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LIVESTOCK ISSUES FOR THE NEW FEDERAL FARM BILL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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LIVESTOCK ISSUES FOR THE NEW FEDERAL FARM BILL

TUESDAY, JULY 24, 2001

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

The committee met, pursuant to notice, at 9:06 a.m., in room SR–328A, Russell Senate Office Building, Hon. Tom Harkin, [Chairman of the Committee], presiding.

Present or submitting a statement: Senators Harkin, Conrad, Lincoln, Nelson, Dayton, Wellstone, Lugar, Thomas, and Crapo.

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

The CHAIRMAN. Good morning. The Senate Agriculture, Nutrition, and Forestry Committee will come to order.

For the last several weeks, we have heard from a wide range of interested groups about their ideas for the next Farm bill. We will continue these hearings today at the full committee and then subcommittee levels mostly in August.

Today, we will hear from the animal agriculture industry concerning farm bill issues. Animal agriculture is a very important part of our total U.S. agricultural picture. Cash receipts from the livestock sector are projected to account for 53 percent of total cash receipts from production in 2001 and nearly $11 billion of U.S. agricultural exports, about 20 percent of the total. That export total amounts to more than a 50 percent increase in the last 10 years.

Livestock also plays an important part in my own State's agriculture. Iowa is the No. 1 producer of hogs and eggs and has many other animal agricultural products. I believe that Iowa's prominence in animal agriculture is reflected by today's panel.

I would like to welcome the three Iowans who are here, Jon Caspers, Vice President of the National Pork Producers Council from Swaledale, Iowa, Pete Hermanson, who is former Chairman of the National Turkey Federation from Story City, and Maria Rosmann from Harlan, Iowa, who represents the Sustainable Agriculture Coalition.

Considering the importance of animal agriculture to U.S. agriculture overall, I believe it is time our farm policy accord animal agriculture the attention it deserves. We should craft a farm bill that addresses the concerns of animal agriculture across the nation. The next Farm bill needs to help livestock and poultry producers meet the challenges they face.

Just as an aside, I have often said that it seems like animal agriculture has always been sort of the stepchild of farm bills. We do everything else and it is sort of an afterthought in animal agriculture. It is my intention, that this next Farm bill will, hopefully, focus more attention on animal agriculture. It provides us multiple opportunities for crafting support for the animal agriculture industry. We must encourage increased research on animal health and diseases and new uses.

The next Farm bill must also provide increased opportunities for livestock producers to expand their businesses, both domestically and in the United States, through marketing, fair trade agreements, and value-added products. That means increased funding for cooperatives and other private initiatives. I read all the testimony last night and I am particularly interested in the testimony of Ms. Rosmann, who is here, and their experience on a family farm structure in Iowa and what we can do to encourage more enterprises like that, as well as a strong export program like the Market Access Program and how we can get, if you will excuse the pun, beefed up a little bit.

As many of you know, I believe the Farm bill needs to expand the conservation title. We need to strengthen programs like EQIP, create new ones like the Conservation Security Act and others, to provide incentive payments for farmers and livestock and poultry producers to maintain and adopt conservation practices, like good manure management.

We need to make a comprehensive review of EQIP that includes looking at the current restrictions on cost share assistance for livestock owners. However, we must be careful not to go down the road of subsidizing large livestock operations unfairly or financing technology, such as manure lagoons, that should soon be obsolete.

Moreover, we must carefully examine the consequences of government involvement. The wrong kind of government involvement in the name of conservation could actually hurt the industry, or at a minimum, distort production decisions or markets.

Again, animal agriculture plays an important role in our whole agricultural picture. I look forward to hearing the panel's testimony and working with all of you on crafting sound and forward-thinking aspects of the Farm bill as it deals with animal agriculture.

[The prepared statement of Senator Harkin can be found in the appendix on page 46.]

I would yield to my colleague, 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 very much, Mr. Chairman. I thank you again for calling this hearing to consider livestock and poultry issues in the next Farm bill.

In recent months, livestock, poultry, and other organizations have requested that we consider their requests for action on matters related to conservation and environmental compliance, on trade promotion, research, and other issues. Conservation deserves a new focus in the next Farm bill and I applaud your efforts, Mr. Chairman, to bring that about.

