, reforms to conservation policy and programs should be coupled with a new vision for farm policy itself. Traditional farm subsidies should be balanced with a new option based on land stewardship.

Congress should authorize *a minimum of $3 billion dollars annually*—in addition to the $5 billion recommended to expand the reach of existing conservation programs—for a stewardship-based farm and ranch program that rewards producers for using their land, labor, and capital to enhance the environment. This new farm and ranch program should reward good actors through technical services and maintenance fees to keep existing conservation systems and habitat in place on their operations. It should also pay farmers and ranchers more who want to do more by installing new conservation systems.

In combination, these two reform agendas would create an agricultural policy that is truly open to all of agriculture and built on a solid foundation—the unique status and responsibility of farmers and ranchers as the caretakers of this nation's land, water, and wildlife.

RECOMMENDATIONS FOR REFORM

Our new report makes a series of recommendations for action to implement both reform agendas. I would like to highlight a few of those recommendations and the reasoning that led to their formulation for your consideration.

Reforming Conservation Policy and Programs

Conservation entered farm policy in the 1930s during a time of crisis—economic and ecologic. The role of conservation then was largely to serve agriculture by developing and managing soil and water resources as a means of enhancing agricultural production and rural development. Now, however, the challenge for agriculture and conservationists has changed. Environmental performance is becoming a key determinant of the commercial viability of agriculture. Producers operating animal feeding operations or irrigating cropland or pasture already are facing fundamental questions about the environmental sustainability of their operations.

Agriculture cannot escape the consequences of its environmental effects anymore than agriculture could escape the effects of land degradation in the 1930s. That is not because agriculture is bad, but because agriculture is big and complex. More than half of the land area in the 48 contiguous states is agricultural land—cropland and grazing land. Almost 90 percent of all precipitation that falls in the continental United States falls on privately owned agricultural or forestland before it runs into streams, lakes, or underground water. About 70 percent of wildlife species depend upon private land for their habitat. The pressing question is whether we will organize ourselves to face this modern conservation challenge the same way we faced our historic challenge.

Existing conservation programs and policy can meet this new challenge just as the challenge of the 1930s was met. But they must be updated and dramatically strengthened. *At a minimum, legislative action in the next farm bill must strengthen USDA conservation policy and programs enough to ensure that commercial viability and environmental quality become compatible goals.*

Funding

Funding for existing USDA conservation technical services and financial assistance programs should be doubled to about $5 billion annually—an increase, in percentage terms, comparable to what was accomplished in the 1985 farm bill. That investment produced dramatic reductions in soil erosion, protection of wetlands, and enhancement of fish and wildlife habitat. Since 1985, however, conservation funding has been flat in constant dollars. As a result, USDA conservation programs cannot meet producers' demands or the public's demands for conservation and environmental quality. USDA conservation programs remain dramatically oversubscribed. For example, the Wetlands Reserve Program (WRP) in 2000 recorded 3,171 offers on 567,000 acres that went unfunded. The unmet funding need, $524 million, was nearly four times the amount of money appropriated for the program that year. Likewise, only 30 percent of the 53,961 producers who applied for Environmental Quality Incentives Program (EQIP) funds in 2000 were awarded contracts. Funding needs were more than twice the $174 million available, and many producers reportedly did not apply for the program because of the limited number of contracts awarded in prior years.

The farm bill must make a major new investment in conservation to meet the needs of agriculture and taxpayers in 2002. Policy and program reform alone simply cannot close the conservation gap and serve the long-term interests of producers and taxpayers. Doing more with less is not a viable option.

Balance among tools

There are three basic compartments in the conservation tool box: (1) technical services—research, education, and technical assistance; (2) financial assistance for conservation on working land—integrating conservation into the food and fiber production systems used by farmers and ranchers; and (3) financial assistance for land retirement and restoration—shifting the primary focus on working land from food and fiber production to habitat restoration or protection of critical natural resources. Today, the toolbox is unbalanced.

In 1985, 97 cents of every financial assistance dollar from USDA supported conservation on working land; 3 cents were spent on land retirement. In 2000, land retirement accounted for 85 cents of every financial assistance dollar from USDA, while 15 cents went for conservation on working land. Over the same period, the federal investment in research, scientific and technical support, and direct technical assistance remained essentially flat, increasing less than 1 percent annually.

Most of the $2.5 billion in new investment in conservation we recommend should be used to strike a better balance among tools. Funding for technical services should be doubled to about $1.75 billion a year, and financial assistance for conservation on working land should be tripled to about $1 billion annually. The $5 billion conservation budget we recommend would thus strike a better balance and still leave room to increase funding for land retirement and restoration programs by about 30 percent.

Technical services

Weakness in this nation's technical services infrastructure is the single greatest impediment to meeting the conservation needs of landowners and the public's desire for environmental quality. Ultimately, farmers and ranchers do conservation; public programs do not. Timely, accurate, and appropriate advice and information from technically trained advisors in the public and/or private sectors is the key to successful conservation. Without it, financial aid is likely to be wasted or, worse, misdirected. In many cases, good technical advice alone is all that is needed to help producers implement conservation systems that promise economic as well as environmental returns.

More money for technical services—as recommended above—is the first step toward solving this problem. But we also need to change the way we think about technical services. Since 1985 technical assistance has shrunk from 60 percent of the conservation budget to about 30 percent of the conservation budget. This growing emphasis on financial assistance reflects a conclusion among policymakers that the primary barrier to implementation of conservation systems on farms and ranches is cost. Many studies, however, show that lack of knowledge, rather than cost, is the primary barrier to adoption of conservation systems by farmers and ranchers. The next farm bill must recognize and affirm technical assistance as the most important conservation program in and of itself—not merely a cost of delivering conservation financial assistance to producers. Congress should ask the Secretary of Agriculture for an action plan and estimated funding needed to ensure that all producers have access to timely and effective technical assistance from the public and/or private sectors.

Flexibility

Conservation is a national interest, but like health care and education it depends on local leadership. State and local leaders, whether they work in the private sector or in federal, state, or local government agencies, need greater authority over the way USDA programs operate in their states. Some workshop participants recommended block granting new and existing funds for USDA conservation programs to states as a means of achieving this objective. Block grant proposals, however, raised serious concerns among many participants about accountability and potential redirection of funds from objectives that are extremely important to those programs' constituents.

Instead, we think the innovations in program implementation used in the Conservation Reserve Enhancement Program (CREP) and Wildlife Habitat Incentives Program (WHIP) should be expanded to touch all USDA conservation programs. States, at their choice, could develop a single, comprehensive state conservation plan that would propose changes in implementation of any or all USDA conservation programs needed to meet state conservation objectives. Approved plans would provide much greater flexibility in program implementation and spark creative and innovative approaches to meshing local, state, federal, and private programs and initiatives.

States should be rewarded for undertaking such an endeavor, however, with more than flexibility and authority. They should also gain access to additional dollars. We envision a USDA-administered Conservation Partner Fund, created by using a portion of the funds appropriated each year for all USDA conservation financial assistance programs. Funds annually made available for conservation financial assistance programs—above a designated base funding level for each program—would be pooled and made available, much like a grant program, to states that develop a comprehensive state conservation plan as outlined above.

Taken together, expanding the state plans and agreements pioneered in CREP and WHIP, with funding providing through a Conservation Partner Fund, could provide much of the flexibility proponents of block grants seek while maintaining the integrity and accountability of existing conservation programs.

Fairness

Ensuring that all producers in all regions have access to the Conservation Reserve Program (CRP) would be a major step forward in achieving greater fairness in conservation programming. CRP accounts for more than 80 percent of the nation's current conservation financial aid spending. But one-third of that funding goes to five states, all in the Great Plains, and only land with a cropping history is eligible for enrollment. Substantial progress has been made in opening the CRP to additional states with implementation of the continuous sign-up and CREP initiatives. More could and should be done, however, particularly in regard to the limitations imposed by the cropping history requirement, to enroll land in the CRP. That cropping history requirement limits the application of CRP on rangeland, pasture, and other land that could provide substantial environmental benefits. That requirement also puts at a disadvantage those good actors who have already installed conservation practices otherwise eligible for the continuous CRP sign-up.

Cropping history requirements for CRP should be modified to permit enrollment of environmentally sensitive acres of rangeland, pasture, or other land without a cropping history, at appropriate rental rates, and eliminated for all practices eligible for the continuous CRP sign-up. Congress should mandate at least a 5-million-acre goal for conservation buffers within the CRP and encourage participation through higher financial incentives and greater flexibility in practice requirements.

Simplification

The multiplication of stand-alone conservation programs—each with its own unique value, but also its own unique planning, application, and eligibility requirements—has created a confusing situation for landowners and for field staff. The notion of program consolidation, however, met with overwhelming opposition from workshop participants. Instead, we are recommending other, less dramatic steps to simplify the process of implementing programs for producers and field staff.

The first step we recommend is to make the producer developed conservation plan the basic entry point for multiple conservation financial assistance programs. Instead of producing multiple, often fragmentary plans to secure participation in a particular conservation financial assistance program, we would like to see producers work with technical advisors to develop a more comprehensive plan that integrates conservation into the farm and ranch operation in a way that meets a producer's economic and environmental objectives. That single producer driven plan should meet the planning requirements for all USDA conservation programs and open the door to eligibility under multiple financial assistance programs to implement the plan.

Second, we think simplification of EQIP is a particularly important objective, given its importance as the only major source of financial assistance for conservation on working land. We think EQIP could be much improved by taking steps to move toward a continuous sign-up process and by reducing the upfront planning burden placed on producers and field staff. The single most important reform should be to eliminate the statutory bidding requirement that, as implemented, requires substantial upfront planning to apply for assistance. Instead, we recommend that a ranking process be used to estimate the projected environmental benefits from participation. Only those producers already approved for participation, then, would need more in-depth conservation planning. Producers and staff would have more certainty, and the environment would be better served.

Reforming Farm Policy and Programs

Expanding the reach of existing conservation programs—as recommended above—should be the minimum expected from legislative action in the next farm bill. But it will be a serious mistake, for agriculture and American taxpayers, to settle for the minimum at this juncture.

Participants told us it was time "for a new vision for agriculture" as one participant put it. They wanted a new farm policy that supported—through conservation—all agricultural producers, producing all kinds of crops and livestock, on all kinds of land, in all regions of the country. Their goal was to keep people on the land, and they were skeptical about the effectiveness of traditional approaches to supply control, price support, and income subsidies. They recognized that producers who relied on production of subsidized commodities for a large share of income from their operations had become very dependent on government payments. But they worried that such dependence was unsustainable and not in the best interests of agriculture, taxpayers, or the environment.

Concerns about traditional farm programs

Abundant and cheap supplies of food and fiber, income support for struggling farmers, and economic support for rural communities are the three most often stated objectives of traditional farm policy. Those traditional policies are being challenged on their ability to address all three of these objectives.

Underlying all of the questions being raised is the fact that major structural changes have taken place in agriculture. In 1999, according to USDA's Economic Research Service (ERS), almost 70 percent of the value of all crops and livestock was produced by 8 percent of producers operating just 32 percent of all farm acres. From the standpoint of crop sales only, 8 percent of farmers accounted for 68 percent of crop sales from just 32 percent of all farm acres. The productive capacity of American agriculture is a miracle. In fact, American agriculture is so productive that it is questionable whether subsides are needed anymore to ensure an abundant and cheap supply of food and fiber.

The distribution of government subsidy payments has concentrated in fewer and fewer hands as production of subsidized commodities has concentrated on fewer and fewer farms. For example, about 47 percent of government payments in 1999 went to the 8 percent of farmers accounting for 68 percent of crop sales. Ninety-two percent of producers operating 68 percent of farm acres and producing 42 percent of crop sales shared the remaining 53 percent of government payments. As a result, the distribution of government payments diverges from what most taxpayers would recognize as equitable or efficient income support.

Fundamental changes in the nature of rural economies also have reduced the effectiveness of farm subsidies as economic development engines for rural communities. According to another ERS study, only about 37 percent of farm subsidies payments went to farmers in counties where those payments would be expected to play a significant role in the local economy.

At the same time, recognition of the importance of farmers and ranchers as natural resource and environmental managers is growing. Working land—land used primarily to produce food and fiber—is, literally, the last frontier for environmental enhancement. Just as the land use and management decisions made by producers can impair the environment, those decisions also can create fish and wildlife habitat, contribute to clean and abundant supplies of water, protect against the risks of climate change, and create recreational opportunities.

More balance in farm policy

Room should be made in farm policy itself for a program that supports farmers and ranchers based upon their unique role as caretakers of most of the land in this nation, rather than as producers of commodities that, more often than not, are in oversupply.

The traditional tools of farm support clearly have their place in a new farm policy. Those tools will be particularly important for those producers who depend largely or exclusively on income from sales of undifferentiated commodities—the raw materials of the modern food and fiber production system. But we also think there is great advantage to agriculture and taxpayers by bringing on line new tools that hold greater promise for all of agriculture, rural communities, and taxpayers. Those new tools should include research, marketing assistance, rural economic development, and conservation, among others. Most of those tools really are not new. What would be new is a farm policy that seeks to create a better balance in policy attention and funding among the tools—a balance based on clear recognition of the realities of the current structure of agriculture, the food and fiber system, a global economy, and the environment.

Conservation has unique advantages as a component of a more balanced farm policy. For taxpayers, conservation at the center of farm policy would allow us to go beyond damage control, and even pollution prevention, to widespread environmental enhancement, to go beyond meeting minimum standards required by regulation to release creativity and entrepreneurial spirit in the service of conservation and environmental quality. Working cooperatively with the nation's farmers and ranchers as partners in environmental enhancement could become the third leg of this nation's conservation stool—complementing land acquisition and regulation where needed—to create a balanced approach to environmental management.

For agriculture, such a policy change would create the opportunity to use conservation to help keep people on the land and to escape some of the contradictions created by current farm policy. The land and its management would drive conservation rather than the amount or kind of commodities produced. That means all farmers and ranchers, producing all kinds of commodities, in all regions of the country could participate in environmental enhancement.

Conservation could and should reach those 92 percent of farms operating 68 percent of the acres, but producing only 31 percent of the value of food and fiber products. Though many of these producers are not big players in the commodity market or international trade, those producers are, or could be, big players in the conservation market. Producers in Canada, Mexico, Argentina, Brazil, and France can compete in corn, soybean, wheat, and beef markets; they cannot compete with this nation's farmers in contributing to clean water or fish and wildlife habitat. The environment is a niche market, but one in which every farmer and rancher has a niche.

Using conservation as a basis for support programs would provide more options for policymakers and producers, instead of attempting to fit an increasingly diverse and complex agricultural sector into a one-size-fits-all subsidy program. This nation could diversify agricultural policy to reflect the needs and unique circumstances of different farming and ranching operations. It could design a policy that works for those handful of producers who dominate commodity markets and trade, and it could design a policy that works for all those other producers in whose hands the country entrusts the management and care of most of its land, water, and wildlife.

Stewardship-based option for agriculture

Congress should authorize *a minimum* of $3 billion dollars within farm programs for a stewardship-based farm and ranch program that rewards producers for utilizing their land, labor, and capital to enhance the environment. This new program should be open to all agricultural producers of all agricultural commodities in all regions of the country.

This new program should reward good actors through technical services and maintenance fees to keep existing conservation systems and habitat in place on their farms and ranches. It should also pay farmers and ranchers who want to do more by installing new conservation systems. Those payments should be determined by (1) relying on local input to identify the environmental goods and services of most value to the local community and relying on states to harmonize those values with state and national values, (2) calculating payments based on "level of effort" as estimated by cost, on a preliminary basis, of the practice and any economic value forgone until the technical capability to quantify benefits directly is strengthened, (3) distinguishing between "maintenance costs" and "installation costs" when valuing existing versus new investments in conservation, and (4) tithing the funds made available to the new stewardship-based farm and ranch program to invest in the research and testing needed to develop tools to estimate environmental benefits

This new stewardship-based farm and ranch program could and should be designed to complement farm and conservation program and policy. On the farm program side, a stewardship-based farm and ranch program could be designed as an option to existing production flexibility contracts. Stewardship contracts, however, would guarantee fixed payments over multiple years based on the level of conservation effort rather than on the level of production of selected commodities during a particular historical period. Stewardship contracts would provide the same or greater certainty of payments for conservation that production flexibility contracts currently provide for commodity production. Producers with production flexibility contracts could opt for a stewardship contract if that worked better for them. More importantly, stewardship contracts would help keep those producers on the land who currently do not benefit much from existing commodity subsidy programs.

On the conservation program side, the stewardship-based farm and ranch program should be designed to take advantage of five key opportunities to complement existing conservation programs. First, it should be broadly available to all producers, based on their willingness to make a commitment to conservation, rather than on their location in a priority area, impaired watershed, or other eligibility requirements of existing conservation programs. Second, it should prevent conservation problems before they require more expensive treatment. Third, it should go beyond rehabilitation of the land to achieve widespread enhancement of the environment. Fourth, it should emphasize and transition to production systems that enhance, not just protect, the environment. Fifth, it should emphasize development, field-testing, and demonstration of innovative production systems that integrate conservation directly into food and fiber production systems.

Reaffirm and strengthen conservation compliance

The role for compliance measures in a new farm bill was a contentious issue for workshop participants and during our deliberations leading to the recommendations in this report. A fully funded, effective conservation program of the magnitude envisioned in this report would be the preferred way to jumpstart conservation and environmental enhancement on farms and ranches across the country. However, the history of funding since 1985 clearly shows that actual appropriations often lag well behind authorized levels, and many new and promising conservation financial assistance programs have floundered because of lack of funding.

We think it is appropriate to affirm and strengthen current conservation compliance measures to address the following key concerns. Workshop participants were nearly unanimous in their sense of injustice if producers were allowed to break out fragile land and subsequently be subsidized by taxpayers for enrolling those acres in CRP or another conservation program. Participants thought this was an affront to good stewards and a prime example of conservation programs rewarding the wrong behavior. The so-called "super sodbuster" provision had, in the past, addressed this issue by precluding the breaking out and cropping of highly erodible land if a producer had already enrolled in the CRP.

Crop insurance, revenue insurance, and other legitimate programs to help producers manage risk can create significant incentives to bring fragile and risky land into production. Crop insurance is currently exempted from compliance provisions—an exemption created to encourage participation and reduce reliance on annual disaster payments. Crop insurance reform with its increased subsidies, however, appears to have spurred participation in the program, and the potential for heavy reliance on revenue insurance as a mainstay of risk management and income support suggests to us that it is time to extend conservation compliance to crop insurance and any new insurance-based approaches to risk management and income support that may be authorized in the next farm bill.

Finally, the highly erodible land provisions of the 1985 farm bill, though effective, appear to have left unaddressed an important segment of the nation's soil resources. About 50 million acres of nonhighly erodible land is, according to the 1997 National Resources Inventory, eroding at rates exceeding the soil loss tolerance. Asking producers who receive subsidies to take action to achieve a significant reduction in erosion on those acres—less than 15 percent of total cropland—would go a long way toward finishing the historic task started in the 1985 farm bill.

Mr. Chairman, Senator Lugar, members of the Committee, I want to thank you again for the opportunity to share our thoughts with you today. I want to applaud your commitment to a comprehensive vision of agricultural policy that is evidenced by today's hearing. Creating such a comprehensive policy will require a thoughtful and deliberative approach to new legislation. SWCS would like to offer to help in whatever way we can as you undertake this task.

ENVIRONMENTAL LAW & POLICY CENTER
ILLINOIS INDIANA MICHIGAN MINNESOTA OHIO WISCONSIN

TESTIMONY ON THE FEDERAL FARM BILL:
CLEAN ENERGY DEVELOPMENT OPPORTUNITIES

By: Howard A. Learner
Executive Director
Environmental Law and Policy Center of the Midwest
35 East Wacker Drive, Suite 1300
Chicago, Illinois 60601

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
UNITED STATES SENATE
JUNE 28, 2001

---

35 EAST WACKER DRIVE, SUITE 1300 CHICAGO, ILLINOIS 60601-2110
PHONE (312) 673-6500 FAX (312) 795-3730
www.elpc.org elpc@elpc.org

TESTIMONY ON THE FEDERAL FARM BILL:
CLEAN ENERGY DEVELOPMENT OPPORTUNITIES

By: Howard A. Learner
Executive Director
Environmental Law and Policy Center of the Midwest
35 East Wacker Drive, Suite 1300
Chicago, Illinois 60601

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
UNITED STATES SENATE
JUNE 28, 2001

Mr. Chairman, Senator Lugar and members of the Committee,

I am Howard A. Learner, the Executive Director of the Environmental Law and Policy Center (ELPC), the Midwest's leading environmental legal advocacy and eco-business innovation organization. ELPC and seven environmental organization partners recently released the new report and action plan *Repowering the Midwest – The Clean Energy Development Plan for the Heartland*, which puts into practice our belief that environmental progress and economic development can be achieved together.