In 1985, 97 cents of every financial assistance dollar from the USDA went to working lands. Three cents went to land retirement. Today, the situation is nearly reversed, with some 85 cents going to land retirement programs and only 15 cents going to working lands. This funding balance must be addressed during our reauthorization of the Farm bill. I do not believe we can land idle our way to environmental performance.

Today's State water quality reports still name non-point sources of pollution as the nation's biggest water quality challenges. Nutrients and pathogens represent the largest environmental challenge confronting most farmers and ranchers today, and the ones most likely to result in costly new regulation. How we deal with these environmental challenges will affect the commercial viability of farming and ranching over the next decade.

In legislation I will soon introduce, a significant increase in the EQIP funding would be authorized, and I appreciate your mention, Mr. Chairman, of the EQIP program in your opening statement this morning.

In the trade area, there have been calls for increased funding in the export enhancement area, such as the Market Assistance Program. I would respectfully request that each sector represented here today provide us with a written outline of their present export strategy, hopefully by the beginning of August. We cannot approach the trade title from a perspective of increasing funding levels in each existing program. For the benefit of producers and taxpayers, a total review of all existing programs is essential.

As this committee considers the trade title of the next Farm bill, I remind colleagues of an important issue to agriculture outside of this committee's jurisdiction, and that is trade promotion authority. We should not have a narrow focus on a particular title of the Farm bill without acknowledging the consequences for farmers of ongoing Congressional inaction on this front. It is also important to note the inevitable impact of commodity policy on the livestock and poultry areas. During development of the commodity title of the Farm bill, we must be mindful of the impact of these sectors. In particular, we should avoid interventions in the grain market by the Federal Government which would harm the livestock sector's international competitiveness.

Mr. Chairman, on a topic not likely to pertain to the Farm bill, although important to agriculture, I would simply say, be assured of my ongoing commitment to work with you and Senator Daschle and other colleagues on the issue of interstate shipment of State-inspected meat, a topic often before our committee.

Again, I thank you for holding today's hearing and I look forward to hearing from each of our witnesses.

The CHAIRMAN. Thank you very much, Senator Lugar.

Senator Dayton.

Senator DAYTON. I will wait for the witnesses. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Thomas.

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

Senator THOMAS. Thank you, sir. I am very pleased that you are having this hearing today, of course. In Wyoming, livestock is our activity. Over 70 percent of our agriculture is there.

I want to particularly welcome my good friend Frank Moore here from Douglas, Wyoming, who is Vice President of the American Sheep Council and is a sheep producer and has been for a very long time.

We had recently, during this last recess, a meeting in Wyoming that we hosted with the Wyoming Department of Agriculture and many of the producers from livestock were there, of course. There were a number of things that they talked about and emphasized. One is, the Farm bill is not a one-size-fits-all and that mentality, we have to be careful about. Support for opening markets, export markets, of course, was strong, high, there. Increased funding for conservation and technical assistance, so that you could talk about grasslands and open space and preservation of lands and technical assistance. Also, a greater coordination among Federal agencies. That, of course, is a broad thing to do, but it really has a lot of effect in agriculture in terms of Fish and Wildlife Service, EPA, and others, so that is there.

The cattle industry, of course, is our leading one. They don't ask for price supports, but they do think they ought to be included in agriculture, and I agree with that, particularly in trade and those kinds of things.

We are particularly interested this morning, Mr. Chairman, with our sheep industry. We are second in the Nation for sheep and wool. It has suffered the worst price cycles probably in history since the Wool Act was repealed in 1966. Prices have fallen from 70 cents to about 33 cents a pound for wool, which doesn't cover the shearing costs, of course. There are lots of factors in that, the Asian financial crisis, competition from synthetic fibers, of course, the U.S. dollar, and so on.

There are a number of proposals they are looking forward to. One of them, of course, is the wool program, which we will be talking about soon in the supplemental or the ag dollar appropriation. There are a number of things that they are doing in terms of trying to put together a value-added cooperative so that the producers can be involved in the product. That is one of the best things we can do.

Hopefully, and I hear this a lot and I feel very strongly about it, that it seems to me in our agricultural farm bill considerations, we have to deal with the impacts of where we are now, of course, but we ought to make sure that what we are doing is going to lead us to where we want to go over a period of time. Too often, we end up just dealing with the problem that now exists, and I understand how easy it is to do that, and you have to do it, but at least a portion of that ought to go forward and us trying to visualize how we can get agriculture where we want it to be, more self-sustaining and those kinds of things.