Thank you for the opportunity to appear today to discuss why wind power, biomass energy and other clean energy development in farming communities can produce both environmental quality gains for the broader public and economic development benefits for farmers in particular. We encourage the Committee to explore ways to include clean energy development provisions in an energy title of the federal farm bill, and we believe that farmers can effectively become suppliers, not just users, of energy.

Modern life runs on electricity to power our homes and businesses. From refrigerators to computers, we depend on reliable electricity. However, at the dawn of the 21st Century when rapid technological progress is transforming society, much of the nation is still saddled with polluting and inefficient old equipment generating the energy to drive the "new economy". This overdependence on aging 1950's - 1970's vintage coal plants and 1960's and 1970's vintage nuclear plants, as well as some utilities' underinvestments in modernizing their deteriorating transmission and distribution systems, are causing both pollution and power reliability problems.

Developing clean energy efficiency and renewable energy resources is the smart and sustainable solution to our nation's pollution problems, to power constraints at peak demand times, and to challenges in meeting our overall electricity needs. Clean energy resources are the modern technologies for the 21st Century energy future.

Everyone already knows that Midwest farmlands, in particular, are ideal for growing the foods that energize our bodies. If the right public policies are put into place, farmers can also be encouraged to develop wind power project opportunities and grow high-yield "energy crops" that can be used to generate electricity to help power our economy. Expanding wind power and biomass energy will provide new markets for crops while reducing air and water pollution and deterring soil erosion, and will provide rural jobs. Let's give farmers the tools and incentives to succeed in these genuinely new renewable energy markets. This is in addition to the efforts already underway to support the utilization of bio-diesel and ethanol fuels.

Repowering the Midwest is a national model for a smart clean energy development strategy to reduce pollution, improve reliability by diversifying the power supply, create new "green" manufacturing and installation jobs, and provide new renewable wind power and biomass energy cash crops for farmers. Seizing these sustainable development opportunities makes both good environmental and economic sense.

In my testimony today, I would like to provide you with five key points.

First, **windpower development is a major opportunity to both provide environmental benefits for the public by avoiding pollution and create value for farmers and rural economic development in the growing clean energy sector.** *Repowering the Midwest* provides the technical and analytical basis for demonstrating that renewable energy resources can provide 8% of the region's electricity generation by 2010 and 22% by 2020. The cost of clean renewable energy is plummeting as wind power, along with biomass and solar power, technologies have improved dramatically. Today's large new wind turbines – each standing 100 meters high and producing enough power for 300 homes – are far ahead of even mid-1990's wind equipment. These high-tech wind machines are far from the old windmills used for water pumping and other farm activities in rural areas. The tremendous design improvements have led to a huge drop in the per-kilowatt price – less than one-third of the 1981 wind power price and now close to competitive with conventional power sources.

When it comes to wind power, the flat lands of the Midwest are valuable assets. Wind power is the world's fastest growing energy source, expanding about 35% in 1998. More than 600 megawatts of new wind power (equivalent to the size of a typical coal plant) have come online in the Midwest since 1998, and that helps avoid pollution and provides rural economic development opportunities. Wind energy is truly a cash crop for farmers with typical annual lease payments for windy sites now in the range of $2,000 - $3,000 per turbine. For a 50-megawatt wind farm, that's about $125,000-$150,000 per year.

Iowa and Minnesota have led the way with utility-scale wind power development in the Midwest, and there are more major new wind power projects now going up in Illinois, Kansas and Wisconsin: FPL Energy just announced plans for a 100-megawatt wind power project in southwestern Kansas at less than 3 cents per kilowatt-hour; the new 30-megawatt Montfort Wind Project in Iowa County, Wisconsin just started producing energy this week using 20 very large (1.5-megawatt) wind turbines on 215-foot towers; and two 30 and 50-megawatt wind projects are in development near Mendota and Princeton, Illinois, respectively. Wind power is fast becoming a reality in rural Midwestern communities, and there are many more development opportunities.

There are also significant untapped opportunities for smaller-scale distributed wind power development to serve individual farms and small communities in locations where the wind speeds are favorable and stringing more wires and poles to remote areas is very costly. The technological improvements are rapid, and the cost structure is coming down. Congress should consider steps that it can be taken to map good wind power sites, provide easy access to wind monitoring equipment and testing on particular rural sites, and low-cost financing for smaller distributed wind power projects.

More clean renewable energy also means more installation and manufacturing jobs. NEG Micon, a leading wind power business, and Spire Solar, a solar panel manufacturer, located in Illinois, are providing good-paying manufacturing jobs and capitalizing on current and future market opportunities. Likewise, LN Glasfiber is manufacturing wind turbine blades in Grand Forks, North Dakota. This is sustainable development in action. Still, the enormous potential of a growing renewable energy industry remains largely untapped.

Second, **modern, clean energy efficiency technologies, as well as "tried and true" measures, can be deployed to save 17% of electricity use by 2010 and 28% by 2020.** That can be achieved at a cost of less than 2.5 cents per kilowatt-hour, which is cheaper than generating, transmitting and distributing electricity through any other source.

Energy efficiency is the best, fastest and cheapest solution to power reliability problems. Best – because it avoids social and economic costs from pollution, and once new energy efficient lighting ballasts, for example, are installed, the savings are durable and reliable. Fastest – because energy efficiency measures can be implemented within a year, as compared to the several years or more typically needed to site and build a new central power plant. Cheapest – because robust energy efficiency improvements can be implemented for less than 2.5 cents per kilowatt-hour, as shown by the recent *Repowering the Midwest* study and the "Five National Labs" study commissioned by the U.S. Department of Energy.

Many energy efficiency improvements are smart, economical and waiting to be tapped. Inefficient energy use continues to waste money and cause unnecessary pollution. That can be changed by deploying new, more energy efficient heating and cooling systems, lighting, appliances, and building designs and materials. But, energy efficiency improvements are not limited to the major cities and suburbs.

There are many opportunities to be tapped for cost-effective energy efficiency improvements in farming activities, including modern motors and pumps, more efficient grain drying equipment, and better lighting. Clean energy efficiency development also means more green jobs because many new energy efficient products are manufactured by Midwestern companies, including Andersen Windows, Honeywell, Johnson Controls, Maytag, Osram Sylvania, Owens Corning, Pella, Trane, Whirlpool and others.

Third, federal policy action is necessary to transform this clean energy development potential into reality for farmers and others. The single most important legislative step would be to enact a **federal Renewable Portfolio Standard (RPS)** that requires all retail electricity supplies to include a specified percentage of renewable energy resources in their generation mix. The RPS standard should increase steadily each year to reach 8% by 2010 and 22% by 2020. The RPS should require new renewable energy resources to meet the specified percentage target, not just a repackaging of existing resources.

It is essential that the types of renewable energy eligible for the RPS be carefully defined to include principally wind power, solar power, and closed-loop biomass energy. Municipal solid waste incineration, and the burning of tires, construction waste and other such materials should be excluded. Otherwise, the value of the RPS may be sidetracked and the opportunity to provide wind power and biomass energy development potential for farmers will be undermined.

Fourth, in developing the federal farm bill, the Committee should explore a potential **new Conservation Energy Reserve Program** that would recognize the value of putting agricultural lands into energy production in ways that also provide conservation protection. *Repowering the Midwest* explains the biomass energy development potential in the Midwest for switchgrass, alfalfa and other "energy crops." The Chariton Valley Biomass Energy Project in Iowa hopes to demonstrate how switchgrass can be grown and harvested to produce 35 megawatts of power. A Conservation Energy Reserve Program could be structured to allow, for example, one cut of switchgrass per year in the fall after many birds have already departed. This approach is already underway as a pilot program under the existing Conservation Reserve Program, and, if successful, it could be transformed and expanded.

It should be recognized that a Conservation Energy Reserve Program and other approaches to encourage the production of more energy crops on farmland will only work if there are utilities and other retail electricity suppliers that purchase the clean energy. That is why the federal Renewable Portfolio Standard is so important, in combination, for spurring biomass energy development.

Fifth and finally, robust wind power development in the Great Plains states and Central Midwest is being stymied by transmission policies and practices that obstruct access to markets. **Transmission pricing and access reforms** are necessary to support the development of intermittent wind power and solar power resources, which generally operate on a smaller scale in more remote areas than is the case with many large coal and natural gas plants. Archaic interconnection rules should be standardized and modernized. **Federal legislation to provide clear and consistent interconnection standards could remove a key barrier and greatly accelerate wind power development in the Midwest, especially, and the nation.**

Historically, America has relied on farmers to work their lands to produce crops that provide food for our dinner tables. There are now 21st Century opportunities for farmers to also work their lands to produce new crops that provide energy to power our homes, schools and factories, and to help avoid pollution, thereby improving environmental quality and public health. Implementing the clean energy development plan *Repowering the Midwest*, as compared to business-as-usual policies and practices, will reduce: sulfur dioxide pollution, which causes acid rain, by 56% by 2020; nitrogen oxides pollution, which causes smog, by 71% by 2020; and carbon dioxide pollution, which causes global warming, by 51% by 2020.

Conclusion

Clean energy development for the Midwest and our nation is visionary, and it is practical and achievable. It will require a dedicated and concerted effort by legislators, regulators, the electric power industry, consumers and citizens to replace some of the outdated power plants and practices with modern clean technologies supported by policy innovations. The public is ready to seize the opportunities to robustly develop our clean renewable energy and efficiency resources that will lead to better environmental quality and public health, improved electric system reliability, and regional economic development gains.

One or two states alone cannot achieve the full benefits of clean energy development as envisioned by *Repowering the Midwest.* Electricity services markets are regional and successful energy strategies and policies require national and regional solutions and cooperation across state lines. *Repowering the Midwest's* clean energy development plan is a smart policy and technical strategy for the Midwest that can also serve as a model for the rest of the nation.

This Committee and Congress should include smart clean energy development policies and practices in the federal farm bill and in other legislation to secure healthy farming communities and a strong agricultural economy, national environmental benefits, balanced fuel portfolios, and economic growth. The Midwest and Great Plains can and should lead the way with significant wind power and biomass energy development.

We would be pleased to provide the Committee with the full report and executive summary version of *Repowering the Midwest – The Clean Energy Development Plan for the Heartland.*

Thank you for the opportunity to discuss these important issues with you today. We look forward to working with this Committee to find ways to benefit both farmers and the broader public by including new clean energy development provisions in an energy title of the federal farm bill that can achieve both environmental quality benefits and economic benefits for rural communities.

Statement By National Coalition for Food and Agricultural Research Before The Senate Agriculture Committee

Committee on Agriculture, Nutrition and Forestry

Public Hearing
106 Senate Dirksen Building

Review of agricultural research

Washington, DC
Thursday, June 28 - 9:00am

Thank you, Mr. Chairman for inviting the National Coalition for Food and Agricultural Research (National C-FAR) to testify. I am Dr. Barbara P. Glenn, Executive Vice President - Scientific Liaison of the Federation of Animal Science Societies (FASS) and Chairperson of the Coalition on Funding Agricultural Research Missions (CoFARM). I am a member of the Board of Directors of the National C-FAR. Our Coalition looks forward to working with this Committee as we seek to **double federal investments in food and agricultural research over the next 5 years.**

We want to thank the members of this subcommittee for your support of food and agricultural research and education programs that have helped propel the world-renowned success of the U.S. food and agricultural sector. We want to keep the U.S. food and agriculture sector at the forefront. We are here to explain the crucial role that food and agricultural research plays in meeting that important goal. In the immortal words of George Washington, "there is no more important service than to improve agriculture."

In our testimony, we offer our perspective on four important questions:

1) Why should the federal government invest in food and agricultural research, extension and education?

2) What have been the measurable benefits of federal investments for American farmers and consumers?
3) Why should we double federal investments in food and agricultural research over the next 5 years?
4) How should the doubled funds be invested?

The member organizations of our coalition are mindful of the pressing challenges facing U.S. food and agriculture. Several of our members have testified in recent weeks relative to the farm bill and related issues? However, members of National C-FAR believe it is important to address the promising opportunities ahead and the federal policies and programs needed to promote the long-term health and vitality of food and agriculture for the benefit of producers and consumers. We believe increased federal support for food and agricultural research and education should be a key component of this Committee's goal to develop sound food and agricultural policy.

National C-FAR

National C-FAR is a newly organized broad-based stakeholder coalition of some 90 food, agriculture, nutrition, conservation and natural resource organizations. (Membership list is attached.) We are a nonprofit, nonpartisan, stakeholder-driven, and consensus-based coalition focused on federal food and agricultural research funding. We are dedicated to fostering public confidence in food, agricultural, nutritional and natural resource research through public participation in planning and evaluating the process and impact of research activities. Our membership is open to those who support the objectives of (1) enhancing federal investments in U.S. food and agricultural research and extension and (2) expanding stakeholder participation in identifying funding needs and opportunities.

National C-FAR's goal is to **double federal funding of food, nutrition, agriculture, natural resource, and fiber research, extension and education programs during the next five years.** This is to be net additional funding on a continuing basis that complements, not competes with or displaces the existing portfolio of federal programs of research and education.

1) Why Should The Federal Government Invest In Food And Agricultural Research, Extension And Education?

Food and Agriculture are of Fundamental Importance

The food and agriculture sector is a major contributor to society. Food is a fundamental need of every person. Food not only maintains life, but it sustains life and provides the basic requirements for a healthy, productive, creative society.

Agriculture creates jobs and income. The food and agriculture sector and their related industries provide over 20 million jobs, about 17 percent of U.S. jobs, and account for nearly $1 trillion or 13 percent of GDP.

Agriculture reduces the trade deficit. Agricultural exports average more than $50 billion annually compared to $38 billion of imports, contributing some $12 billion to reducing the $350 billion trade deficit in the nonagricultural sector.

Agriculture contributes to the quality of life. Farmers provide many valuable and taken-for-granted aesthetic and environmental amenities to the public. The proximity to open space enhances the value of nearby residential property. Farmland is a natural wastewater treatment system. Unpaved land allows the recharge of the ground water that urban residents need. Farms are stopovers for migratory birds. Farmers are stewards for 65 percent of non-federal lands and provide habitat for 75 percent of wildlife.

Food and agriculture are strategic resources. When food is scarce, peace and democracy are threatened. We have fed our allies during the great wars; we have aided the starving during famines, floods and strife; and we have provided assurances of food that have nurtured the rise of freedom following the collapse of communism.

Our abundant food supply bolsters our national security and eases world tension and turmoil. Science-based improvements in agriculture, which has drawn upon U.S. food and agricultural research, have saved over a billion people from starvation and countless millions more from the ravages of disease and malnutrition.

Federal Funding Needed Where Private Sector Lacks Incentive

Private firms undertake research if they expect that the funds invested will yield a positive net return to them. Private firms have an incentive to invest in research and development where the expected outcome can 1) be embodied in a product or service that has a market, 2) be protected by intellectual property rights and 3) generate a payback in the near term. In areas where these conditions are met, private research funding is likely to be adequate.

Public financed research should complement private research by focusing in areas where the private sector does not have an incentive to invest. Information, one of the main drivers of our economy today, indeed the term used to name our present age, shares many characteristics with research which often necessitate some public support. Research, like information, is costly to <u>produce</u> but cheap to <u>reproduce</u>, so private markets for some types of research may be inefficient. Accordingly, public research is appropriate in areas where 1) the pay-off is over a long term, 2) the potential market is more speculative, 3) the effort is during the pre-technology stage; and 3) where the benefits are widely diffused and difficult for a private firm to embody in a product or service, protect its property rights and capture the benefits through the marketplace. Public research helps us measure long-term progress. It also acts as a means to catch problems in an early stage, thus saving American taxpayer dollars in remedial and corrective actions.

Examples of areas where private firms are not likely to have sufficient incentive and public support may be warranted include such areas as: 1) basic science and fundamental knowledge, 2) environmental quality, 3) food safety and security, 4) understanding agricultural systems, 5) economic opportunity and quality of life in farming and rural communities and 6) public health.

Chart 1 shows the hypothetical costs and benefits of food and agricultural research which can be used to illustrate the principles guiding the respective roles of private and federal funding. Research costs are normally incurred several years before the result is developed and adopted. In our example in Chart 4, the benefits that can be captured by a private firm are colored blue and have an annualized return (an internal rate of return) of 15% on the research costs. The 15% return may be insufficient incentive for the firm. But there may be substantial benefits that accrue to society at large in addition to the private benefits that can be captured by the firm. In our hypothetical case, the public plus private benefits generate a 25% annual return. In this case federal investment may be warranted.

One may also think of the blue benefits as those accruing to a state from a State Experiment Station Project, which is not justified by the benefits to the one state alone but may be justified when we consider all states and therefore the merits of multi-state collaboration or federal support. For example, the benefits of research conducted on animal diseases in one state are likely to "spill-over" and aid livestock producers in neighboring states or the entire nation.

The benefits of extension and education, in terms of Chart 1, can be visualized as accelerating or quickening the benefit stream. Extension education serves to speed adoption and use of research results and hence increases its payoff to society. Extension does more than accelerate adoption and use; it also helps identify the problem in the first place and provides timely feedback during the development and adoption phases.

2) What Have Been The Measurable Benefits Of Federal Investments For American Farmers And Consumers?

Agricultural Research and Education Have Benefited U.S. and World

High Return on Investment: Many factors have contributed to the unparalleled success of American agriculture -- the favorable soils and climate, hard work and dedication of farm families, democratic system, free enterprise, transportation, communication, diet and nutrition and government policy, but one factor of undeniable importance was the expansion of food production enabled in large part by science-based advances in food and agriculture. Hence, agricultural research and education have played a major role in making the U.S. food and agriculture sector the envy of the world and are essential to keeping it thus.

The contribution of publicly supported agricultural research to advances in food production and productivity and the resulting public benefits are well documented. A recent analysis by the International Food Policy Research Institute of 292 studies of the impacts of agricultural research and extension published since 1953 is summarized in Chart 2. In these nearly 300 studies, spanning a half century, and involving nearly 2,000 separate estimates, the average annual rate of return on public investments in agricultural research and extension was a whopping 81% -- an extremely high rate of return by any benchmark. Clearly, hard and compelling facts prove beyond any doubt that investments in food and agricultural research have returned enormous benefits to the American people.

While of great importance to the farmer, improvements in agricultural productivity generated by agricultural research and education are broadly shared with society. Half or more of the benefits are redound to consumers in terms of an efficient production system competitive in the global environment; a safe and secure food and fiber system; a healthy; well-nourished population; greater harmony between agriculture and the environment; and a growing economy and improving quality of life. This tremendous pay-off of public investments in agricultural research and education over the past 50 years amount to $3,400 of annual savings on the food bill of the average American family.

Productivity in agriculture has more than doubled in the past 50 years. In fact, as Chart 3 shows, over the past 50 years, agriculture production has more than doubled, while the aggregate of all tangible inputs has actually declined by about 10%. In other words, all the increase in U.S. agriculture production for the past 50 years has been due to increased productivity, not due to more inputs. Research and education, both public and private, have been the prime driver of this phenomenal productivity growth.

<u>Saving Land and the Environment:</u> Advances in agricultural productivity have contributed to enhancing the environment and the quality of life. In his speech to the National C-FAR Inaugural meeting on January 30, 2001, Dr. Norman Borlaug, the Nobel Peace Prize recipient and one of the most distinguished agricultural scientists in the world, stated:

> "American farmers and ranchers not only have been able to increase agricultural production many-fold through the application of science and technology, I contend that they have also been able to achieve these production feats in ways that have helped conserve the environment, not destroy it. For example, had the U.S. agricultural technology of 1940 …still persisted today we would have needed an additional 575 million acres of agricultural lands—of the same quality—to equal the 1996-97 of 700 million tons for the 17 main food and fiber crops produced in the United States [Chart 4].

> "Put another way, thanks to the agricultural productivity increases made possible through research and new technology development, an area slightly greater than all the land in 25 states east of the Mississippi River has been spared for other uses. Imagine the environmental disaster that would have occurred if hundreds of millions of environmentally fragile lands, not suited to farming, had been ploughed up and brought into production. Think of the soil erosion, loss of forests and grasslands, and biodiversity, and extinction of wildlife species that would have ensued!"

In addition to this benefit of added agricultural productivity, research focused directly on soil conservation and land preservation such as reducing soil erosion through conservation tillage, buffer strips, and cover crops and the development of "smart growth" policies have also made major contributions.

Minimizing Healthcare Costs through Disease Prevention: Nutrition and diet-related research discoveries benefit everyone. New technologies are needed to reduce the likelihood of pathogen transmission by food, to improve the quality of processed foods, and to deliver greater nutritional value in foods. Additionally, the healthcare costs reduced by advances in nutrition research have saved the American taxpayer untold millions. As health costs continue to rise, it is imperative that our medical practices take a preventive approach. This requires a thorough understanding of the role of nutrients in foods in preventing chronic illnesses such as heart disease, cancer and diabetes.

Research in food safety and human nutrition has paid-off with considerable benefits to society. It complements the funding of disease-related research by focusing on prevention through diet and nutrition. An important new area of nutrition research is to discover how foods and food components (not typically thought to be traditional nutrients) can prevent various diseases throughout the lifecycle. Research on the content, availability, and safety of the food supply is extremely useful to the consumer by achieving optimal health in using agricultural commodities as part of our diets. This investment in nutrition research increases knowledge that prevents diseases and ensures a healthy and productive society.

Examples of Real Life Impacts of Research and Education: In addition to these careful and comprehensive statistical measures and explanations of the benefits of the public's investment in food and agricultural research, there are literally hundreds of specific examples of success we could cite. We are preparing research and education success to "put a face on" food and agricultural research and education and provide some concrete examples of the impacts and benefits.

3) Why Should We Double Food And Agricultural Research?

We should double food and agricultural research in the next five years for three basic reasons: First, despite past progress and contributions, many challenges remain. Second, federal funding of food and agricultural research has been essentially flat for two decades, the scientific base upon which food and agriculture advances have been built is at risk. Third, there will be the opportunities lost or innovations that will not occur unless there is increased support. Research helps justify or minimize the risk of investment which produces the next generation of solutions.

Solve Pressing Problems

World food demand is escalating. World population and income growth are expanding the demand for food and improved diets. World food demand is projected to double in 25 years. Most of this growth will occur in the developing nations where yields are low, land is scarce, and diets are inadequate. Without a vigorous response the demand will only be met at a great global ecological cost.

Food-linked health costs are high. Some $100 billion of annual U.S. health costs are linked to poor diets and food borne pathogens.

Farm income is low. U.S. farmers are suffering from some of the lowest prices in over two decades. Emergency federal farm assistance programs are spending record sums to avert a catastrophic farm situation. Longer term approaches to the assist farmers add and retain value of their commodities. Indeed, there was much discussion during the 1996 farm bill that expanded food and agricultural research could enhance competitiveness and value-added opportunities and be an engine for growth. But the major commitment to expanded research has not yet materialized.

Food safety concerns and expectations are rising. Some of the new food products based upon genetically modified organisms are raising increased public awareness and concern about the safety of our food supply.

We can reduce the threats to our environment and improve sustainability by gaining a better understanding of the ecosystem and the development of more environmentally friendly practices.

Energy costs are escalating, our dependence on petroleum imports is growing and our concerns about greenhouse gases are rising. Agriculture provides the potential for renewable sources of energy and cleaner burning fuels that will reduce our dependence upon rising petroleum prices and imports.

We need improved bio-security and protection. The need for bio-security and bio-safety tools and policies to protect against bio-terrorism and dreaded problems such as foot-and-mouth and "mad cow" diseases and other exotic plant and animal pests, protection of range lands from invasive species, new ways of sustaining agricultural productivity and production growth, and solutions to the environmental issues related to global warming, limited water resources, competing demands for land and other agricultural resources, are major challenges for the research and education agenda.

Avert Risk of Losing Competitive Advantage

Federal funding of food and agricultural research has been flat for over 20 years. It has declined relative to all federal research and relative to agricultural research in the rest of the world.

Federal funding of food and agricultural research in the USDA, measured in real (inflation-adjusted) dollars is less than it was in 1978 (Chart 5). In 1978, in constant dollars, USDA food and agricultural research and education funding was $1.64 billion, in 2000 the funding was $1.6 billion.

Federal funding of food and agricultural research has not kept pace with funding of all federal research. According to The National Science Foundation, total federal research funding during 1982 to 1998 increased in constant dollars, but funding of food and agricultural research decreased. The food and agriculture research share of the federal total has fallen from 4.2% to 2.5% (Chart 6).

We may be in danger of falling behind the national support of research in other countries. Public funding of agricultural research in the rest of the world outside the U.S. during 1971-1993 increased nearly 30% faster pace than in the U.S. (Chart 7). While we still have the leading public supported food and agricultural research and education program in the world, our edge is shrinking. In this Internet Age of global agriculture, the international transfer of technology across borders is accelerating, making it much more difficult to sustain our lead unless we increase our federal support. Currently, we only invest about $1 of federal funds of agricultural research per every $500 of consumer expenditures of food and fiber - a very low rate indeed (Chart 8)!

Capitalize Upon Expanding Opportunities

The third reason, but perhaps most important one, for doubling food and agricultural research is to capitalize upon the promising opportunities that advances in science and technology make possible. Advances in science and technology are opening the way to tremendous opportunities such as the sequencing of the human, plant, and animal genomes. Taking advantage of these unprecedented biotechnological advances will require significant increases in research funding. If we do not, the technological advantage the U.S. now enjoys in these areas will be lost. This loss or our scientific leadership will have a very adverse impact on our use of new technologies that will fuel our economy over the next decades.

4) How Should the Doubled Funds Be Spent?

Goals

We believe increased funding of food and agricultural research will result in:

- Safer, more nutritious, higher quality, more convenient and affordable foods
- More efficient and environmentally friendly food, fiber and forest production
- Improved water quality, resource conservation and environment
- More jobs and sustainable rural economic development
- Less dependence on non-renewable sources of energy

- New and improved products, expanded global competitiveness and improved balance of trade
- Better protection for our agricultural and natural resources from new, emerging, and imported plant pests and animal diseases

National C-FAR does not have a list of specific research recommendations. However, our members and their association with other related coalitions, we are well aware of urgent research needs to address and opportunities to explore.

Authorization & Leveraging

Legislative authorization of food and agricultural research and education is in several major pieces of legislation including the Hatch Act of 1887, The Smith-Lever Act of 1914 and most recently the Agricultural Research, Extension, and Education Reform Act of 1998. Several key provisions of the 1998 Act expire in 2002. National C-FAR recommends that:

1) The basic authorizations and provisions of the 1998 Act be extended and incorporated in the new farm bill
2) An additional provision be included that it is the sense of Congress that federal funding of research, extension, and education be doubled over the next five years
3) Provisions be strengthened to expand stakeholder participation in identifying research and education funding needs and opportunities

The current definition of "food and agricultural sciences" in Chapter 64- Agricultural Research, Extension and Teaching, Section 7, Paragraph 3103 (8) is "basic, applied and developmental research, extension, and teaching activities in the food, agricultural, renewable natural resources, forestry, and physical and social sciences in the broadest sense of these terms." We support a broadening of this definition to include expanded international market opportunities, protection from plant and animal diseases and pests, and human nutrition and health. We also support a better identification of the various food and agricultural research programs throughout the federal government and improved the coordination of these programs. The challenges and opportunities of the food and agricultural sector require the interest, support, and participation of all federal agencies.

Building Capacity and a Balanced Portfolio

National C-FAR and its member organizations have identified several emerging needs and opportunities which we soon will explain, but we first want to emphasize the continuing need to build the capacity to do quality research and education, including human resources, competitive grants, infrastructure support, formula funds, and core programs. Research and education is the foundation of knowledge upon which the food and agricultural sector depends. This foundation must be kept strong, lest it crumble and curtail the strength and expansion of this trillion dollar sector. Even to maintain existing productivity, substantial maintenance research is necessary. Discovery is a continuous process that must be ongoing, not a one-time eureka moment.

It is important to maintain a balanced portfolio of federal research and education programs, including competitive grants, formula funds and intramural programs. Agriculture is a biologically based industry. Many of the problems and opportunities are site specific. Results must be adapted to fit local conditions. Hence, we need to maintain a diversified and decentralized research and education system.

Areas of Opportunity

Several coalitions, committees and scientific societies, including those listed below, have identified these needs and opportunities:

- Coalition for Research on Plant Systems - CROPS '99
- Food Animal Integrated Research for 2002 --FAIR 2002
- Institute of Food Technologists -Food for Health Research Needs
- Council on Food, Agricultural, and Resource Economics -- Economics and Research Priorities for an Efficient and Sustainable Food System
- American Society for Nutritional Sciences
- National Agricultural Research, Extension, Education, and Economics Advisory Board
- American Dietetic Association
- National Association of University Fisheries and Wildlife Programs (NAUFWP)

Members of our Research Committee have presented to our Board a compilation of these studies.

Major areas of research that have been commonly identified by most, if not all, of the related coalitions that are in need of additional funding include:

- Food security, safety, fortification, enrichment and allergens
- Nutrition and public health
- Environmental stewardship and resource conservation and the scientific basis for public policies relating to the environment, plants and animals
- Jobs and rural community economic vitality
- Production quantity and quality; nutrient adequacy; global competitiveness; and new market opportunities
- Increasing knowledge, skills, and expertise
- Emergency preparedness for emerging plant and animal diseases and bio-terrorism
- Product pioneering for food, nutrition, biobased materials and biofuels
- Genetic resources, genetic knowledge, and biotechnology
- Education and outreach to producers, processors and consumers including food safety, sound nutrition, conservation, management, and new technology

Our coalition arose from a shared concern about the capacity of our agricultural research system as a whole to meet the future demands and capitalize on emerging opportunities. We will need a research system that simultaneously satisfies needs for food quality and quantity, resource preservation, producer profitability and social acceptability. This coalition will be working on ways to help assure that these needs are met.

Conclusion

In conclusion, we hope we have convinced you that:

1) Food and agriculture is an important sector that merits federal attention and support.

2) Food and agricultural research and education have paid huge dividends in the past, not just to farmers, but to the entire nation and the world.

3) There is an appropriate and recognized definable role for federal support of research and education.

4) Federal investments in food and agricultural research should be doubled over the next 5 years.

We believe doubling of federal food and agricultural funding is a strategic and sound investment that would: 1) benefit producers and consumers of all commodities and all states; 2) improve income opportunities for farmers; 3) contribute to the United States remaining the best fed country with the lowest share of income spent on food; 4) strengthen our competitiveness in the global marketplace, while achieving the proper balance with human and environmental needs; 5) enable producers to produce safer, healthier foods; 6) find new uses for agricultural products; and 7) enhance the protection of our renewable natural resources.

Again, we appreciate the opportunity to share our views. We look forward to working with you and the members of this Committee in support of these important long-term objectives.

National C-FAR
Membership List
June 20, 2001

National Members
American Crop Protection Association
American Dietetic Association
American Farm Bureau Federation
American Feed Industry Association
American Meat Institute Foundation
American Seed Trade Association
American Society for Nutritional Sciences
American Soybean Association
American Veterinary Medical Association
American Vintners Association
Association of American Veterinary Medical Colleges
Biotechnology Industry Organization
CARET
CoFARM
Consortium for Sustainable Agriculture Research and Education (CSARE)
Ducks Unlimited, Inc.
Forest Landowners Association
Institute of Food Technologists
National Chicken Council
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Grain & Feed Association
National Pork Producers Council
Sustainable Agriculture Coalition
U.S. Rice Producers Association
Wildlife Management Institute

University Members
Association of 1890 Research Directors
Auburn University
Clemson University
Cornell University
Iowa State University
Kansas State University
Mississippi State University
North Carolina State University
North Central Regional Association of Agricultural Experiment Station Directors
North Dakota State University
Ohio State University
Pennsylvania State University
Purdue University
South Dakota State University
Southern Association of Agricultural Experiment Station Directors (SAAESD)
Southern Illinois University
Texas A & M University System
University of Arizona
University of Arkansas
University of California, DANR
University of Connecticut
University of Florida
University of Georgia
University of Illinois, College of ACES
University of Illinois Extension & Outreach
University of Kentucky
University of Maryland, College Park
University of Minnesota
University of Missouri – Columbia
University of Tennessee
University of Wisconsin - Madison
Virginia Tech
Washington State University
Washington University in St. Louis

Corporate Members
Gold Kist, Inc.
Monsanto
Ralston Purina Company

Affiliate Members
Barry Sackin (American School Food Service Association)
Becky Doyle (Andrews, Doyle & Associates)
Brian M. Hyps (American Society of Plant Physiologists)
Deborah T. Hanfman (USDA)
Delmar K. Banner (Lietz, Banner & Ford)
Donald Danforth Plant Science Center
Dr. Bernadette Dunham (American Vet. Medical Assoc.)
Dr. Gale A. Buchanan (University of Georgia)
Dr. Martin A. Massengale (University of Nebraska)
Dr. Stephanie Smith (Institute of Food Technologists)
Dr. Terry Nipp (AESOP Enterprises, Ltd.)
Dr. W. David Shoup (Southern Illinois University)
Farm Foundation
Illinois Corn Marketing Board
Illinois Farm Bureau
Illinois Soybean Program Operating Board
Jack Cooper (Food Industry Environmental Network)
John L. Huston
Kellye Eversole (Eversole Associates)
Larry L. Groce (Producers Alliance, Inc.)
North American Millers' Association
Robert Mustell (RAM Associates)
Rod Nilsestuen (Wisconsin Federation of Cooperatives)
Seeley G. Lodwick (Green Bay Farms)
Tamara Wagester (C-FARE)
William Danforth (Washington University West Campus)

Honorary Member
Dr. Norman Borlaug

Chart 1

Hypothetical Private vs. Public Research Benefits

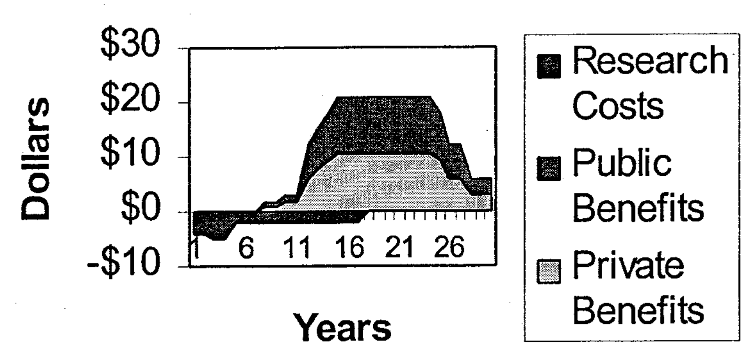


Chart 2

Hundreds of Studies Over 50 years Averaged 81%
Annual Return on Agricultural Research and Extensio

	No. of Observations	Percent Return
Research only	1,144	100
Extension only	80	85
Research and exten	628	48
All observations	1,852	81

Source: Julian M. Alston, *et al*, A Meta-Analysis of Rates of Return to Agricultural R
International Food Policy Research Institute, Washington, DC , 2000 page 55.
The origiňal full sample included 292 publications reporting 1,886 observations, which 34 were dropped because they were given as ranges, observations were los or were extreme outliers.

Chart 3

All Increased Ag Production Due to Productivity

(Doubling of output with decrease in inputs)

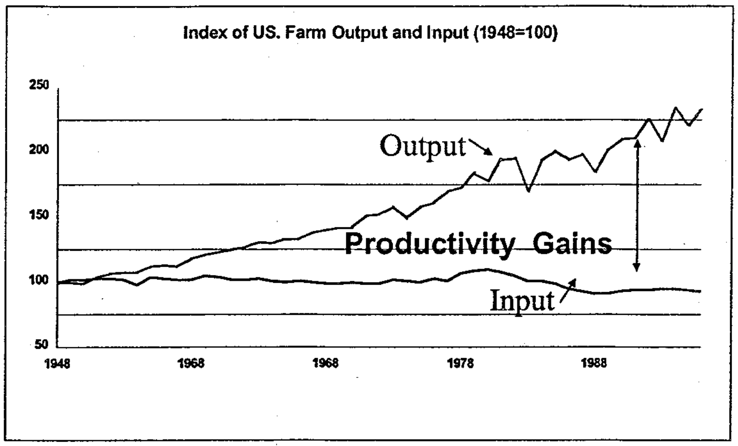
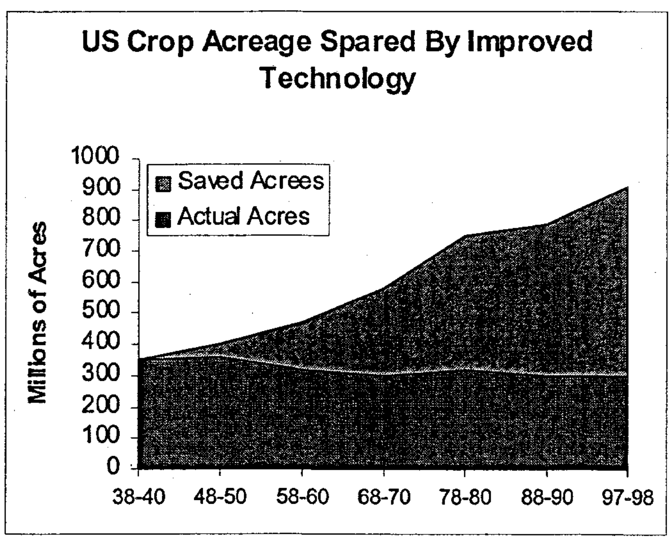


Chart 4



Adapted from Speech by Norman Borlaug, Jan 30, 2001. Acreage saved of 17 major food, feed and fiber crops assuming yield remained at 1938-40 average.

Chart 5

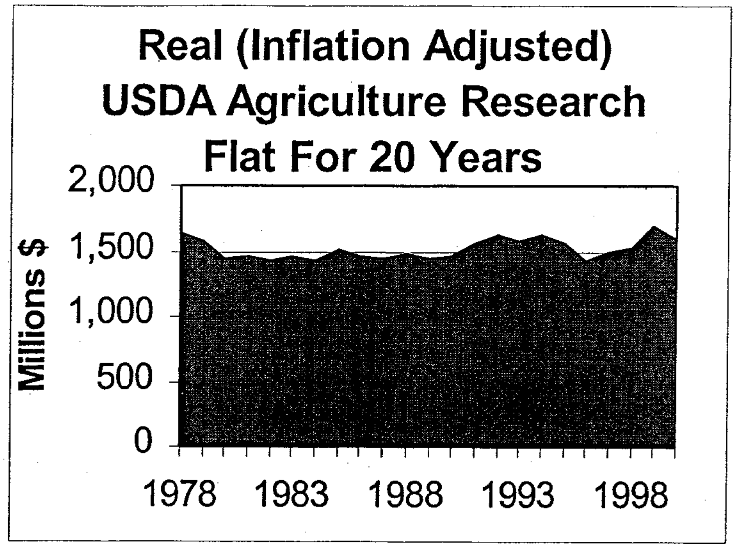
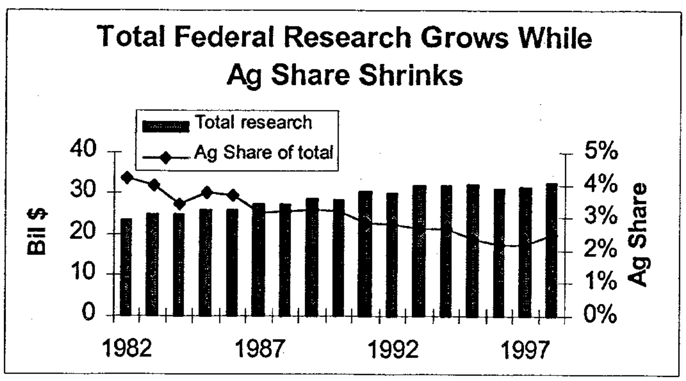


Chart 6



SOURCE: National Science Foundation/Division of Science Resources Studies, Survey of Federal Funds for Research and Development: Fiscal Years 1998, 1999, and 2000 . In constant Dollars.

Chart 7

Will We Lose Our Edge?

Rest of World Is Expanding Investments In Agricultural Research Much Faster Than U.S.

Millions of 1985 constant international dollars

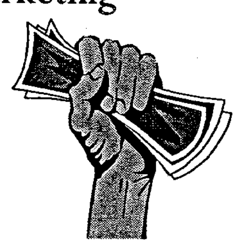
	1971	1993	% Increase
US	1,230	2,074	41%
Rest of world	6,075	12,892	53%

Source: Julian Alston, *et al* "Paying for Agricultural Productivity," Johns Hopkins University Press, Baltimore, 1999, pages 56, 61-63. Note, these data include both state and federal research.