At any rate, that is more than I should say, but I feel very strongly about it. The Farm bill has traditionally, of course, been largely program crops, but now that is a little behind us and we are now looking at how we can deal with the general concept of agriculture, and in States like ours, that means livestock in many ways. Thank you, sir. I appreciate it.

The CHAIRMAN. Thank you very much, Senator Thomas. I tend to agree with just about everything you said there.

Senator THOMAS. I am glad I stopped when I did, then.

[Laughter.]

The CHAIRMAN. I didn't know what was coming. Thanks, Craig.

The CHAIRMAN. We welcome our panel. We will just go down the list. First of all, your statements will be made a part of the record in their entirety. Rest assured, we have read them over. If you could just limit your statement to maybe five to seven minutes—we have three, six, seven people—let us say around seven minutes or so, and then we can get into questions, I would sure appreciate it.

We will just go down the list. We will start with Mr. Jon Caspers representing the National Pork Producers Council from Swaledale, Iowa. Welcome, Jon.

STATEMENT OF JON CASPERS, NATIONAL PORK PRODUCERS COUNCIL, SWALEDALE, IOWA

Mr. CASPERS. Thank you, Mr. Chairman. I am Jon Caspers. I am a pork producer, as you mentioned, from Swaledale, Iowa, and I serve on the Board of Directors of the National Pork Producers Council.

Mr. Chairman, the country's pork producers are extremely pleased that the 2002 Farm bill debate is focusing on conserving working agricultural lands, keeping them productive, profitable, and at the same time, enhancing the environmental benefits that they provide. Your bill, the Conservation Security Act, is one of the big reasons that the debate has turned in this direction and we welcome your efforts and commend you for them. We also note that the committee's ranking member, Senator Lugar, is working on a conservation bill with many valuable policy proposals.

As we have stated before, livestock and poultry producers face or will soon face costly environmental regulations as a result of State or Federal law designed to protect water and air quality. In addition to the State requirements, the regulations will come from the Clean Water Act TMDL program, the proposed CAFO permit requirements, and the Clean Air Act. While producers have done a good job environmentally on their operations in the past, we want to continue to improve, but in many cases, the costs are simply prohibitive.

A $1.2 billion a year increase for the EQIP program, which 50 percent would go to livestock and poultry producers, is a historic step forward. However, as previous testimony from NPPC and other groups has demonstrated, $1.2 billion is needed annually for livestock and poultry producers alone. We, therefore, respectfully request that the committee take full advantage of any opportunity that may exist to expand EQIP funding further in order to meet the pressing conservation assistance needs existing in all agricultural sectors.

There are several specific issues that we would like to address as you prepare legislative language for the conservation title of your farm bill. We feel strongly that livestock and poultry producers must be eligible for conservation cost share assistance regardless of the size of their operations. Family-owned or operated livestock operations come in all sizes, and all of these need cost share assistance if they are to remain economically viable while providing the public with the environmental benefits they obviously seek.

For example, the EPA's analysis for the proposed CAFO rule assumes it will cost a 3,400-head farrow to finish swine operation in the Midwest $332,000 in capital costs to comply with the proposed rule. It will also cost approximately $26,000 a year for annual recurring activities for this operation to operate and to maintain its new system.

Any EQIP provision that excludes operation simply on the basis of number of animals will end up excluding thousands of family-owned operations struggling to remain as independent as possible. The unintended consequences of a size cap is rapid consolidation of the pork industry, and something, I am sure, this committee does not want. It is our view that a payment limitation schedule comparable to that used in row crops is far more appropriate except that payment should not be limited by year but by needs of the overall EQIP contract.

Second, protecting air and water quality as it relates to livestock and poultry manure management must be national priorities for EQIP. While EQIP can provide benefits to wildlife, the Wildlife Habitat Incentives Program, or WHIP, is the program for encouraging wildlife conservation on working agricultural lands and we support increasing WHIP funding.

It is important to ensure that the program allows for the participation of third-party, private sector, certified experts to supplement the technical assistance to be provided by USDA. We note that your CSA and Senator Lugar's concept paper provide for the use of such persons and we support your efforts. A voucher system is one way that could be used to meet this need, but there are several others.