Chart 8

Only $1 Federal Ag Research Funds Per $500 Consumer Expenditures

- 2001 Farm Cash Receipts from Marketing = $200 bil
- Farm share food dollar = 20%
- Retail value farm production = $200 / 20% = $1,000 bil
- USDA ag research funds = $2 Bil
- $2 bil / $1,000 bil = $1 Ag Research per $500 consumer food & fiber purchases



Testimony Regarding
The Proposed Farm Bill

Before the
U.S. Senate Committee on Agriculture
June 28, 2001

Presented by Sharon Daly
Vice President for Social Policy

Catholic Charities USA
1731 King St.
Alexandria, VA 22314

Sharon Daly
Catholic Charities USA
Testimony Regarding
The Proposed Farm Bill
June 28, 2001

Mr. Chairman, I would like to thank you for the opportunity to testify before this Committee regarding the proposed Farm Bill, and about the role of federal nutrition programs. The Farm Bill has many purposes but one of the most important is the reauthorization and modernization of the Federal Food Stamp Program so that low-income Americans can enjoy some of the bounty of U.S. agriculture.

Catholic Charities USA is the national association of more than 1,400 independent local Catholic Charities agencies and institutions with more than 250,000 staff members and volunteers. In 1999, Catholic Charities' programs served nearly 10 million people of all religions and of no religion and of every racial, ethnic and social background. Catholic Charities agencies sponsor many of the federal anti-hunger programs, including (WIC) Women, Infants and Children, the Commodity Supplemental Food Program (CSFP), The Emergency Food Assistance Program (TEFAP), and our agencies and their associated parishes operate soup kitchens and food pantries in every part of the U.S.

Catholic Charities agencies have a long history of serving people in need that stretches back to the early 1700's when a group of Ursuline Nuns began working with the poor in New Orleans, Louisiana. This history and commitment to those in need has allowed our agencies to witness the dramatic effects the federal anti-hunger programs have had in the lives of Americans.

The first point I would like to make, is that, even with its many imperfections the Food Stamp Program has been very successful. As this nation's primary safety net against hunger, food stamps are targeted to the poorest citizens and are the only assistance available to low-income people, regardless of their age, health or employment status.

As Jim Weill, President of the Food Research and Action Committee, has pointed out, the reason the Food Stamp Program can be termed a success is because there is less hunger among low-income families with children now than there was 30 years ago. This is an amazing achievement considering that cash incomes for the bottom two-fifths of Americans, especially those in families with children, and most particularly young and minority families with children, have gone down over the same 30-year period. Median earnings for lower-income workers (when adjusted for inflation) are down and median welfare payments to families with children are down dramatically.

The reason there is less hunger among low-income families with children is not because there is more income from earnings and public assistance. Rather, the main reason there is less hunger is because of the growth and improvements in food stamps, other nutrition programs, and the earned income tax credit.

However, despite our prolonged economic growth and the successes of the Food Stamp Program, there are still 31 million Americans, approximately 12 million of whom are children, that the USDA and the Census Bureau tell us either are hungry, cannot afford balanced diets, or which parents skipping meals so their children can eat, or where other indicators of food insecurity mean real deprivation.

To address this national scandal in our wealthy nation, we need to strengthen the Food Stamp Program – both access to the program and the adequacy of benefits.

Last year, requests for emergency food assistance nationwide surged over 30 percent, while participation in the Food Stamp Program has dropped by more than seven million persons since 1996. Our own Catholic Charities agencies report similar increases in the number of people asking for emergency food assistance.

The USDA's analysis of the national trend suggests that most of the decline in the Food Stamp Program participation is the result of families leaving TANF. Almost two-thirds of families leaving TANF do not receive food stamps in the six months after leaving welfare, although numerous studies show that most continue to live below the poverty line and even more fall within the Food Stamp Program's income limit, which is 130 percent of the poverty level.

Let me begin with the premise that, here in the United States, the strongest economic powerhouse in human history, parents working full time should be able to support their children in dignity and that parents who work full time should not be reduced to begging for food for their children. But that, in fact, is the situation of millions of Americans who, despite full time work, cannot feed their families without regularly resorting to begging for food from their local church or charity—or more likely, from all their local churches and charities, since they need emergency food donations frequently to make ends meet.

Catholic Charities agencies across the country continue to report that, despite low unemployment, the need for donated food outstrips their capacity. The growing need for emergency food donations among working families has been attested to by many of our colleagues in other organizations, including the Salvation Army, Lutheran Social Services, and the U.S. Conference of Mayors.

In our Catholic teaching, we believe that government has the responsibility to arrange economic affairs to ensure that full time workers can support their families in dignity. That is why the Church is continually urging Congress and the Administration to increase the minimum wage and adjust it annually to increases in the cost of living.

Of course, in this nation of rapidly increasing disparities of income and wealth, the minimum wage, even if increased according to legislation pending here in the Senate, won't provide a living wage for families with even one or two children without income supplements, such as the Earned Income Credit and the newly partially refundable child tax credit, subsidized housing, subsidized child care, subsidized health care, and subsidized food.

What role then should federal food programs play in this picture? Of course, the food programs can't by themselves fill the gaps, but they can and should play their special role.

Unfortunately, the Food Stamp Program is still operating on three assumptions that may have been true in the 1970's when the program took shape, but which are no longer valid.

The first premise is that low-income households can afford to spend 30% of their incomes on food. That's why the Food Stamp Program is designed to fill the gap between the lowest possible cost of purchased food for a family and the cash that represents 30% of the recipient family's income.

Unfortunately, only one fourth of low-income households get housing subsidies, and the shortage of affordable housing has left three fourths of low-income folks with rents that consume 50%, 60%, or 70% of their incomes. If you add up the numbers, a parent working at or near the minimum wage has take home pay of only $800 or $900 a month. In today's housing market, that parent is lucky to find an available apartment for less than $700—and that's before paying utilities!

So our first recommendation is to adjust the Food Stamp Program to the reality that the vast majority of food stamp households cannot afford more than 15% or 20% of their incomes for food. It is time to recognize the facts and change the calculation formula.

The second outdated assumption underlying the Food Stamp Program is that most recipients will only need assistance for short periods so that the benefit structure is based on a diet that is "minimally adequate" for short periods. Unfortunately, many low-income families will continue to need the program for many years—or at least until Congress sets the minimum wage at a real "living wage." Here we have a situation where many of the very people who create the conditions that give the rest of us a decent quality of life are expected to survive long-term on a diet that is <u>officially</u> "minimal". The nurses aides in hospitals and nursing homes, the cleaning staffs in our office buildings, the kitchen staffs in cafeterias and restaurants, and the day care workers raising America's children are expected to nurture their own children long-term on prisoners' rations.

So our second recommendation is to adjust the food stamp program to the reality that benefits must be adequate over the long term for families while parents make their way up from $5.50 an hour to $10 or $15 an hour, at which point they may be able to afford to shop at the supermarket instead of the church food pantry.

The third outdated assumption is that most poor households are on welfare or unemployment insurance and are not working and are therefore available to spend a full day every few months sitting at the food stamp office, once again filling out a 26 page application, supplying 14 kinds of verification, and enduring the condescension of the eligibility worker.

Today, in the typical eligible household, the adults are working for low wages in jobs that do not provide paid time off, so a visit to the food stamp office means sacrificing a day's pay and risking losing a job. Current rules require working parents on food stamps to reapply every three months. That means sacrificing a day's pay four times each year! It is no wonder that less than half of eligible households are participating in the program.

Our third recommendation is to recognize the reality that low paid workers are the largest group of eligibles and to update the system. First, families leaving welfare for work should automatically be enrolled in food stamps for a full year without any additional paperwork. Second, other low wage workers should be able to apply for food stamps by mail with income verified by employers, if necessary, to avoid the necessity of losing time from work for an interview.

Another issue of grave concern to our member agencies is the pending cut off of cash benefits to welfare recipients who are reaching their lifetime eligibility limit. Parents working part time, seasonally, or not at all will have to rely even more heavily on food stamps. We know from published research and from the experience of our own agencies that as many as one-third of these parents suffer from one or more severe physical or mental disabilities or are caring for a disabled parent or child. Some of these parents will eventually qualify for exemptions to the time limit because of severe family problems, while others may qualify for disability payments.

How can the Food Stamp Program help these families to survive while non-profit religious and community organizations and local and state governments search for longer-term solutions? Clearly, one major contribution would be for federal and state Food Stamp Program officials to develop and implement a comprehensive communications strategy to inform families that their food stamp eligibility is not affected by the TANF time limit. Families should be encouraged to come in to reapply and to have their food stamp benefits recalculated to reflect their reduced cash incomes. This Committee should require states to conduct outreach and education campaigns to ensure that families have a food safety net.

Congress should not be misled. The religious and community organizations that feed the poor now are already stretched past their capacity. The cupboard is almost bare. Government, especially the Food Stamp Program, must play a key role in protecting children during this transition period.

Mr. Chairman, I realize that Appropriations for WIC are not part of the proposed Farm Bill. However, it is important to point out that the Administration's request of $4.137 billion for Fiscal Year 2002 is insufficient for the WIC Program. We feel that at least another $110 million is needed to keep up with inflation and the projected increase in unemployment. Under the Administration's request, WIC would take a step backwards from the goal of serving all families in need.

Finally, we strongly recommend the passage of S. 583, the Nutrition Assistance for Working Families and Seniors Act. Among the various provisions in the proposed Act, the bill would amend the 1996 Personal Responsibility and Work Opportunity Act, so that legal immigrants would be eligible for food stamp benefits. A significant portion of the nearly ten million people who we serve annually are legal immigrants who are working for extremely low wages and are paying taxes, but who have no access to federal programs like the Food Stamp Program. Hard working immigrants who contribute to our society deserve to be treated with dignity and respect and restoring food stamp benefits to them is the very least we can do.

Catholic Charities USA, along with the U.S. Conference of Catholic Bishops and the National Catholic Rural Life Conference, has begun a series of listening sessions around the United States that center on Agriculture issues, such as the plight of farm workers, the problems facing small farmers and sustainable agriculture. The first of these "listenings" took place last week in Sacramento, California with two more scheduled for later this summer in Amarillo, Texas and Ames, Iowa.

What we heard in Sacramento has raised our concerns about our nation's food system. The most disturbing is the endless poverty and the lack of dignity that farmworkers endure so that we all can purchase our food at low supermarket prices. What we heard in Sacramento confirmed what Catholic Charities USA staff witnessed in other recent visits to Central Florida and the Delmarva Peninsula where farmworkers and poultry processors are exploited, dehumanized and treated as a commodity like the food they harvest and process.

It is more than ironic that the immigrants who plant, harvest, process and serve our food are not eligible to receive food stamp benefits. It is wrong that hard working immigrants who come to our country to do some of the most backbreaking work imaginable are paid the lowest wages possible. And, it is a sin for millions of immigrants to live among us classified as "illegal," even while paying taxes, helping to keep Social Security solvent, and contributing to the prosperity of the American economy. I strongly encourage you, Mr. Chairman, to schedule hearings for this Committee to examine the treatment of farmworkers.

Again, thank you Mr. Chairman, for this chance to share our experience and concerns. As Congress discusses and debates the proposed Farm Bill, I assure you that Catholic Charities USA stands ready to assist you every step of the way.

Testimony of David E. Carter
Secretary-Treasurer
Mountain View Harvest Cooperative
Longmont, Colorado

Mr. Chairman, members of the committee, I am Dave Carter, the Secretary-Treasurer of the Mountain View Harvest Cooperative, a new generation enterprise organized in 1997 by 225 Colorado wheat farmers who generated $5 million to purchase a modern bakery and enter the bread business. Our bakery is the sole supplier of product to a major high-end national sandwich chain—and through a joint venture with Farmland Industries and Bay State Milling—is involved in a series of branded bread products at the retail level.

This new cooperative emerged from the ashes of a bankrupt old-line grain origination and feed milling cooperative that had operated in Colorado since the 1940's. In the spring of 1994, I joined with the leaders of the cooperative, who were searching for a way to make a new start. In the fall of 1994, that group applied for—and received—a $100,000 Rural Business Enterprise Grant from the U.S. Department of Agriculture for the purpose of feasibility analysis. Those funds were used to hire a professional firm that researched 14 potential areas for value-added processing for Colorado wheat. They looked at everything from ethanol and wheat gluten to pretzels and pizza dough.

What they identified were emerging opportunities in the bakery industry—particularly in a segment known as par-bake, or partially baked bread.

That provided solid groundwork, but more than a year of additional work was needed before this concept took root. The steering committee separated from the existing cooperative and organized as Mountain View Harvest. With a $25,000 interest-free loan from a for-profit subsidiary of the Rocky Mountain Farmers Union, the steering committee hired a group to conduct due diligence on the feasibility analysis, and to begin developing the business plan for operation. That step was critical in bringing the feasibility information to a producer level. The problem with the bakery business is that you can make a lot of bread with a little dab of wheat.

The original concept would have required 500 producers to invest $22,000 apiece into a venture that would not even use the wheat grown on 20 acres per member. Working with a professional team consisting of an accountant, attorney, and investment specialist, the steering committee located an existing modern bakery in northern Colorado that could be acquired at a reasonable price. That led to the final business plan in which 500 shares of stock were marketed for $12,500 apiece. Each share carried the right and obligation to deliver 900 bushels of wheat to the co-op. The cooperative would utilize the best wheat for the bakery operation, and would market the rest on the open market.

Not too many wheat farmers have $12,500 lying around in the kitchen drawer to invest in a new business concept. But the local Farm Credit System stepped up to the plate with an attractive signature loan program in which producers could borrow the funds necessary for their equity investment.

The loan program was critical to the success of the equity drive launched in November 1996, that resulted in the successful acquisition of Gerard's French bakery in April 1997.

At the time of acquisition, the bakery had annualized sales of approximately $6 million. At the close of the last fiscal year, sales topped $17 million. This success has brought it's own challenges. Dividend payments to producers have been minimal, as all available cash has been needed to fund the rapid growth. In light of the difficulties facing much of agriculture, rapid growth is a welcome problem.

At the same time I was involved with the formation of Mountain View harvest Cooperative, I was working with another new generation cooperative that ended disastrously. That cooperative was a kosher beef processing project organized by 100 limited resource ranchers in southern Colorado and northern New Mexico. The lack of financial start-up support and the absence of an equity investment loan program led to under capitalization and hiring of inexperienced management, all of which contributed to the demise of this cooperative.

I believe the experience of Mountain View Harvest contrasted with the failure of other co-op ventures, provides some important lessons that can be utilized in crafting the rural development title of the next farm bill.

The next farm bill must target adequate resources to help producers further participate in the food chain to create viable competitive alternatives in a rapidly consolidating marketplace. New generation cooperatives are a valuable resource for producers. However, because of the high level of capitalization and businesses expertise needed in this new model, we must recognize that limited resource producers may be left behind while those farmers with money use new generation cooperatives as a tool to make more money.

The following provisions—included in the next farm bill—will provide resources necessary to assure that cooperatives continue to serve as a model for creating new wealth, and opportunities for producers of all sizes.

First, adequate funding must be allocated for feasibility studies. The farmers involved in Mountain View Harvest were tempted to pursue another venture until the feasibility analysis revealed the potential risk involved in that venture. Unfortunately, the expertise needed to identify viable business opportunities comes at a price, and we have to ensure that producers are not priced out. I suggest $1 million be allocated to each state Rural Development office, or $50 million per year, to support this program

Second, the Rural Cooperative Development Grant Program should be funded at $50 million to allow for the operation of a Cooperative Development Center in every state. Mountain View Harvest received valuable assistance from the Rocky Mountain Cooperative Development Center. Producers in every region need to have access to similar resources.

Third, the Business and Industry Loan Guarantee program should be strengthened and revised to serve as a viable incentive and assist producers in making equity investments in new generation cooperatives. This program, and well as all other aspects of Rural Development, must recognize that successful new co-ops may involve the acquisition of an existing business, rather than green field construction of a new enterprise. Acquiring existing businesses often involves buying a high level of intangible assets known as "blue sky". Those assets, consisting of customer lists, delivery routes and established market outlets are vital to success. But they are not the type of brick and mortar that represent the traditional collateral lenders prefer. Without the ability to purchase marketing opportunities, too many co-ops will fail.

Fourth, the Value-Added Grant program that was initiated this year needs to be continued and expanded. Many co-op and other producer-owned businesses simply lack the capacity to get through the transition from the organizational phase to an operating enterprise. The value-added grant program provides the resources to help these businesses get a foothold in the marketplace. The $60 million in applicants for the first $10 million in available funding for this program certainly illustrated the pent-up demand for these resources.

Finally, the farm bill can help create some demand pull by directing federal agencies to increase the percentage of products they purchase from locally-based, producer owned enterprises, including cooperatives and minority-owned companies. This would create a consistent supply-line that can help locally owned businesses get established in their production, processing and distribution system.

Together, these small measures can help create new opportunities across the American countryside, and can help restore competitive opportunities that will provide American consumers with safe, healthy, quality nutritious food products while bringing profitability back to the farm and ranch gate.

Thank you again for this opportunity to bring the importance of value-added cooperatives before this committee.

DOCUMENTS SUBMITTED FOR THE RECORD

JUNE 28, 2001

Remarks by Senator Tom Daschle
Senate Committee on Agriculture, Nutrition, and Forestry
Hearing on the New Farm Bill
June 28, 2001

Thank you, Chairman Harkin, for convening this hearing to begin discussions relating to the major issues facing agriculture as this Committee moves forward to develop a new comprehensive farm bill. Needless to say, the process we are now embarking on is important for farmers in South Dakota and across the country, and we have our work cut out for us to get a new farm bill in place as soon as possible.

I only wish that the debate over current farm policy had started when prices plummeted in 1997 and 1998 and farmers were left without an adequate safety net. Instead of addressing the fundamental problems with *Freedom to Farm*, Congress passed emergency farm aid. While each of the last three emergency packages was necessary and the need remains great this year, annual disaster payments are no substitute for a workable and effective farm policy. These payments should only strengthen our resolve to enact policy that enables family farmers and ranchers to compete and thrive, independent of government interference year-in and year-out.

Under your leadership, Mr. Chairman, we will restore a meaningful farm income safety net for farm and ranch families. It is not enough to reauthorize the current farm bill with the current commodity programs, the current loan rates, or the current level of transition payments. Instead, we must craft a new proposal that addresses two fundamental questions: (1) what is in the best interest of rural America; and (2) how can we make sure family farmers and ranchers can compete and thrive not just for the next few years, but for generations to come.

Simply put, the next farm bill must respond to priorities set by producers. Whatever policy we agree upon should be *voluntary*, and based on providing people *options* so they can tailor an economic safety net to their own needs. Our policy must also stimulate economic growth and entrepreneurship. We should implement a policy that provides a safety net when prices and yields fail, but reduces government's role when they are strong. Payments should go to people who are actively farming and treat producers fairly, irrespective of the commodities they produce. Marketing loan rates should be fair and should not distort planting decisions. And, we simply must do a better job of ensuring that the policies we put in place do not erode the economic foundation of rural communities.

I want to end by emphasizing, however, that time is of the essence. Producers are out of options. Bankers in South Dakota say the money is not going where it is needed most, and that must change. I am encouraged that this is the first of what the Chairman plans to be an aggressive hearing schedule on the new farm bill, and hope that we can enact a new farm bill as soon as possible.

Again, thank you Mr. Chairman, for holding this hearing. I look forward to the testimony of the witnesses.

Testimony to the Senate Agriculture, Nutrition and Forestry Committee Hearing, June 28, 2001 Looking Towards a New Farm Bill

by EIR News Service
Prepared June 29, 2001 for
Submission for the Record
by Robert L. Baker, Marcia M. Baker
(703-777-9451) marciabaker@larouchepub.com

- Traditional Parity-Based Farm Policy Essential -
- As Part of 'New Bretton Woods' Financial Emergency -
- Measures To Save National Economies -

Chairman Harkin, and Members of the Committee:
The question before lawmakers today is NOT "Is there a crisis?" The facts of the current farm-sector crisis are very well known to most Members of this Committee: low commodity prices, hyperinflated energy costs, high prices for fertilizer and other inputs, lack of infrastructure (rail, water, hospital, and social services), farm-state budget crises, market control by cartels, trade disaster, etc. These factors add up to a food supply crisis.

But, awful as this is, it is not the whole picture. To competently address the question of what policy we must now undertake for agriculture, requires an understanding of the crisis condition of the entire international financial system, and the overall economic breakdown process we face today.

The EIR News Service, in the months leading up to the 1996 Farm Law, and over the course of years before that, published extensive reference material warning of the consequences of allowing the political imposition of radical "markets"-based, deregulated practices--in domestic policy or in foreign trade policy (GATT, NAFTA, WTO). Our founding editor, Lyndon LaRouche, is well known for leading a policy campaign against the phaseout of parity-based pricing for farm commodities, oil, and gas; and against deregulation of other vital sectors of the U.S. economy (transportation, medical care, etc.). Now the toll, in terrible damage to the economy and society, of going ahead with the "free market" swindles is evident to anyone who isn't ideologically blinded.

- The Context and Guidelines -

In this testimony we review the following three points, with special reference to agriculture.

1) It must be understood that the entire financial global system itself--not merely agriculture, or any other specific economic sector--is in crisis.

2) What should be pursued as the only sound basis for new U.S. economic law, and for emergency intervention as well, are the principles behind the traditional American (or "American System") policies that "worked" so well--regulated energy, regulated health care, regulated transportation, adequate public infrastructure, and trade in the mutual interest of nations--not so-

called "free" trade (rigged trade). In particular: Parity-based, or cost-of-production-based, family farming, is the means to food security in the national interest.

3) What must be resumed are anti-depression policies and infrastructure projects on the scale undertaken during the years of Franklin D. Roosevelt's Presidency--the Tennessee Valley Authority, the Western river projects, Rural Electrification Administration, etc. Right now, strategic steps are being taken in the direction of such an FDR-style intervention internationally--most dramatically, new backing for the great multi-nation rail and development project called the European Land-Bridge. Vision on the part of the Senate--vision for North American continental development--is politically, as well as economically, the only "realistic" leadership approach to take.

- The Financial System Itself Is Collapsing -

The bursting of the info-tech stock market bubble over the past months is only one dramatic example of the reality that we are now at the end-point of a speculative period (misnamed a "boom") in which mass numbers of of manufacturing layoffs, trade constriction, real estate deflation, and chain reactions of financial insolvency are the characteristics. For a dramatic snapshot of the situation, just look at the incredible buildup in the U.S. banking system of some $ 45.7 trillions of derivatives--futures bets, poised to collapse. Figure 1 (see below) gives the statistics, from 1990 to 2000. (See hard copy provided.)

On June 28, in Moscow, Lyndon LaRouche stressed the scope of what we face, at a press conference hosted by Sergei Glazyev, the chairman of the Economics Committee of the Duma (the lower house of the Russian Parliament), where LaRouche testified June 29. LaRouche said, "The present world financial crisis is in its terminal phase. We can not predict the exact day on which the collapse will occur, because it will depend upon certain political decisions, which will accelerate or delay the point of actual collapse. But, the collapse is inevitable. The world financial system, the world monetary system, in its present form, will soon cease to exist, period."

While whole sectors of the U.S. economy are rapidly plunging--from steel to lumber, to family farming--at the same time internationally, major nations are likewise in crisis; from Argentina and Brazil in our own hemisphere, to Turkey and others. Thus economic policy direction is under debate as a life-or-death issue.

- 'New' Bretton Woods Financial System Required -

The scale of this crisis demands the kind of response (for re-stabilizing currencies, dealing with debts, etc.) taken by nations at the conclusion of World War II, when their representatives met in New Hampshire, at Bretton Woods, to debate and to form a new financial system which could assist the process of rebuilding war-shattered economies.

In Moscow June 28, LaRouche spoke of the present crisis as a transition to what could be thought of as a "New Bretton Woods" financial system for dealing with the current crisis. He elaborated his ideas as a witness June 29 before the Duma Economics Committee hearing, on the topic, "Policy Changes Needed To Overcome the Collapse." The key elements for a New Bretton Woods that he identified in Russia, are exactly the same as what we in Washington, D.C. must consider. He told the Moscow Press Club on June 28:

"Now, contrary to some people, a monetary crisis is not the worst thing that could happen for the world--it could be the best. It's like going to a doctor to have a cancer removed: It could be the best thing that can happen to you. The reason the system is collapsing, is that it should never have existed. Decisions made in 1971 to change the international monetary system, followed by decisions made in 1979-1991, have created the present mess.

"The key is obvious--or should be obvious. First of all, we have to put the existing system into bankruptcy reorganization. That means, the $400 trillion in short-term debt outstanding, which, to a large degree, should be cancelled. Remember that the world GDP is estimated, in dollars, at $42 trillion a year right now. In addition to the normal debt, which is piled on nations, we have about $400 trillion in various kinds of soft, speculative gambling-debt types of debt. We should remember that, at the end of the last world war, we put weaker currencies through fundamental reorganization of that type. We had the experience of de Gaulle's 'heavy franc,' as a form of that, similar type.

"Now, the possibility of recovering depends upon establishing fixed-parity rates among currencies--at least principal currencies. In other words, in order to get growth, you must be able to have long-term credit extended--first of all--extended at 1-2% simple interest. In other words, if the rate of interest is higher than the rate of possible technological and physical growth in agriculture and in industry, you can't carry the debt. What we must do, is what was agreed upon at Bretton Woods in 1944-45: Peg all currencies to a fixed exchange rate, pegged on something like a gold-reserve system.

"End free trade and end globalization. You can not have production, unless you can provide to the people who are producing, an income which enables them to stay in business. If you can not provide reasonable conditions of family life and health care for families, they can not continue to be a family, to function.

"What you need is, a long-term system of agreements, usually extending up to 25 years--as, for infrastructure--to start rebuilding the economy from the present mess it's in. That's what the United States, Western Europe, and Japan did between 1945 and 1964. Under those conditions, those parts of the world increased their prosperity and productivity continuously. Since 1971, we have been living by cannibalizing ourselves. And, with the collapse of Comecon and the collapse of the Soviet Union, the world went insane, and they began to cannibalize everybody.

"If we can get into a partnership around a key number of nation-states, on such an agreement, to reorganize the world system, we can come out of this mess--slowly, but we can come out of it."

- Parity Principle for Agriculture, Energy, Whole Economy -

An adequate starting point for new U.S. farm legislation, and for emergency farm measures, is the Agriculture Act of 1949, which is cited in the 1996 "FAIR" Farm Law as the standing law of the land, if and when that 1996 seven-year bill is not replaced. The point of principle is that Congress can set a sliding scale, or range of cost-of-production-based support pricing, for specified farm commodities. This will have the effect of stabilizing prices for farmers, and creating conditions for a secure domestic food supply for the nation.

One obvious example of this, is milk. The Federal government must mandate an adequate farm milk price "floor" for fluid milk, either by approving "compacts," or by restoring Federal orders to the original parity-pricing principle. The milk protein concentrate imports issue is simple; the imports should be stopped. MPC imports serve the interest of neither the exporting nor the importing nations; only the dairy and food cartel companies gain from MPC outsourcing.

A stable farm sector presupposes, in turn, farm-sector purchases of industrial inputs (machinery, parts, chemicals, etc.), support for social services (schools, medical care, churches, community activities, etc.), and a tax base for local and state government. The result of all this, in turn, is that conditions are created under which care is taken for the resource base of the nation--soil fertility, water supplies, animal inventory, plant life, and so on.

At present, the opposite process is underway in the Farm Belt. One example, from Iowa. This week the State Legislature slashed 1,000 state jobs, drastically affecting functions of all kinds, because there is a state budget revenue shorfall of $300 million as of June 30, due to the farm economy decline--plus energy hyperinflation, and other breakdown factors. The same day, John Deere announced another 1,200 layoffs. Other farm states and counties are in even worse shape.

Not just in agriculture, but especially in energy, people are now returning to an appreciation of the relevance of the traditional principle involved in pricing based on "cost-of-production, plus a fair return." This standard is explicitly called for, in energy bills before both the Senate and the House. As the National Farm Organization used to argue in the 1970s: Parity in agriculture should be retained in the same way as it works for electricity. Utilities were then allowed rate prices at levels to meet their cost-of-production in generation, plus about 9% profit, and everyone benefitted.

But in the 1980s and 1990s, both agriculture and energy were undermined by allowing "markets"-based pricing, in reality governed by concentration of control under new mega-mergers, speculation, and profiteering.

Now, these two decades of profiteering must be sharply reversed. There must be a return to the traditional principles that worked for decades, and helped build the United States into the strongest agricultural and industrial power the world has ever seen. In the U.S. Constitution, it's called the principle of the "General Welfare"--the principle that should guide economic policy.

In brief, companion measures to parity-pricing, should include the following for both emergency and standing-law action by Congress:

1) Mandate a stay on farm foreclosures, energy dis-connects, and related dislocations of farms and farm families; initiate measures to evaluate, and re-schedule obligations, with the goal of keeping farms and communities in operation.

2) Use Chapter 11 bankruptcy reorganization widely, to retain in operation independent food processing, and other food supply line operations (transportation, storage, etc.).

3) Break up the processing and marketing combines now controlling the farm and food chains, typified by such mega-mergers as Cargill-Continental, Tysons-IBP, and Suiza-Dean, Wal-Mart, and so forth

4) End the "free trade" policy, which has been rigged all along for international mega-companies. Initiate foreign trade in the mutual interest of the nations involved. In North America, this means collaborating with Mexico to make possible that nation's return to food self-sufficiency, and likewise ending the U.S. import-dependence and "global sourcing" overall.

5) Revamp the U.S. Department of Agriculture to foster high-tech R&D for furthering advanced agriculture, and for handling threats to livestock and plant life, exemplified by hoof-and-mouth disease, BSE ("mad cow" disease), Karnal bunt, etc.

- Build Large-Scale Infrastructure -

Besides the 20th-century proof-of-principle in the United States--parity-based pricing for agriculture and energy worked so successfully that for many decades (1940s to early 1970s), U.S. farming and power supply systems were the model for the world--there is the similar example of the transcontinental rail projects of the 19th century. Vast areas were opened up for development: towns, industry, intersection points for power systems, and, most of all, family-farm-based modern agriculture.

That model is not outmoded, but was cast aside over the past 40 years in favor of "casino economics" and "market-based" business decisions which impoverished the Farm Belt and cities alike.

The present, inevitable collapse, is the time to restore the development-project approach. Of special concern to agriculture and farm states are the following:

1) Re-regulating the rail system, upgrading lines, adding lines, and using as the technology driver, magnetically levitated (maglev) rail lines on certain priority routes. Chapter 11 bankruptcy reorganization, anti-trust moves, and other proven reorganization procedures must be used wherever necessary, in the interest of restoring a full-service transportation system.

Also, restore mass transit for existing towns, and begin siting new towns along corridors of development, at designated juncture points where concentrations of industry, agriculture logistics, residential, and other activities can be located.

2) Launching continental-scale water management projects, including the North American Water and Power Alliance (NAWAPA), and nuclear-powered desalination systems for water-short coastal zones (Southern California, Florida, etc.). Upgrades are needed for flood management, irrigation, and other water-control systems in many parts of the continent, as recent years' terrible floods have dramatized.

3) Re-regulating the national energy system. Besides restoring control over runaway prices, Federal initiative should foster construction of the most advanced nuclear plants, to provide the needed ratios of electricity per household, per farm, per factory, and per unit area, nationwide, for the future.

- It Can Be Done -

The current crisis will worsen to chaos, or it will be the occasion for getting back to the kinds of projects and policies that built the United States. No matter that such a development approach was denounced as "unrealistic" over the past 30-year period of deregulation, globalization, and privatization. That period is over, one way or another.

The proof of the "realism" of policy change for the public good, is what is now taking place in Eurasia. A series of diplomatic initiatives and agreements have recently been reached between Russia, China, India, Southeast Asian nations, South Korea, Central Asian nations, and others, to further aspects of what is called variously the "New Silk Road," or as Lyndon LaRouche named it over 10 years ago, the "Eurasian Land-Bridge." Figure 2 shows a partial map of what is under discussion. Figure 3 presents a schematic of the principle involved of a "development corridor." (See hard copy provided.)

* On May 15, Moscow announced a new Eurasian Transport Union, to provide the institutional basis for nations and companies to collaborate on priority transportation and related infrastructure projects. A map of the series of "Main Directions" has been released by the Russian agency (available on www.mintrans.ru; and in EIR magazine's June 1 issue).

* On June 15, an historic six-nation summit occurred in Shanghai, launching the "Shanghai Cooperation Organization." The formal founding meeting was attended by the heads of state of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The new "Shanghai Pact" to

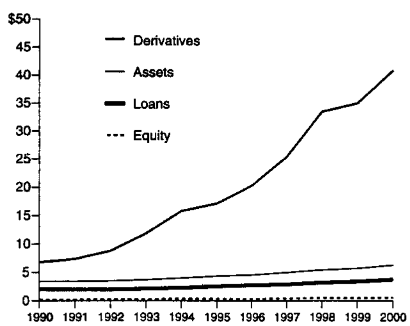
which they agreed, is committed to "safeguarding regional security," with mutually beneficial economic projects as the foundation. Russian President Vladimir Putin called stronger economic ties the key aim: "Cooperation in economics, trade, and culture is far more important than military cooperation." Rebuilding the "Silk Road" (modern rail routes) and expanding water supplies, were the particular goals cited by Kazakh President Nursultan Nazarbayev.

These initiatives illustrate the point that, for the U.S. Senate to begin to restore U.S. agriculture policy in the national interest, and trade in the interest of nations, and turn away from the destructive "free markets"-based looting, the Senate will be providing leadership in line with strategic international shifts towards policies serving national economic development.

Figure 1.

Derivatives Cancer Takes Over U.S. Banking System

(Trillions $)



Source: FDIC.

Figure 2.

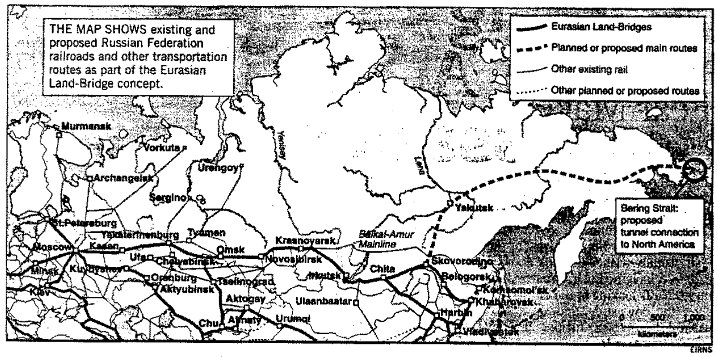
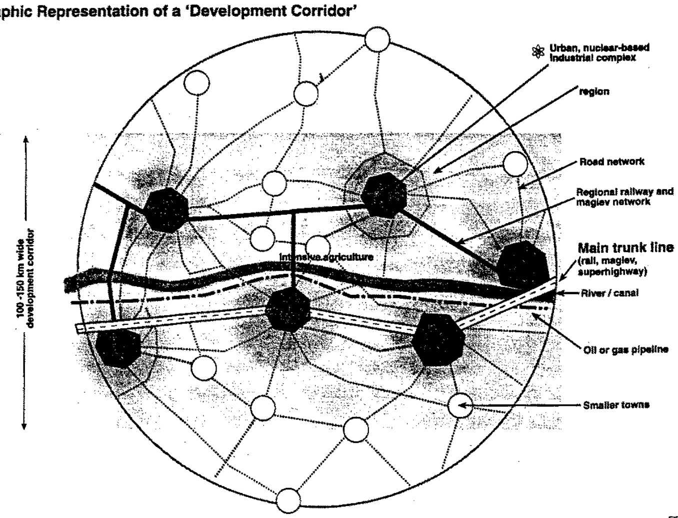


Figure 3.

Graphic Representation of a 'Development Corridor'



A schematic of a 'development corridor' of the type on which the Eurasian Land-Bridge concept depends, as shown in the January 1997 *EIR* Special Report.

AMERICAN FOREST & PAPER ASSOCIATION

JOHN HEISSENBUTTEL

VICE PRESIDENT FOR FORESTRY AND WOOD PRODUCTS

BEFORE THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

WASHINGTON, D.C.

JUNE 28, 2001

The American Forest & Paper Association (AF&PA) appreciates the opportunity to provide testimony before the Committee on Agriculture, Nutrition and Forestry.

The American Forest & Paper Association represents more than 240 member companies and related associations that engage in or represent the manufacturers of pulp, paper, paperboard and wood products. America's forest and paper industry ranges from state-of-the-art paper mills to small, family-owned sawmills and some nine million individual woodlot owners.

The U.S. forest products industry is vital to our Nation's economy. We employ 1.5 million people and rank among the top ten manufacturing employers in 42 states, with an estimated payroll of $51 billion. Sales of U.S. forest and paper products top $250 billion annually in the United States and export markets. Products from America's forest and paper industry represent more than eight percent of our country's manufacturing output.

Mr. Chairman, members of the committee, I appreciate the opportunity to present my testimony today on the forest industry's perspective for reauthorization of the 1996 Farm Bill. There is tremendous opportunity for the Congress to make its mark on supporting and promoting the concept of sustainable forest management in the 21st century.

FORESTRY TITLE

The U.S. forest products industry takes sustainable forest management very seriously. That is why it has invested considerable resources in the development of the Sustainable Forestry Initiative℠ (SFI). The SFI program is a private sector program that encompasses a comprehensive system of principles, guidelines and performance measures integrating the perpetual growing and harvesting of trees with the protection of wildlife, fish, plants, soil, air and water quality. As of today, there are over 100 million acres enrolled in the SFI program. This is the industry's effort to promote a higher standard by committing to the practice of sustainable forestry on its own lands and promoting these practices by involving non-industrial landowners, loggers, consulting foresters, and company employees who are active in wood procurement and landowner assistance programs.

The reauthorization of the Farm Bill gives the Congress a tremendous opportunity to promote the principles of sustainable forest management to nonindustrial private forest landowners. As authorized under the 1985, 1990 and 1996 Farm Bills, state foresters provide valuable technical assistance services to private forest landowners. Our industry's perspective is unique with regard to non-industrial landowners, since more than 50 percent of our fiber supply is from nonindustrial lands. As such, the industry has a special role in encouraging and supporting programs that can broaden public and non-industrial landowner awareness regarding sustainable forestry practices.

The 1990 Farm Bill contains the Forest Stewardship Program (FSP), the Stewardship Incentives Program (SIP) and the Forestry Incentives Program (FIP) of Title XII, among many other program authorities. Over the past decade, while these programs have remained static, dramatic shifts have taken place in forest dynamics:

- Global competition has intensified;
- Unprecedented restrictions placed on America's national forests have led to a greater dependence upon private non-industrial forest landowners to supply timber and wood products;
- Annual timber harvests from non-industrial private forests have increased twenty percent between 1991 and 1996; and combined non-industrial and industrial private forests accounted for 89 percent of annual removals in 1996, up from 82 percent in 1991. This is a trend that will continue;
- A growing U.S. population is demanding wildlife habitat, clean water, and other forestland related amenities from non-industrial landowners;
- There has been a substantial increase in the number of individuals who own forested land, particularly in the south where ownership levels are expected to double over the next 25 years;
- State forestry agencies and commissions are taking on greater environmental responsibilities in addition to their traditional roles of fire prevention and suppression and must demonstrate progress in forest resource management.

Despite these changing dynamics, direct federal assistance to non-industrial private forest landowners is only $6 million through the Forestry Incentives Program, representing less than one-half of one percent of all commodity support. Congress must reassess its commitment to sustainable forestry and determine how programs can be enhanced and improved.

Today, only ten percent of private forest landowners use a professional forester when harvesting their timber. Education and outreach on sustainable forestry programs and practices are insufficient to meet current needs. Looking ahead, given the expected increase in the number of landowners, the nation will need upgraded delivery of forestry programs and services to reach these new owners. Congress can help achieve sustainable forest management on private lands by modernizing the Farm Bill's forestry programs.

The primary delivery mechanism for forestry programs is through the Forest Stewardship Program established in the 1990 Farm Bill. While this program is both viable and useful, there are two ways in which Congress could improve its effectiveness. First, build the capacity of state agencies to assist forest landowners in sustainable forest management. Second, allow programmatic delivery of technical assistance to meet the requirements of federal mandates. Specifically, the Forest Stewardship Program should be amended to provide state foresters with the authority to focus resources on priorities established through their offices and State Forestry Technical Committees. This should include authority to hire state water quality foresters, wildlife foresters, technical assistance foresters and liaison foresters to work with local communities or other state agencies engaged in forestry issues. Additionally, express authority should be given to state foresters or their equivalent to prepare grants and seek proposals from non-governmental organizations and consultants that promote and expand sustainable forestry programs on private non-industrial lands. In concert with many of the state foresters, this industry supports increased spending authority and appropriations for the program, as well as building-in program implementation flexibility.

The only forestry program providing financial assistance funded by the federal government is the Forestry Incentives Program (FIP). This program provides cost-share funds for tree planting, site preparation and thinning. While this is an essential element of sustainable forestry, it is only a small part of the myriad of practices that together achieve sustainable management. In fact, the FIP represents less than one-half of one percent of all commodity payments. The Stewardship Incentives Program (SIP), a cost-share assistance program also authorized in the 1990 Farm Bill, was originally designed to enroll private non-industrial forest landowners into a program requiring written land management plans. Due to a lack of participation in the program and the inability to "sell it" to landowners, Congress terminated its appropriation the past three years.