We also feel that EQIP needs to be able to meet conservation priorities that are not defined on the basis of small geographic areas, like a watershed, and that existing provisions of EQIP that add considerable administrative burden with little associated environmental benefit should be scrutinized.

We also believe the new Farm bill should provide incentives to help livestock producers fully develop the value of their nutrients. One of the most promising possibilities for small and medium-sized operations involves capturing methane and producing electricity. Harnessing the energy from swine nutrients can meet farm electricity needs, provide added income as excess capacity is sold to other power generators, enhance odor control, spur rural economic development, and help reduce our nation's dependence on foreign oil.

Pork producers also support legislation that would grant tax credits for the generation of electricity through the use of swine nutrients and other agricultural by-products. Mr. Chairman, we understand that you are developing farm-to-energy technology provisions for the Farm bill. We are ready to work with you and others like Senators Crapo and Grassley, who recognize the value and promise of farm-to-energy initiatives.

We have also long supported increasing the authorization of the Market Access Program, or MAP. At least a doubling of the current authorization, from $90 to $180 million per year, is warranted. MAP and the Cooperator Program have been instrumental in helping boost U.S. exports.

Thank you for allowing us to testify today and we look forward to working with your committee in the future.

The CHAIRMAN. Jon, thank you very much for your testimony. I look forward to working with you and the National Pork Producers Council on these issues.

[The prepared statement of Mr. Caspers can be found in the appendix on page 48.]

The CHAIRMAN. Next, we will move to Mr. Eric Davis of the National Cattlemen's Beef Association from Bruneau, Idaho.

STATEMENT OF ERIC DAVIS, NATIONAL CATTLEMEN'S BEEF ASSOCIATION, BRUNEAU, IDAHO

Mr. DAVIS. Thank you, Mr. Chairman, Senator Lugar, members of the Senate Agriculture Committee. It is a pleasure to be here today to give this testimony on behalf of the National Cattlemen's Beef Association.

I am a fourth generation rancher from Bruneau, Idaho. My family has been on the place we are on now for about 50 years. On behalf of NCBA and my lifetime and my dad's and some others ahead of me making what we think are ecologically sound and economically viable uses of renewable resources, I am happy to be here to present NCBA's views on the Farm bill development.

I will mention only broad topics in my oral testimony. My written testimony goes into greater detail in all these areas, and, of course, I would be happy to address specifics later, should there be questions.

Chairman Harkin, the beef industry, NCBA, and NCBA's predecessor organizations have traditionally taken the position of wanting less Federal intervention in farm policy. Nonetheless, the members of NCBA understand that farm programs are a major component of U.S. domestic policy and will remain so for the foreseeable future. Therefore, NCBA will continue to focus on ensuring that farm policy does not benefit one part of agriculture at the expense of another. NCBA will not consent to U.S. farm policy that is financed out of the pockets of the beef industry.

With that in mind, we will be keeping a close eye on the following areas: Mandatory set-asides, acreage reduction programs and production controls, farmer-owned reserves, non-recourse loan forfeiture, flex fallow type programs, and any Federal dairy buyout, herd reduction program, or mandatory dairy supply management program. Should proposals such as these become part of the Farm bill discussion, NCBA will seek to mandate by USDA and the recognized research community the complete impact study of these proposals on the beef industry. I would reiterate, NCBA opposes any Federal farm program that has a negative impact on the beef industry.

Now, with that said, Mr. Chairman, this committee's commitment to conservation and the environment are of particular interest to the cattle industry. There are a whole host of conservation initiatives that have been proposed for this Farm bill and we are encouraged that the initiatives proposed all place an emphasis on helping producers keep their operations and productive lands working and profitable while they move to the next level of conserving the natural resources on these lands.

We appreciate this opportunity to provide you with our views and observations as you craft the details of these provisions for your farm bill package. NCBA wants to stress that whatever form the final package takes, it is critical that the 2002 Farm bill make a major new commitment to providing livestock producers with conservation cost share and incentive payments assistance in the context of voluntary incentive-based programs. This must be done if we are to keep economically viable producers on the land, be able to conserve our natural resources for future generations, and provide the environmental benefits being demanded from American agriculture by the public.