To enhance and promote all sustainable forestry practices, Congress should combine the FIP and SIP and create a comprehensive and integrated program titled the **Sustainable Forestry Incentives Program (SFIP)**. To obtain public benefits such as clean water, drinking water, improved resource protection, enhanced wildlife habitat and encourage the practice of sustainable forest management activities, an SFIP should be flexible enough to encourage private landowners to conduct a variety of environmentally beneficial sustainable forestry practices. These practices include:

- Obtain professional forester assistance;
- Facilitate conservation easements on lands threatened by development pressures;
- Logger education & training;
- Invasive pest control;
- Fire hazard reduction;
- Wildlife and fish habitat enhancement;
- Other activities and practices designed to promote and implement sustainable forestry.

The ultimate goal of the SFIP would be to entice non-industrial private forest landowners to participate in programs and explain the benefits and rewards of developing written management plans. This type of program would need substantial financial support from the Congress.

An amended Forestry Title that contained these programmatic elements, new authorities and additional incentive payments will link state forestry agency programs and practices into a comprehensive effort that can achieve forest sustainability. It will allow the state foresters to work with landowners and their fellow state agencies. It will also be useful to meet other state or federal mandates. It will provide the state foresters with the administrative flexibility to target resources towards achieving their priorities.

Keeping forestlands forested, and perhaps adding a few more, represents an important step toward protecting our environment. Unfortunately, with increasing development pressures and growing regulatory constraints, this is a difficult task. The best way to protect forestland is to enable private landowners to profitably manage their forestlands while using sustainable forestry techniques. The program changes outlined above, coupled with an increased level of financial support, will help achieve that goal.

CONSERVATION TITLE

Forestlands in the United States represent one-third of the land base or 747 million acres. Of these, 75 percent are privately owned. Today, forestlands are undergoing enormous pressures from urban sprawl and development, and forest landowners are often enticed into selling their lands because of financial pressures and lack of forest management alternatives and incentives.

The forestry community is witnessing a dramatic change in forest conservation and management. The Congress has an opportunity in the 2002 Farm bill to make a difference and encourage the long-term sustainability of forests. An outstanding opportunity exists for improving conservation programs by allowing enrollment of forestlands in the Environmental Quality Incentives Program or EQIP.

At the present time, eligibility is limited to landowners who are engaged in livestock or agricultural production. This means forest landowners are not eligible to participate in EQIP and this is a major weakness in promoting and enhancing sustainable forest management at the community, county and regional level. Communities would receive enormous public benefits from well-managed forests if these landowners were able to participate in programs that encourage stewardship and enable local officials to discuss and educate landowners on forest management opportunities. Those benefits include water quality protection, abundant wildlife, improved recreation and fishing and overall quality-of-life improvements.

Expanding the eligibility of EQIP will enable forest landowners to implement structural, vegetative and management practices in 5 to 10 year contracts. Through the Natural Resources Conservation Service and the State Technical Committees, including the Forestry Technical Committees, local officials will be able to evaluate and recommend forestry cost-share payments. Since there are millions and millions of acres of forestland owned by non-livestock or annual commodity producers, the nation would reap enormous benefits if forest landowners were eligible for conservation practice programs. According to the National Association of Conservation Districts, assistance for 10 million private forest landowners provided by the U.S. Department of Agriculture's (USDA) Cooperative State Research Education and Extension Service (CSREES) equates to $3.50 per forest owner, compared to $148 per farm.

This Nation has an abundant forest resource that can be improved if Congress is willing to expand coverage of its Farm Bill programs to these forest landowners. As such, forest landowners should be included in all conservation-related programs in a revised Farm bill.

Another major program that AF&PA believes will make a difference in assisting landowners is the Wildlife Habitat Incentives Program (WHIP), contained in the Miscellaneous Conservation provisions of Title III of the 1996 Farm bill. Designed to help landowners improve wildlife habitat on private lands, the program was authorized to use $50 million in Conservation Reserve Program (CRP) funds to enhance wildlife habitat. It provides cost share for developing habitat for upland wildlife, wetland wildlife, endangered species, fisheries and other wildlife. The WHIP provides funds for consulting with state technical committees to set priorities for cost-share measures and habitat development projects. WHIP is so popular that demand outstripped funding levels for the past two years.

Increasing the authorization for this program will give more forest landowners options for managing their land for multiple uses. As forest fragmentation increases, it is important for local officials to educate landowners on opportunities to improve wildlife habitat. The forestry community in all regions of the country support voluntary, incentive-based programs to enhance and improve wildlife habitat and management.

TRADE TITLE

For over a decade, the U.S. solid wood products industry has successfully conducted export promotion programs with funding provided by private industry and the USDA's Foreign Agricultural Service (FAS). This public/private partnership has provided funding to more than twenty industry associations, which generically promote U.S. solid wood products in over thirty countries, and manage eight overseas offices. The programs have successfully changed traditional overseas buying habits, helped overcome foreign trade barriers, and laid the foundation for future export gains in new markets for U.S. value-added wood products in a broad range of end uses. They have united the U.S. wood products industry to work together in a single export program, which integrates marketing and trade policy initiatives, a unique achievement. Most of the companies benefiting from the generic promotion of wood products are small businesses and they operate in nearly every U.S. state. Detailed company success stories are available upon request.

Wood products represent the largest agricultural commodity group exported by the United States with export growth nearly tripling for some wood product-categories in the past decade. Aggregate U.S. solid wood exports have doubled from $3 billion in 1986 to over $6 billion in 2000, with significant gains in value-added wood products. As an example, U.S. hardwood product exports have grown from less than $500 million in 1987 to over $2 billion in 2000. This export performance is important to the industry since exports account for roughly 7%-8% of US hardwood production by volume, that figure is closer to 13% by value. This program has brought many small mills to the export market and grown the pie for the industry as a whole.

Increased exports have created 148,000 forest industry-related jobs: 32,000 direct industry jobs, and another 116,000 indirect jobs; and have generated over $300 million in increased annual federal tax revenues, more than the cost of the entire Market Access Program for all agricultural groups. Clearly, these are not give-away programs. The forest products industry contributes significant resources to the successful management of the programs – over $5 million during the 1999-2000 program year.

Participation by the U.S. wood products industry in FAS' Foreign Market Development (FMD) program and Market Access Program (MAP) enables the generic promotion of products, market access work and trade facilitation – helping U.S. wood product exports compete with our overseas competitors. This is particularly important as our major competitors in agricultural exports are spending a combined total of $1 billion on export promotion programs. The European Union alone spent an estimated $379 million in 1998 on promoting their agricultural exports. Our sector is being battered by cheap imports at the same time that the products with which we have a comparative advantage--value-added wood products--are shut out of some key markets due to tariff and non-tariff barriers. The FMD and MAP programs can continue to help counteract market access problems and grow markets for the future.

MAP and FMD are important components of the industry's export strategy, and are a progressive example of industry-government cooperation. The need for both of these programs has continued to increase over the past few years; and with the global collapse in agriculture commodity prices, it is more important than ever for the Congress to support efforts in market access, generic promotion and trade facilitation. AF&PA strongly urges Congress to:

- **Increase the authorized level of funding for MAP from its current level of $90 million per year to $200 million per year**. The MAP was originally authorized at a level of $325 million in 1985, and actual funding reached a high of $200 million in 1990. Since then, funding has gradually decreased to the current level of $90 million – a reduction of more than 50%.

- **Formally authorize FMD funds to be provided by the Commodity Credit Corporation, establishing a minimum annual level of no less than $43.25 million** – a level which reflects the necessary commitment to maintain the effectiveness of this program. This revised funding figure adjusts the current funding level to account for inflation and the increased costs of conducting business overseas.

RESEARCH TITLE

The quality of life we enjoy in the United States is largely due to the abundant, fertile farmland and forestland our nation is blessed with. We take for granted affordable food, homes, fine furniture, paper, and a myriad of other products from the land every day. Agricultural research advances have dramatically improved productivity and enabled us to feed the world. Advances from forest research will be just as dramatic given adequate resources. Unlike other crops, forest harvest cycles are measured in generations and research efforts subject to more competing needs and interests.

Forest research efforts should be focused on forest productivity: growing better quality trees faster, measuring them more accurately, and utilizing them more efficiently. The 2002 Farm Bill offers an opportunity to make a real difference in enhancing the sustainability of our nation's forestlands. Forest productivity research advances will enable us to produce healthier forests, provide more commodities from fewer acres, and enhance non-commodity values such as recreation and wildlife habitat on all acres. This will provide the greatest good for the greatest number of the American public.

The research need is great and far exceeds the resources of any single entity. Congress should expand Farm Bill authorizations that promote collaborative research directed at forest productivity. The Farm Bill forestry research provisions should focus research efforts and enhance coordination among universities and federal agencies. Programs that award competitive, cost-shared grants through peer review selection should be enhanced to ensure quality, cost-effective research.

These general recommendations are consistent with our support of the National Coalition for Sustaining America's Nonfederal Forests. The coalition report, "A National Investment in Sustainable Forestry: Addressing the Stewardship of Nonfederal Forestlands through Research, Education, and

Extension/Outreach," was published in June 2000 and distributed to every member of Congress. It represents the views of a broad representation of forestry leaders and documents the need for a substantial national investment in the scientific foundation that can ensure forest sustainability. Forest productivity is identified as the number one research need.

Specifically, targeted funding should be directed to the institutions best qualified to conduct long-term research and transfer knowledge: universities, the Forest Service Research organization, and CSREES. This could best be accomplished by extending the Agenda 2020 public-private partnership to include Forest Service Research and CSREES. Congress should expand existing competitive grants authorizations and establish Agenda 2020 competitive grants programs for each agency focused on collaborative research in genetics/biotechnology, soil productivity, tree physiology, and forest information technology.

Several existing programs support critical research needs and should be reauthorized and expanded. These include:

- McIntire-Stennis Cooperative Forestry Research Act -- provides critical core funding for forest research and university scientist training. It should be reauthorized and fully funded at the current authorized level of $105 million.
- Renewable Resources Extension Act Program (RREA) -- provides the foundation for extension and outreach efforts delivered to private landowners through universities. It is currently authorized at $15 million, and should be reauthorized at $30 million with new funding directed at developing effective mechanisms to deliver research knowledge to private landowners.
- National Research Initiative (NRI) -- the Natural Resources and Environment section provides funding for basic and applied research in several categories related to agricultural crops, sustainable forestry, and related market/trade issues. Only a small percentage of available funding has been allocated to forestry research. An additional authorization of $30 million should be added to support Agenda 2020 research in the areas of soil productivity, tree physiology, and forest information technology. In addition, an additional authorization of $10 million should be added to the Plants section of NRI to support Agenda 2020 research in forest genetics/biotechnology.

Mr. Chairman, the Farm Bill offers an enormous opportunity to focus both existing and new programs on needs that will most benefit the nation's forestlands. I appreciate the opportunity to provide the industry's views to you, your staff, and the committee and look forward to future opportunities.

THE AMERICAN DIETETIC ASSOCIATION

216 WEST JACKSON BOULEVARD
CHICAGO, ILLINOIS 60606-6995
www.eatright.org
312/899-0040

POLICY INITIATIVES AND ADVOCACY
1120 CONNECTICUT AVENUE, NW #480
WASHINGTON, DC 20036
202/775-8277 FAX 202/775-8284

Testimony
Submitted by
The American Dietetic Association
Before the Senate Committee on Agriculture

June 28, 2001

Thank you for convening this discussion about opportunities in agriculture research. The American Dietetic Association (ADA) and its 70, 000 members who translate science to consumers daily supports increasing resources committed to research and recommends greater emphasis on nutrition research included in agriculture research regardless of funding mechanisms. We rely on the agriculture research system to produce sound unbiased science that we can use to help the American food system and in particular, the consumer, make wise food and lifestyle choices.

ADA is the largest association of food and nutrition professionals in the United States. ADA members provide a variety of services in hospitals and clinics, businesses, academia, and in private consultation, that improve the nutritional health and well being of their clients and the public. ADA members' knowledge of food, food safety, nutrition and health brings an informed, fact-based and balanced perspective to deliberations on national and global food issues.

The American Dietetic Association believes that research on nutrition, food and the agriculture system are inseparable. Any discussion of agriculture research must include a significant discussion of the interrelationship between food and Americans' health. Current knowledge already confirms that what we eat and how much we eat greatly affects our health and chronic disease risk. It is imperative that government-sponsored food and agricultural research build on that base of knowledge so that we more fully understand the relationships between food, diet and health and can extend the benefits to people's lives.

Over the past several decades, investment in agriculture research has resulted in an abundant low-cost and safe food supply that meets the nutritional needs of most Americans. Now that the goal of undernutrition largely has been achieved, agriculture research can make a valuable contribution to improved health by helping us to define and deliver optimal nutrition. Success requires a thoughtful approach that recognizes linkages throughout the entire agriculture, food and nutrition system.

The challenge for future agricultural research is to maintain yield, efficiency and affordability while improving the availability and market for foods that will provide optimal nutrition. Gaining that knowledge will require work by nutrition, food, plant and animal scientists, as well as a greater emphasis on inter- or multi-disciplinary nutrition research and education to the American public so that they may apply the benefits of this research to their lives.

Improved nutrition is essential for a strong, prosperous society. The discipline of dietetics recognizes that food, nutrition and health are central to national interest and survival. Today, incidence of obesity and many associated chronic diseases are skyrocketing, and policies affecting food, nutrition and diet have become matters of national concern. Poor nutrition and sedentary lifestyle threaten the nation's productivity and economic vitality, national security and the overall quality of life of its citizens.

The health implications of overconsumption coupled with lack of physical activity are enormous. Obesity rates among American adults have increased by 38% in the last decade. Currently, more than half of adults are overweight enough to pose a risk to their health. The number of obese children doubled in the last decade, and studies show that one-half of obese school-age children become obese adults. Unhealthy eating and physical inactivity are responsible for 35% of premature deaths in the U.S.—or about 1,200 deaths every day. Diet-related diseases such as heart disease, cancer, stroke, diabetes and osteoporosis lead to lost productivity and staggering health care costs from medical treatment and disability. According to the U.S. Department of Agriculture (USDA), better nutrition could reduce health and other costs by at least $71 billion each year.

The types of nutrition related research questions for the future might cluster around these three central areas: health and behavior, fortification or enrichment, and food safety.

In the health and behavior area research is needed to identify the health benefits of dietary guidelines and food guide pyramid, and to identify effective ways to communicate nutrition messages that result in sustained behavior change.

In the area of fortification or enrichment, we need research to learn how to deliver nutrients that are both bioavailable and stable in food products, to identify mechanisms of food/nutrient absorption, to find methods to resolve dietary inadequacies, e.g. folic acid, Vitamin B_6, Copper, Zinc and Calcium, and to explore how to best use technology to enhance whole foods.

In the area of food safety, we need a better understanding of mechanisms behind food allergies/sensitivities, better methods to assess allergenicity of novel proteins and the safety of engineered plants, and ways to produce pathogen-free foods. The American public holds government institutions accountable for assuring the quality of food in this country. Policies and programs must work effectively to manage and reduce foodborne risks to human health. The risks from a number of sources – microbiological pathogens, pesticide and animal drug residues, animal disease and other contaminants. It involves the safety of the food supply – consumers having information on the content of foods, the presence of known allergens and the potential impacts of new production and processing technologies such as biotechnology and irradiation. Quality assurance also involves the quality of the diet in affecting personal and national health outcomes.

The public looks to agricultural research to provide critical information from national nutrition surveys to track consumption of commodities, evaluate impact of public health and food assistance programs, assess risks in food supply, measure adequacy of American's diets and track trends in nutrient intake and food patterns. The importance of the national nutrition surveys cannot be underestimated. In particular, food consumption data collected until recently by the USDA has provided neutral reporting of the nutritional status of the nation and the composition of the foods in the marketplace. The accompanying Diet and Health Knowledge Survey—also now defunct—provided insights on consumer nutrition knowledge, attitudes and food choices.

The nutrition and food component of the general health survey, NHANES, is also a valuable source of information, however is available on a less frequent basis. In the past, USDA's survey, the Continuing Survey of Food Intakes by Individuals, or CSFII, has provided household food consumption data annually in user-friendly data files, included seasonal data, and included a significant number of low-income households in the sample. It is critical that this type of information continues to be available in the future.

Specific examples of analyses using CFSII data include: a study of factors affecting meat consumption in the US, comparisons of teenager and parent food choices, assessment of the impact of food assistance programs, and an analyses of the relationship between nutrient intake and smoking status. These studies help USDA, state and local public health departments and health professionals develop effective public health campaigns to improve diet and health. Assuring that these data will be provided in the future is critical to ensure that we have adequate and up-to-date information from which to make public policy decisions on nutrition-related issues.

ADA views positively the trend toward increased stakeholder input into the federal research agenda. This focus is critical and needs to continue. The role of stakeholders needs to further expand to include non-traditional groups that represent the increasing interest of consumers in health and well being. The Illinois Coalition for Food and Agriculture Research is a success story to be studied and replicated at the national level. The American Dietetic Association supports the National C-FAR's goal double federal funding for food, nutrition and agriculture research over the next five years.

As this Committee works to establish a useful and meaningful federal food and agriculture research agenda, we hope that the Committee will first:

- Evaluate the current and desirable level of funding for human and nutrition in the USDA research system. Congress should consider multiple types of funding mechanisms. Intramural funding ensures that we have an adequate research infrastructure while extramural and competitive funding insures that new ideas are explored.

- Evaluate the national nutrition monitoring survey methodologies and the impact of proposed changes to the system on the data that will be available in the future, in particular on our ability to evaluate the nutritional intake of populations at risk (e.g. those enrolled in food assistance programs, elderly, children, etc.)

- Encourage the continued use of peer review. Professional associations such as the ADA are sources of information and expert reviewers for this process.

- Address how nutrition can be integrated into research on every aspect of the agriculture system from the soil, crops, processing, storage, marketing, distribution and the resulting impact on the nation's health.

In summary, government must play the critical role in human nutrition research. Since 1977, responsibility for nutrition research has rested with USDA. However, human nutrition research has received a small portion of total funding, as greater focus has been directed to production and processing issues, rather than consumer needs. New and exciting research shows promise, including the development of new technologies to improve the nutritional composition of foods, behavioral research to better understand what motivates consumers to eat right and exercise, and genomics research to learn how genetic differences may create individualized dietary requirements to reduce disease risk. The ADA concludes that these and other areas demonstrate the need to substantially raise the level of funds directed to the study of food and human nutrition.

Thank you.

Children's Defense Fund

Statement for the Record

of the

Children's Defense Fund

before the

Committee on Agriculture, Nutrition and Forestry
Chairman Tom Harkin
United States Senate

Hearing on the Farm Bill:
Food Stamp Program

June 28, 2001

Presented by:

Deborah Weinstein
Director, Family Income Division
Children's Defense Fund
25 E Street NW
Washington, D.C. 20001
(202) 662-3565
e-mail: dweinstein@childrensdefense.org

Children's Defense Fund • 25 E Street, NW • Washington, DC 20001 • (202) 628-8787 • www.childrensdefense.org

Thank you for the opportunity to submit written testimony on a subject of great importance to children: the federal Food Stamp program. In 1999, more than nine million children received food stamps, or 13 percent of all American children. Few federal programs reach a greater proportion of children. With reauthorization of the Food Stamp law scheduled for FY 2002, we appreciate that the Senate Agriculture, Nutrition and Forestry Committee has recognized the importance of the Food Stamp program in its overview hearing on the farm bill, and look forward to the Committee's continuing work on Food Stamp reauthorization.

The Children's Defense Fund is a CDF is a private, nonprofit advocacy organization whose mission is to Leave No Child Behind®. We receive no government funds. CDF provides a strong, effective voice for all the children of America who cannot vote, lobby, or speak for themselves.

The Food Stamp program provides vital help for low-income children and their families, help that makes a real difference in their lives. In an analysis of surveys conducted at shelters, food pantries, and other community agencies as part of the Children's Defense Fund's Community Monitoring Project, almost 30 percent of low-income parents who had jobs but did not receive food stamps reported problems buying food for their families. In contrast, 20 percent of working parents who did receive food stamps reported similar food hardships.[1] It is troubling to report that as many as one-fifth of the working families in this survey had difficulty affording food even with food stamps, but the proportion experiencing hardship without food stamps is much greater. There is room for improvement in the Food Stamp program, but it offers demonstrable help, and efforts to change it should not tamper with the basic entitlement structure. All eligible children must be able to count on uniform access to food stamps, no matter where they live.

For children, the stakes are high. A study published in the July 2001 issue of the journal *Pediatrics* found that children aged 6 to 11 years who lived in families that reported that they sometimes or often did not get enough food to eat had significantly lower arithmetic scores and were more likely to have repeated a grade, to have seen a psychologist, and to have had difficulty getting along with other children. Teenagers in households without enough food were more likely to have been suspended in school and to have experienced other behavioral problems similar to the younger group.[2] We must not shortchange children's life chances by denying them adequate nutrition.

When the welfare law was enacted in 1996, there was general agreement that food stamps should remain available as part of the nation's safety net. The last five years have shown that the food stamp safety net is more fragile than originally recognized, and needs strengthening so that families struggling to move from welfare to work can count on food stamps when their earnings are too low to afford necessities for their children.

Title VI of the Act to Leave No Child Behind (H.R. 1990 and S. 940) includes provisions we believe will improve upon the Food Stamp program's capacity to serve low-income working families with children. These provisions have been designed in response to problems that have emerged most clearly in the aftermath of the 1996 welfare law, the Personal Responsibility and Work Opportunity Reconciliation Act. The provisions are aimed at (1) preventing hunger among families with children, and (2) making it easier for eligible working families to receive food stamps.

Preventing Hunger Among Children

Food stamps received in adequate amounts prevent hunger. Improving the effectiveness of food stamps as an anti-hunger program requires expanded eligibility, to reach more low-income children, and increased benefit levels, to ensure that food stamp recipients can afford nutritious food. Title VI of the Act to Leave No Child Behind includes provisions that expand eligibility by restoring benefits to legal immigrants, and that increase benefit amounts by more accurate assessments of families' ability to afford food.

Restoration of eligibility for legal immigrants: Between 1996 and 1999, the number of households with noncitizens receiving food stamps dropped by two-thirds, a period during which the overall food stamp caseload decline was 27.3 percent. The decline in food stamp use by citizen children with legal permanent resident parents was similarly precipitous – from 63 percent to 38 percent since the 1996 welfare law's enactment, according to Mathematica Policy Research Inc.[3] A California study conducted shortly after the 1996 welfare law's enactment found that immigrant families were experiencing moderate to severe hunger at rates four times higher than the low-income population as a whole.[4]

The evidence is clear that the loss of food stamp benefits by low-income legal immigrants has resulted in serious hardship. Congress made a step towards restoring benefits for children in 1998 by reinstating food stamps for legal immigrant children who arrived in the U.S. prior to the welfare law's enactment. But this is not enough. Without full restoration for adults and children, even completely eligible citizen children in immigrant households will continue to forego benefits because of the denial's chilling effect on immigrant families. People here legally should not go hungry, regardless of citizenship status.

Under Title VI of the Act to Leave No Child Behind, benefits would be restored to otherwise qualified legal immigrants who were denied food stamps under the 1996 welfare law. Now, food stamps are denied to legal immigrant children who arrived in the U.S. after the 1996 law was enacted (August 22, 1996). Their legal immigrant parents are ineligible for food stamps regardless of when they entered the country until they become citizens. These and other excluded immigrants here legally would once more be eligible for food stamps. Title VI of the Act to Leave No Child Behind provides as under prior law that the income of sponsors that helped bring immigrants to the U.S. may be counted (deemed) for three years in determining eligibility for food stamps. These same provisions are included in the Nutrition Assistance for Working Families and Seniors Act (S. 583 and H.R. 2142).

Making food stamps more accurately reflect a family's ability to pay for food: Under current food stamp law, in calculating eligibility and benefit levels, there is a standard deduction of $134 a month from a household's income. This amount has been frozen since 1995. This deduction should be updated according to the modest principle that families with incomes of less than 10 percent of the federal poverty line should receive the maximum food stamp benefit. The Act to Leave No Child Behind and the Nutrition Assistance for Working Families and Seniors Act provide for a gradual phasing-in of increases in the standard deduction for inflation and for family size. For example, in FY 2006, the standard deduction would be $135 for a three-person household and $162 for a four-person household.

The Act to Leave No Child Behind also removes the current cap on the excess shelter cost deduction available to families with children (and other households not containing elderly members). There is no cap on this deduction for households with elderly members; there is no justification for applying a cap to other households. In 1999, 68 percent of poor renters were paying more than half their income on rent and/or were living in severely substandard or overcrowded conditions (the definition of "worst case housing needs" by HUD). Even among families with children with incomes a little above poverty, fully 42 percent experienced worst case housing needs. The rapid increase in heating costs has added to the pressure on low-income households. To the extent that they need more than half their income for housing costs, there is less money available to pay for food. This choice was documented most starkly in a study done some years ago at the Boston Medical Center (then Boston City Hospital). Researchers found that the number of failure to thrive babies (lower than expected development) increased in the winter months, because poor families were forced to reduce expenditures on food in order to pay for heat. Removing the cap on the deduction for excess shelter costs recognizes and alleviates these pressures on low-income families.

Encouraging the collection of child support: The Act to Leave No Child Behind applies the current 20 percent earned income deduction to child support income. For many single-parent families trying to escape welfare and poverty, the only effective strategy is to create an income package that includes earnings, child support, and other work supports including an adequate level of food stamp benefits. Treating child support income similarly to earned income for purposes of calculating food stamp benefits recognizes the importance of child support as part of a family's income package. If there were a deduction for child support income, there would be an additional incentive for noncustodial parents to pay support, because it would result in their children receiving more food stamps.

Better Service for Working Families

Nearly eight out of ten poor children (78 percent) lived in a family where someone worked in 1999, up from 61 percent in 1993. Yet the Food Stamp program has for a long time failed to serve working low-income families adequately. With the pool of families eligible for food stamps including more who work and fewer with only welfare income, fewer eligible families are receiving food stamps. In 1999, only 71.5 out of every 100 poor children received food stamps, down from 88 in 1995.[5]

Low-wage-earners often have fluctuating income, and states fear that failure to catch changes in earnings may lead to an increased error rate. As a consequence, many states require frequent office visits to verify eligibility. These visits can take several hours, simply too much time for many working parents to take away from their jobs. The Center on Budget and Policy Priorities has noted that food stamp participation rates dropped from 74 percent to 55 percent in the 11 states that most increased their use of short (quarterly) certification periods. In states that did not require such frequent recertifications, the participation rates did not drop so steeply.

The Food Stamp program has to adapt to serve the needs of low-income working families. This means eased verification requirements, with fewer office visits and greater use of phone, mail, or on-line verification. The Act encourages this by ending the current practice of requiring families essentially to reapply for benefits after a specified period (called "recertification"), and instead calls for the food stamp agency to conduct a review at periodic intervals of the household's circumstances. This "redetermination" of the household's circumstances requires the household to cooperate, but does not require as extensive documentation and paperwork as would be needed for recertification. The use of redetermination procedures is consistent with the approach taken in Medicaid, the Child Health Insurance Program (CHIP), Supplemental Security Income (SSI) and other means-tested programs.

In order for eased verification procedures to be accepted by states, the incentive structure of the Food Stamp program must also be changed. The current Quality Control system penalizes states with overpayments to families, but offers no rewards to states that serve a high proportion of their eligible families. It is not surprising that states would often rather apply onerous procedures that have the effect of forcing eligible families off the food stamp caseload than risk errors that will result in federal penalties.

The Act to Leave No Child Behind encourages states to serve working families by changing the Quality Control penalty structure so that it is focused on serious long-term payment accuracy problems, rather than the current practice of penalizing all states with errors above the national average. When penalties are assessed to all states above the national average, states cannot base their performance on an objective standard. If other states improve their performance, an error rate that might have been acceptable in prior years may now incur a penalty. Instead, the Act to Leave No Child Behind calls for USDA investigations of states with serious errors for two years in a row. The state may be penalized by an up to 5 percent cut in administrative funding at this time, or, at the discretion of USDA, may be given time to correct the deficiencies. If the error rate persists for a third year, penalties will be automatic, varying by the severity of the problem.

The Act's food stamp provisions also place into law the current administrative policy of adjusting a state's error rate to take into account high participation by error-prone groups such as working-poor or immigrant families. States are thus rewarded for making the effort to help families with more complicated cases.

All of the above changes allow states to simplify their food stamp application and renewal procedures. In addition, the Act to Leave No Child Behind further simplifies income calculations under the Food Stamp program by conforming its income definitions to Medicaid, and by allowing states the option of conforming food stamps to their TANF income definitions. These provisions allow states to consolidate application forms and simplify computer systems, which would increase the likelihood that families applying for one of these programs will be helped to apply for all three if eligible, and would free up state resources to provide better services.

The Act further changes the incentives for states in the Food Stamp program by rewarding good performance on three measures: (1) the rate that denials or terminations of food stamp benefits are correct; (2) the extent to which states meet the statutory deadlines of seven days for issuing expedited food stamps to families with urgent need or 30 days for other families; and (3) the participation rate among working families. The Act would provide $30 million in bonus payments to the five states with the highest rankings on each of these measures, and to the five states with the most improvement.

If penalties are restricted to states with persistent and severe payment problems, states are given credit for serving working and immigrant families in the penalty formula, and are rewarded for good performance, incentives will shift markedly for states to encourage improved participation by low-income working families.

When families stop receiving cash assistance, they often also lose food stamps, even though their income continues to be low enough that they almost certainly remain eligible. According to the Urban Institute's 1997 Survey of America's Families, only about half of former welfare recipient families with incomes below ***half*** the poverty line were receiving food stamps.[6] To ensure that eligible low-income families do not wrongly lose food stamp benefits as they leave cash assistance, the Act to Leave No Child Behind includes a six-month transitional food stamp benefit as a state option. This provision, also supported by the American Public Human Services Association (APHSA) and included in the Nutrition Assistance for Working Families and Seniors Act (H.R. 583 and S. 2142), prevents newly-employed parents from risking their jobs by having to take time off to verify their continued eligibility.

Taken together, eased access to food stamps for low-income working families through simplified applications and renewals, restored eligibility for legal immigrants, and updated benefits more in line with families' ability to pay for food will all have the effect of reducing hunger and food hardships among children in America. As Congress considers food stamp reauthorization, it should strengthen the program by aligning its eligibility criteria, application procedures, and state incentives so that the program is more effective in reaching all low-income families with children, the majority of whom are working families.

Endnotes

[1] Children's Defense Fund, *Families Struggling to Make it in the Workforce: A Post Welfare Report*, (Washington, D.C.: Children's Defense Fund, 2000). Available on the internet at http://www.childrensdefense.org
[2] Katherine Alaimo, Christine Olson, and Edward Frongillo, "Food Insufficiency and American School-Aged Children's Cognitive, Academic, and Psychosocial Development," *Pediatrics* 108, no. 1 (July 2001): 44-53.
[3] James Ohls, Testimony before the Committee on Agriculture, Subcommittee on Department Operations, Oversight, Nutrition, and Forestry (Washington, D.C.: Mathematica Policy Research, Inc., June 27, 2001).
[4] California Food Security Monitoring Project and California Food Policy Advocates, "Impact of Legal Immigrant Food Stamp Cuts in Los Angeles and San Francisco" (San Francisco, Calif.: California Food Policy Advocates, May 1998).
[5] Wendell Primus, "What Do We Know About Welfare Reform and Where Do We Go From Here?" presentation before the Coalition on Human Needs (Washington, D.C.: Center on Budget and Policy Priorities, January 2001).
[6] Sheila R. Zedlewski and Sarah Brauner, "Are the Steep Declines in Food Stamp Participation Linked to Falling Welfare Caseloads?" (Washington, D.C.: the Urban Institute, 1999). Available on the internet at http://newfederalism.urban.org/html/series_b/b3/anf_b3.html#n1

June 11, 2001

The Honorable Richard Lugar
Senate Committee on Agriculture, Nutrition and Forestry
328A SR
United States Senate
Washington, D.C. 20510

Dear Senator Lugar:

The California Association of Winegrape Growers (CAWG) would like to provide comments for your consideration regarding the upcoming discussion on the Farm Bill. CAWG was created in 1974 to be an advocate for California winegrape growers on state, national and international issues. CAWG represents the growers of more than 60% of the state's annual tonnage of grapes crushed for wine and concentrate. The 2000 crush totaled a record 3.95 million tons with an approximate value of $1.89 billion. Total winegrape acreage is estimated to be 568,000 acres including 110,000 non-bearing acres.

Two factors have contributed to the recent dramatic growth in winegrape plantings. One is strong consumer demand at a time of short harvests which has resulted in high prices and excellent returns on investment. The other has been low commodity prices which have caused growers to convert cropland to high-value specialty crops like winegrapes that were enjoying higher prices. As with other farm crops, this will change if the delicate balance between supply and demand turns into a cycle of excess supply, spiraling prices and low or no profit margins. It is clear to us that this country must have programs in place to maintain the economic health of all segments of agriculture. As a representative of a crop that traditionally has not been part of farm bill discussions, our comments will provide our general view of what this country's ongoing farm policy should address.

California's vineyards have tremendous potential for keeping land in agricultural production, making agriculture an attractive career choice for future generations and being the global market leader in quality, value and customer choice. It is our position that now is the time to invest in the fundamentals and partner with government to protect and enhance all of agriculture's ability to compete in the global market.

Price Support Programs Must Not Allow Specialty Crop Production on Diverted or Set Aside Acres

Winegrape growers do not have a price support program such as that for corn, wheat or cotton. We believe we are doing well without such a program. Therefore, we strongly urge that price support programs for other crops not contain features, which could adversely impact winegrapes. In situations where a program allows acreage to be diverted in exchange for complying with requirements of that program, we oppose allowing specialty crops such as winegrapes to be produced on that diverted acreage. To allow participants in farm support programs to become winegrape growers on set-aside or diverted acreage would provide an unfair advantage to the subsidized grower and could lead to over-production of winegrapes and a dilution of quality of winegrapes.

Representing wine and concentrate grape growers.

555 UNIVERSITY AVENUE, SUITE 250 • SACRAMENTO, CALIFORNIA 95825-6511
PHONE (916) 924-5370 • TOLL FREE IN CA (800) 241-1800 • FAX (916) 924-5374 • E-MAIL info@cawg.org • WEB SITE www.cawg.org

Increase the Authorization Level of the Market Assistance Program (MAP)

We strongly support HR 98 by Representative Hastings, which would increase MAP's authorization lever from $90 million to $200 million annually. MAP provides matching funds for pre-approved generic promotion efforts for the export of agricultural commodities. Our wine industry has been an active participant in this excellent program. Exports of U.S. wine continue to grow and with our recent plantings we now have the capacity to increase our global shipments even more dramatically. We ask that this legislation be included in the Farm Bill or be passed as a separate bill without delay.

Increase and Broaden Research and Extension

Research is the key to keeping American farmers competitive in global markets. Funding for agricultural science and education has stayed nearly level while the challenges facing our food production system have continued to escalate. That is why we urge Congress to double funding for agricultural research, extension and education over the coming five years. This effort will require an increased investment of $500 million in FY02. It is absolutely critical that we ensure that a sufficient allocation is provided to meet the nation's current and future food and agricultural science and education needs.

Research is a basic part of the infrastructure on which agriculture can build its future. Whether it's to focus on health and nutrition, improving quality and taste, increasing efficiencies and lowering costs of production, or improving our ability to farm in harmony with nature we need to make up for those years when basic agricultural research has not been funded adequately. At the same time we must also increase support for Cooperative Extension Service. Our farm advisors are the transfer agents from lab to vineyard. Grower outreach, demonstration and education of research findings is critical to making the research investment an effective tool for the end users. California winegrape growers are especially interested in seeing investment in the Agricultural Research Service and Cooperative Extension for the development of sustainable farming practices. We need technical support to help develop biologically and environmentally sound practices for grape growing so that we continue to be economically viable.

Protection from Invasive Pests and Diseases

In a world with free and easy movement of people, products and plant materials, we increase the chances of exotic pest and disease infestations that could potentially devastate our agriculture and environment. In a borderless global economy, there has been a measurable increase in new intrusive pests entering the U.S. and California. Right now, the California winegrape industry's existence is at stake due to the onslaught of Pierce's Disease carried by the Glassy-winged Sharpshooter.

The constant threat of the introduction of invasive pests demands that we be prepared to respond immediately to new infestations and, more importantly, be proactive with research and planning to detect and prevent new infestations. APHIS must be fully funded to protect agriculture and its export markets. Through port inspections, quarantine treatments, detection surveys and eradication efforts we can prevent the introduction of new invasive species and the spread of existing ones. It is critical that our nation's agriculture and natural resources be protected from foreign countries' pests, even though we favor free trade. We need state and federal governments working closely together to eliminate conflicting actions and to assure a rapid response when new pests are introduced.

We also need to invest in research and technology to establish basic scientific knowledge about invasive pests and our ecosystems. With the requirement of the WTO system for all member countries to treat all trading partners equally and the same as domestic producers, it is critical that we develop state-of-the-art science to apply to pest risk assessments and analyses in order to comply with international standards and still protect our agriculture and natural resources.

Support Existing Conservation Programs and Create New Conservation Initiatives

We support the continuation of conservation programs that provide technical, eduational and financial assistance to eligible farmers and ranchers to address soil, water, and related natural resource concerns on their lands in an environmentally beneficial and cost-effective manner. We understand that Senator Harkin and Senator Smith of Oregon have introduced legislation to create a new Conservation Security Program. It is designed to provide a flexible voluntary approach to conservation practices on land in production as a complement to other federal conservation programs. Financial incentives are an appropriate way of sharing the cost with farmers for providing environmental benefits for all of society.

Crop Insurance Programs

While improvements have been made in crop insurance programs, vine and tree crops do not receive the benefits this program provides to traditional row crops. We urge the Agriculture Committees to support prompt implementation of the pending study on the feasibility of a crop insurance program for vine and tree replacement.

Your support for the wine and winegrape community is greatly appreciated. Please do not hesitate to contact me or our government affairs advisor, Fowler West of The Washington Group (202/789-2111) if you have any questions.

Yours truly,

Karen Ross

Karen Ross, President

cc: Dana Merrill, Chairman of the Board
Andy Hoxsey, Chairman, Federal Issues Committee
Fowler West, The Washington Group

NCFC®

NATIONAL COUNCIL OF FARMER COOPERATIVES

July 5, 2001

The Honorable Tom Harkin
Chairman
Senate Committee on Agriculture, Nutrition and Forestry
328-A Russell Senate Building
U.S. Senate
Washington, DC 20510

Dear Mr. Chairman:

On behalf of the National Council of Farmer Cooperatives (NCFC), I would like to take this opportunity to submit the attached statement to be included as part of the official record with regard to the hearing on the 2002 Farm Bill held on June 28, 2001 by the Senate Committee on Agriculture, Nutrition and Forestry.

NCFC is the national trade association representing America's farmer-owned cooperatives. Our members include nearly 100 regional marketing, supply and credit cooperatives whose members, in turn, include over 3,500 local cooperatives which are owned and controlled by a majority of America's nearly 2 million individual farmers. As farmer-owned businesses they play a critical role in helping farmers improve their income, manage their risk, and compete more effectively in a rapidly changing global economy.

As Congress begins the task of writing a new farm bill, we believe a long term strategy is needed to enable farmers to earn more of their income from the marketplace and capture a larger share of the consumer dollar, while promoting sustainable economic growth and related opportunities for rural America. To help achieve these objectives, a key component of any strategy must include helping farmers help themselves by enhancing their ability to join together successfully in cooperative self-help efforts.

Again, we appreciate the opportunity to share our views and look forward to working with you and your Committee on this important issue.

Sincerely,

David Graves
President

50 F STREET, NW • SUITE 900 • WASHINGTON, DC • 20001 • 202-626-8700 • fax 202-626-8722 • Web site www.ncfc.org

Serving America's Farmer-Owned Cooperative Businesses Since 1929

STATEMENT OF DAVID GRAVES
PRESIDENT
NATIONAL COUNCIL OF FARMER COOPERATIVES
BEFORE THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
WASHINGTON, DC
JUNE 28, 2001

Thank you, Mr. Chairman. My name is David Graves and I am President of the National Council of Farmer Cooperatives (NCFC). On behalf of NCFC, I want to commend you for holding this hearing and for the opportunity to share our views.

NCFC is the national trade association for America's farmer-owned cooperatives. Our members include nearly 100 regional marketing, supply and credit cooperatives whose members, in turn, include over 3,500 local cooperatives which are owned and controlled by a majority of America's nearly 2 million individual farmers.

These farmer cooperative businesses handle, process, and market virtually every type of agricultural commodity grown and produced in the U.S.; manufacture, distribute and market farm supplies – including seed, feed, chemicals, fertilizer and fuel; and provide credit and related financial services, including export financing for and on behalf of their farmer owners.

The farmers' ownership and participation in these businesses provide them with the opportunity to capture more of the added value of what they produce beyond the farm gate as well as gain access to a more dependable and competitively priced source of farm inputs and products. Being farmer owned, earnings derived from these activities are returned to the cooperative's farmer owners on a patronage basis, which adds to their total income. In addition, with nearly 300,000 full time and seasonal workers, farmer cooperatives also represent a significant source of employment, which further contributes to the economic and tax base of thousands of local communities across the U.S.