Some specific priorities for NCBA are, No. 1, $1.2 billion per year for EQIP or a new program similar to EQIP to assist producers with the costs of Federal, State, and local mandatory manure management and water and air quality protection requirements. Producers must be eligible for this assistance regardless of the size of their operations. A payment limitation system comparable to that used in row crops should or could be adopted.

No. 2, EQIP's effectiveness could be enhanced by establishing priorities based on geographic and non-geographic parameters.

No. 3, the Conservation Reserve Program should be amended to make it a priority to keep working lands working. This means that emphasis must be placed on enrolling buffers. Whole field enrollment in the CRP program should be substantially limited.

Mr. Chairman, as you know, NCBA represents that segment of agriculture that owns and manages our nation's private grazing lands. They contribute significantly to the quality and quantity of water available for all of the many land uses and they constitute the most extensive wildlife habitat in the U.S. Our next generation farm bill must continue to recognize the contributions these grazing lands make to a healthy environment by providing financial and technical support for grazing lands and grasslands conservation programs.

Specifically, we support reauthorization of the Grazing Lands Conservation Initiative. We also support passage of the Grasslands Reserve Program. Traditionally, farm bills have not recognized the importance of grasslands. The Grasslands Reserve Program would allow ranchers to continue economic activity while protecting natural resources.

The National Cattlemen's Beef Association is currently preparing comments on environmental regulations that will impact all segments of the industry. These regulations will add tremendous costs to doing business and important modifications need to be made to Federal programs to assist the beef industry in maintaining the highest standards of resource protection.

Mr. Chairman, I thank you for the opportunity to comment here today and look forward to any questions that may follow.

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

[The prepared statement of Mr. Davis can be found in the appendix on page 58.]

The CHAIRMAN. Now, we will turn to Dennis McDonald, Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America, from Billings, Montana, R–CALF. Welcome.

STATEMENT OF DENNIS McDONALD, RANCHERS–CATTLEMEN ACTION LEGAL FUND, UNITED STOCKGROWERS OF AMERICA, BILLINGS, MONTANA

Mr. MCDONALD. Thank you, Mr. Chairman. I am a rancher from South Central Montana, the small town of Melville. My wife, Sharon, of 25 years, and our four children operate a cow-calf operation. We breed 850 or so mother cows. We background our calves, sometimes finishing the steers to slaughter weight. We breed 100 or so quarterhorse mares annually for working cow horses.

I am here on behalf of R–CALF, an organization dedicated to representing grassroots cattle producers around the country. We have members in 38 States. I serve on the Ag Trade Advisory Committee and had the opportunity to speak before this committee a month or so ago when you were focusing on trade issues.

The light cattle prices at the ranch presently, I am pleased to report, are strong. I am optimistic our industry can remain vibrant, provided we have the basic tools that will allow us to market our end product at home and abroad. To that end, we are urging that a cattle chapter be written into the new Farm bill.

Mr. Chairman, I heard your comments loud and clear about, often, livestock being the stepchild in previous farm bills. That thought occurred to me several months ago and I thought maybe a solution might be to designate a cattle chapter or livestock chapter within the Farm bill that would focus attention on the issues peculiar to our livestock industry.

With cattle in all 50 States generating $35-plus billion annually, it seems a cattle chapter is needed. We have over one million producers contributing to our rural communities and, I believe, providing a cultural foundation for our nation.

The viability of our industry is challenged on several fronts. Concentration in the marketplace is one such area, with four major processors ultimately slaughtering 80 percent of the finished cattle. As a result, the reduced leverage in the marketplace have, in recent years, caused the elongation of the down wave of the cattle cycle. R–CALF is convinced that a cattle chapter within the Farm bill could help restore greater equilibrium to pricing and, thus, help the market function in a more rational manner.

We are aware of legislation supported by both parties that addresses some of these issues. One such issue is the cattlemen's fair share of the retail dollar. In 1970, cattle producers enjoyed approximately 70 percent of the retail dollar. That shrank to 50 cents by 1996, and that trend is continuing. Obviously, we are experiencing a shrinking share of that retail dollar.