This is the fourth year in a row that Congress has been faced with trying to deal with the immediate challenges facing U.S. agriculture by providing farmers with emergency economic and disaster assistance. Thanks to the leadership of this Committee and the generous support of Congress, for many farmers, such emergency assistance has been the difference between survival and going out of business. This is reflected in the fact that such assistance now accounts for as much as two-thirds of net farm income.

The current business environment continues to be very challenging. The farmer's share of the consumer food dollar has declined to where it now represents just 20 cents –its lowest level ever. Reversing this decline would substantially improve the farmer's economic well being. For example, increasing the farmer's share by just one cent to 21 cents would generate an additional $6 billion in total income. The challenge of course is how, given the current business environment and trends.

In our view, the best way to help achieve this is to maintain and strengthen the ability of farmers to join together in cooperative self-help efforts. To be successful, however, farmers and their cooperative businesses must be strategically positioned to be able to compete in what clearly is a rapidly changing global marketplace.

A special NCFC task force, whose members included both farmer members and senior management representing a cross-section of farmer cooperatives from across the country, has identified a number of actions that would help encourage and promote such cooperative self-help efforts, which are highlighted in the attached summary. Specifically, the comprehensive proposal, referred to as the "Farmer Business and Income Opportunity Act," recommended the following:

I. Providing improved access to capital through credit and investment initiatives for farmer cooperatives for the benefit of their farmer owners.

Without question, access to capital is one of the greatest challenges facing farmer cooperatives. Providing farmers and their cooperatives with improved access to capital is needed to help gain ownership in value-added activities beyond the farm gate, to invest in new equipment, to modernize and expand, and meet costly environmental and other regulatory requirements. To help meet this challenge, the task force recommended several actions, including:

- Modernizing and expanding USDA's Business and Industry Loan Guarantee Program for farmer cooperatives consistent with other similar USDA credit programs. This would include providing up to $10 billion in guaranteed loan authority, eliminating user fees, removing the current cap on loans, and providing additional lending flexibility in the case of farmer cooperatives consistent with recognized commercial lending practices and generally accepted accounting principles. More specific recommendations and details are attached.

- Clarifying existing authority under the 1996 Farm Bill providing guaranteed loans to farmers for the purchase of stock in a new, value-added business, to include both new and existing farmer owned cooperative businesses.

- Eliminating what effectively is a "triple tax" on cooperative dividends on preferred stock under the dividend allocation rule. This would provide farmers and their cooperatives a much needed tool to help raise equity capital – without diluting farmer returns or their ownership in their cooperative.

- Providing tax incentives to help attract capital and encourage investment in farmer owned cooperative businesses.

- Establishment of an equity capital fund to help attract private sector capital and investment in rural businesses, including farmer cooperatives.

II. Clarifying certain tax laws relating to the organization and operation of farmer cooperatives for the benefit of their farmer owners. These include:

- Allowing farmer cooperatives that qualify as small ethanol producers to pass through the current 10 cent per gallon tax credit to their farmer owners.

- Expanding the definition of cooperative marketing in include value-added processing through animals.

- Allowing farmer cooperatives organized as section 521 cooperatives to seek declaratory judgement regarding their status under the Internal Revenue Code similar to other types of entities.

III. Revitalizing USDA research, education and technical assistance programs in support of farmer cooperatives for the benefit of their farmer owners.

- Establishing a separate agency within USDA totally dedicated and focused on encouraging and supporting cooperative self-help efforts by farmers together with needed funding to carry-out related programs – including research, education and technical assistance. (Not less than $6 million should be specifically authorized for the new agency to be called the Farmer Cooperative Business Service, along with an additional minimum of $6 million for research, education and technical assistance grants relating to farmer cooperatives.)

  In addition, the Under Secretary for Rural Development should be designated the Under Secretary for Rural Development and Cooperatives.

- Maintaining and strengthening Value-Added Technical Assistance Grants program authorized under the Agricultural Risk Protection Act of 2000. The program should be maintained at not less than $25 million annually to enhance the ability of farmers to become more involved in value added activities beyond the farm gate. (According to USDA, more than 200 applications are currently pending, amounting to over $50 million in requests, in response to an initial level of $10 million to be awarded. This suggests that as much as $100 million could be potentially utilized.)

IV. <u>Sense of Congress resolution to reaffirm support for farmer cooperatives and to ensure that federal policies and program serve to encourage and enhance the ability of farmers to join together in cooperative self-help efforts</u>.

Mr. Chairman, we believe enactment of this package would provide farmers with a greater opportunity to improve their income from the marketplace, better manage their risk, capitalize on potential market opportunities, and compete more effectively in a rapidly changing global economy. Accordingly, we look forward to working with you and the members of this Committee, to help achieve these important goals.

Thank you again, Mr. Chairman, for the opportunity to present our views.

Attachments:

1. Summary of proposed Farmer Business and Income Opportunity Act.
2. Recommended changes in USDA's B&I Program relating to farmer cooperatives for the benefit of their farmer owners.

NCFC®

NATIONAL COUNCIL OF FARMER COOPERATIVES

Farmer Business and Income Opportunity Act of 2001 (Legislative Proposal)

Purpose:

To address the adverse economic conditions facing agriculture by providing farmers with greater opportunity to improve their income from the marketplace, manage their risk, capitalize on potential market opportunities, compete more effectively in a rapidly changing global economy, and enhance their economic well being and profitability long term through cooperative self-help efforts.

Key Provisions:

Improves access to capital through credit and investment initiatives for farmer cooperatives for the benefit of their farmer owners.

- Modernizes and enhances USDA's Business & Industry Guaranteed Loan Program for farmer cooperatives consistent with other USDA credit programs. Provides up to $10 billion in guaranteed loan authority, eliminates user fees, removes current cap on amount of loans, and provides additional lending flexibility in case of farmer cooperatives consistent with recognized commercial banking practices.

- Clarifies existing USDA guaranteed loan program for farmers to purchase stock in a new value-added business or cooperative to include existing farmer-owned businesses and cooperatives for similar purposes.

- Eliminates "triple tax" on cooperative dividends on preferred stock under Dividend Allocation Rule to allow farmer cooperatives to utilize preferred stock to raise equity capital without reducing amount of patronage earnings paid to their farmer owners.

- Provides needed tax incentives for farmers to help raise equity capital needed to gain ownership in value-added activities beyond the farm gate through cooperative self-help efforts.

- Authorizes establishment of a venture capital fund to attract private sector capital and investment in rural businesses, including farmer cooperatives.

50 F STREET, NW • SUITE 900 • WASHINGTON, DC • 20001 • 202-626-8700 • fax 202-626-8722 • Web site www.ncfc.org

Clarifies certain tax laws relating to the organization and operation of farmer cooperatives for the benefit of their farmer owners.

- Allows farmer cooperatives that qualify as small ethanol producers to pass through current 10 cent per gallon tax credit to their farmer owners.
- Expands definition of cooperative marketing to include value-added processing through animals.
- Allows farmer cooperatives organized as section 521 cooperatives to seek declaratory judgment regarding their status under the Internal Revenue Code similar to other types of entities.

Revitalizes USDA research, education and technical assistance programs in support of farmer cooperatives for the benefit of their farmer owners.

- Establishes Farmer Cooperative Business Service as separate agency to carry out farmer cooperative programs. Specifically authorizes not less than $6 million for such purposes, along with additional $6 million for cooperative research and educational agreements to be carried out through public-private partnerships. Designates Under Secretary for Rural Development as Under Secretary for Rural Development and Cooperatives.
- Maintains funding for USDA value-added technical assistance grants at not less than $25 million annually to help farmers capture more of the value of their production beyond the farm gate through cooperative self-help efforts.

Reaffirms congressional support for farmer cooperatives through Sense of Congress Resolution that federal policies and programs should serve to encourage and enhance ability of farmers to join together in cooperative self-help efforts.

For More Information: Please contact NCFC President David Graves (dgraves@ncfc.org) or NCFC at (202) 626-8700.

Modernization of USDA's Business & Industry Guaranteed Loan Program Recommendations by NCFC

1. Increase funding to provide up to $10 billion in guaranteed loan authority.
   Access to capital number 1 challenge facing farmers & farmer owned cooperatives.

   - Modernize plants and equipment, gain operating efficiencies, enhance competitiveness.
   - Meet costly environmental requirements.
   - Gain additional value through further processing, handling, marketing, and sales.

2. Eliminate $25 million maximum loan amount for farmer cooperative borrowers. (Note: while existing statute provides authority to guarantee up to $25 million, USDA has generally limited the size of such loans to a maximum of $10 million.)

   - Provides needed flexibility in support of commercially viable projects.
     Recognizes increase in costs of commercially viable projects since program authorization. (Ex: B&I loan guarantees helped Texas cotton producers in the 1970's to finance a cotton denim mill, allowing them to capture the additional value created by further processing and marketing their cotton in the form of denim, while also helping create additional jobs. Today, such a facility would cost an estimated $100 million or more and would not be possible with the current limitation on the B&I loan program.)

   - Makes program consistent with other USDA programs, such as for rural electric cooperatives, which has no limitation.

3. Eliminate 2 percent loan origination fee.

   - Current fee structure imposes huge cost on farmer members of cooperative. The result is to reduce available capital critical to success, or reduce cash flow due to higher effective interest rate.

   - Eliminating fee would make capital available on more affordable and competitive basis, therefore enhancing commercial viability of project.

   - Makes program consistent with other USDA programs, such as rural electric programs.

4. Require consideration of both tangible and intangible assets, and unsecured subordinated debt, in the case of farmer cooperative borrowers, consistent with recognized commercial lending practices and in accordance with generally accepted accounting principles.

   - USDA currently allows consideration of only tangible assets. Commercial lenders, however, generally recognize there is considerable value associated with brands, licenses, patents and trademarks, and will take into account such intangible assets subject to appraisal when evaluating the eligibility of a potential borrower. The same is true with regard to unsecured subordinated debt, which can be viewed as equivalent to equity. The effect of USDA's current guidelines is to substantially reduce the ability of farmer cooperatives to access needed capital on an affordable basis under the program. Accordingly, such guidelines should be revised to be consistent with recognized commercial lending practices and in accordance with generally accepted accounting principles.

5. Eliminate requirement that farmer cooperative borrowers or their related plants, equipment and facilities be located in areas of 50,000 or less in population.

   - Such a limitation adversely affects sound business decisions by the farmer owners, directors and management of a farmer cooperative in terms of the strategic location of plants and facilities necessary to be competitive and commercially viable, and thereby able to generate desired returns to the cooperative's farmer owners for the purpose of improving their income.

   - Increasing expansion of urban and suburban areas, along with population growth, has resulted in many farmer cooperatives no longer being eligible under the current program since they are now located in areas that exceed the 50,000 population threshold.

   - Regardless of business location, earnings of farmer cooperatives are returned to their farmer owners on a patronage basis, thereby improving their income, and contributing to the economic and tax base of rural communities where they reside.

6. Provide authority for USDA to allow repayment terms up to 35 years.
   (Current terms are 7 years for working capital, 15 years (or useful life) for equipment and up to 30 years for real estate.)

   - Provides needed flexibility to meet capital and credit needs of farmer cooperatives for the benefit of their farmer owners. Longer terms would help improve cash flow and enhance commercial viability especially during start-up and initial phases of operation.

   - Longer repayment terms would also help farmer cooperatives meet costly environmental and other regulatory requirements. Example: Recent EPA sulfur-diesel and gasoline regulation is projected to require as much as $400 million or more to re-engineer existing farmer owned cooperative refining facilities. USDA should have required flexibility in their programs to help meet such needs. Another consideration: farmer cooperatives are a critical component of rural energy infrastructure, accounting for 40 percent of on-farm fuel needs. Being farmer-owned, they have a unique accountability to their farmer owners, making them a dependable and competitive source of energy-related products.

   - Makes program consistent with other USDA lending programs. (Terms for rural electric loans, for example, are 35 years.)

7. Provide authority for up to 100 percent loan guarantees. Higher minimum guarantees should also be considered. (USDA currently has authority to provide up to 90% loan guarantees. However, actual guarantees are limited to 80% up to $5 million; 70% for loans from $5-10 million; and 60% for loans from $10-25 million.)

   - Provides USDA with flexibility to meet individual borrower needs, both short and long term.
   - Helps preserve capital for productive investment to enhance returns to farmer owners such as when purpose of such loans is to meet environmental and other regulatory requirements.
   - Reduces borrowing cost, improves cash flow, enhances returns and commercial viability.
   - Makes program more consistent with other USDA lending programs. (Ex: USDA provides fixed 100% loan guarantees for rural electric cooperatives.)

QUESTIONS AND ANSWERS

JUNE 28, 2001

Response to questions regarding testimony of Craig Cox during June 28, 2001 hearing.

Question for Craig Cox

Mr. Cox, I commend the Soil and Water Conservation Society for its comprehensive report, "Seeking Common Ground for Conservation." In the report, you mention the need to support current programs and create a new stewardship program that actually seems very similar to my conservation program, the Conservation Security Act. Some people have suggested we can make changes to and add money to the Environmental Quality Incentives Program (EQIP) and achieve the same benefits for conservation and agriculture. I believe EQIP is an important program that has its role, but that if you made all the changes necessary and properly funded EQIP, you would end up with CSA. Do you agree with this assessment?

Answer

There are three elements of CSA that make it unique when compared to EQIP. First, CSA specifically provides for ongoing payments to compensate producers for the costs of maintaining conservation practices and systems once they are installed on their farm or ranch operations. Second, CSA is designed to compensate producers for the full cost of implementing and maintaining conservation systems rather than sharing a portion of the cost, as is usually the case under EQIP. Finally, CSA is designed to reward any and all producers who want to make a commitment to conservation rather than directing assistance only to those producers whose operations are located in problem watersheds or who are proposing to implement specific high priority conservation practices.

Making the changes necessary in EQIP to meet these three unique features of CSA would, indeed, result in a very different program—one that resembles CSA more than the current EQIP.

It is our view that the best outcome would be do design CSA and EQIP to work in a complementary fashion. CSA would make conservation technical and financial assistance available to all producers based on their level of conservation effort. With such a broad-based program in place, EQIP could be designed to deliver enhanced and specialized conservation assistance to problem areas or problem farms where environmental concerns are acute.

Question for Craig Cox

Mr. Cox, I believe that in advancing conservation for agriculture in a manner that benefits farmers and all Americans, we must take a new look at how conservation programs are designed to maximize environmental benefits and reach the broadest spectrum of producers in an equitable manner. For example, I believe that we must reward those farmers who have already adopted conservation practices by paying them to maintain those practices. Do you believe that paying producers to maintain conservation practices is a good investment?

Answer

I strongly agree that paying producers to maintain conservation practices is a good investment. Improvements in soil, water, or air quality, or in wildlife habitat are often cumulative. The benefits to taxpayers increase over time as those practices and system remain in place and well maintained. For example, the Coon Creek Watershed in southwestern Wisconsin is the first USDA watershed project. Basic soil conservation practices, first installed in the 1940s are still producing measurable benefits to water quality today. In fact, there full benefit may not be achieved for another generation as the watershed "heals itself" in response to the measure taken over 60 years ago. Keeping those simple practices in place by compensating producers for the cost of maintaining those practices would be a good investment for taxpayers.

Follow-up Question

Do you believe that it is cheaper to maintain practices than to restore practices?

Answer

In almost all cases, it is cheaper to maintain practices than it is to reinstall or restore practices that have been poorly maintained or abandoned. Most important, maintaining practices is a way to prevent problems from occurring in the first place. Prevention not only avoids the cost of installing practices but also avoids the environmental cost that taxpayers will suffer if problems are allowed to develop.

Question for Craig Cox

Mr. Cox, as you know, in Iowa water quality is an extremely important issue. I believe that we must use all tools available to address water quality concerns, including those that stem from agricultural lands. In your opinion, what is the best way, and the best lands to focus on, to address water quality issues in Iowa and across the country?

Answer

Water quality issues in Iowa are particularly critical because they require changing the way producers farm. In Iowa, as in most of the intensively farmed regions in the U.S., environmental issues are associated with the use of our best agricultural land, not with the use of marginal agricultural land. In Iowa, in other words, land retirement cannot be our primary tool for addressing water quality concerns. Land retirement, through programs such as the continuous-CRP or Iowa's new CREP, which pays farmers to take small amounts of land out of production to install buffers and filterstrips, can and will be very helpful. But for the most part, we will need to help farmers do a better job of growing crops and livestock and at the same time protecting water resources. We have to find ways to help farmers manage nutrients and pesticides more efficiently—changing from fall to spring applications of fertilizer or applying manures efficiently or managing tile drainage systems to prevent pollution, for example—will be key to cleaning up Iowa's water while enhancing agricultural production.

Question for Craig Cox

Mr. Cox, I was intrigued by the concept of merging existing and new conservation programs. I understand this approach may streamline the application and implementation process and generate better overall environmental benefits. Could you explain more fully your idea for merging the programs?

Answer

In my view, there are three basic compartments in the conservation tool box: (1) technical services that help producers assess problems, develop solutions, and tailor those solutions to their individual farms and ranches; (2) financial assistance for conservation on working land—integrating conservation into the food and fiber production systems used by producers; and (3) financial assistance for land retirement and restoration—shifting the primary focus on working land from food and fiber production to habitat restoration or protection of critical natural resources. A comprehensive and effective conservation effort needs all three of these tools to work for producers and taxpayers.

Since 1985, the number of individual, stand-alone conservation programs has more than doubled. Each of those programs has its own unique value, but each also has its own unique planning, application, and eligibility requirements. Most of those programs spent less than $10 million in fiscal year 2000.

We think there could be significant savings in administrative cost by consolidating existing programs into three basic programs that address each component of the conservation toolbox. That consolidation should be designed to produce:

- One basic technical services program;
- One basic financial assistance program for improving conservation practices on land producing food and fiber, with options ranging from installation of a single practice to 15-year contracts for implementation of comprehensive farm and ranch conservation plans, and
- One basic financial assistance program for taking land out of production to protect and/or restore environmentally sensitive land, with options ranging from 10-year contracts to permanent easements.

We would also go further and make the producers' conservation plan the basis for participation in both financial assistance programs. The goals of the producer and the needs of the land should drive programs rather than programs driving conservation. A single conservation plan should be the gateway to all forms of conservation financial assistance and a producer who develops a comprehensive farm or ranch conservation plan should be automatically eligible to receive financial assistance to plan and apply the conservation practices and systems outlined in his or her plan.

Question for Craig Cox

Mr. Cox, you repeatedly mention the importance of conservation compliance to protecting and enhancing the environment. And, you specifically lament the decision to not require conservation compliance as part of crop insurance. As you may know, I favored requiring conservation compliance as part of crop insurance. Can you more fully explain the benefits of conservation compliance and tell me if you think crop insurance should be redrafted to require conservation compliance?

Answer

A great deal of research has been completed that details the benefits the conservation compliance provisions of the 1985 Food Security Act has produced for taxpayers and the environment. USDA's Economic Research Service, for example, estimates that the soil conservation provisions of the 1985 Food Security Act have produced environmental benefits worth $1.4 billion a year.

But conservation compliance has an ethical as well as environmental basis. On the one hand, taxpayers should not be expected to subsidize activities that harm the environment. And on the other hand, producers who are committed to conservation should not see their neighbors rewarded for doing things that harm rather than conservation soil, water, air, and wildlife habitat.

On both environmental and ethical grounds, conservation compliance provisions should cover crop insurance. The higher subsidies now provided for crop insurance increase the likelihood that taxpayers will unintentionally encourage producers to breakout or keep risky land in production. Similarly, as farm subsidies, included crop insurance, concentrate into the hands of fewer and fewer producers, there is greater potential for conservation farmers to find themselves at a disadvantage compared to heavily subsidized producers who lack a comparable commitment to conservation.

Follow-up Question

Can you discuss the environmental and natural resources impacts of Congress' decision to eliminate super sodbuster? Do you believe that was a wise path to follow?

Answer

We have no hard evidence on the effect of elimination of the super-sodbuster provision on natural resources or the environment. We heard multiple anecdotes during our workshops, however, from producers who had seen fragile land broken out on farms while other land was enrolled in the CRP. More important, however, workshop participants were nearly unanimous in their sense of injustice if producers were allowed to break out fragile land and subsequently be subsidized by taxpayers for enrolling those acres in CRP or another conservation program. Participants thought this was an affront to good stewards and a prime example of conservation and farm programs rewarding the wrong behavior. They strongly supported reinstituting the super sodbuster or other compliance measures to address this injustice.