R–CALF is convinced this trend might be reversed if the Farm bill contains provisions addressing some of the issues I have outlined in my written testimony. Those include speaking to the issue of unfair contract prices, a call for enforcement of antitrust laws, as well as enforcement of the Packers and Stockyards Act. Further transparency in the marketplace is of vital importance, and we have taken a major step with the mandatory price reporting legislation and the recent rule changes that will help implement that legislation. Country of origin labeling and restriction of our USDA grade stamp, and I will return to those subjects in a moment.

Senator Lugar, you mentioned the interstate shipment of inspected beef, a critical issue to cattlemen around the country, particularly as we attempt to add value to our product and attempt to take our product directly to the ultimate consumer.

The only funding request that R–CALF is suggesting is an experimental fund that would help fund those efforts as we form co-ops around the country to attempt to get into that retail market. We are asking for a $200 million fund for that purpose.

Country of origin labeling, we would hope would be addressed in the Farm bill. R–CALF strongly supports Senator Tim Johnson's proposal, the Consumer's Right to Know. A strict labeling law will allow producers to differentiate our product from all of the other beef products that are imported from around the world. For beef to carry the USA label, it should be processed from a calf born, raised, fed to finished weight, and processed in this country. Any deviation from that definition should be labeled as such.

Likewise, with the USDA grade stamp. That is a mark of excellence that the cattle producers of this country have awarded themselves over the last century by producing the best, most nutritious, healthiest product in the world. That USDA Choice grade stamp is seen as a fairness issue among producers across the country. It should be our brand, a brand of excellence that will help differentiate our product from the other products around the world.

Finally, to compete, we as producers need to own our cattle from the gate to the plate, from the ranch to the restaurant. I had made reference earlier to an experimental fund, moneys that could be used to promote co-ops and to allow us to market our product directly into the marketplace. Hopefully, I have delineated that thought with more particularity in my written submission.

Finally, I just want to say on behalf of all grassroots producers across the country what an honor to be invited to speak before you. I thank you for that opportunity.

The CHAIRMAN. Mr. McDonald, we are honored to have you here and your organization, which I know is growing very rapidly all over the Western part of the United States.

[The prepared statement of Mr. McDonald can be found in the appendix on page 74.]

The CHAIRMAN. Next, we turn to Mr. Frank Moore of the American Sheep Industry Association, previously introduced by Senator Thomas, from Douglas, Wyoming. Welcome.

STATEMENT OF FRANK MOORE, VICE PRESIDENT, AMERICAN SHEEP INDUSTRY ASSOCIATION, DOUGLAS, WYOMING

Mr. MOORE. Thank you, Chairman. I appreciate the opportunity to be here. I am a fourth generation rancher from Douglas. I have been in the sheep and cattle business all my life, as our family has for over 100 years.

I had the fortunate experience of traveling with the Senator yesterday and sitting on the ground waiting for planes for quite a while, so we visited a little bit about the Farm bill and what you need to do.

The CHAIRMAN. In Chicago?

Senator THOMAS. Denver.

[Laughter.]

Mr. MOORE. I am going to deviate a little bit from my statement. We have our written testimony that should specifically talk about the issues that we think need to be covered and go into detail about how we feel the sheep industry should be included in this Farm bill. I certainly agree with your opening statement, as several of the Senators have said, that livestock needs to be included.

The wool and lamb markets are way down. Our wool is at a 30-year low. Thirty-three cents last year was the average price for wool. It has been 1971 since we have seen those prices. That is not including anything for inflation. That is just your basic price. That is a significant decrease. Obviously, it is pretty tough to compete in today's market and be stable when you have got prices like that. The lamb markets are currently down.

Those of us that are left in the sheep business, we believe in the sheep business. We intend to stay in the sheep business. We think that the ones that are left are the ones that have the true heart for the business, are the efficient producers, the ones that are able to compete in the world market.

What we want to do is remain in business and we are tied to government. We are tied to government. All of agriculture is tied to government, whether we are receiving any programs or not. We have got our cheap food policies. We have got endangered species regulations. We have got environmental regulations. We have got a strong dollar that significantly impacts us when imports start coming into this country. Our high standard of living—we want to maintain that high standard of living.

In the European Union, they have a $2 billion support and subsidy program for their sheep industry over there. That is billion with a "b". In a lot of cases, that is 50 percent of their revenue from their sheep industry, from the sheep enterprise.

Australia and New Zealand, Australia's currency has been devalued by over 40 percent in the last five years compared to the strong dollar. We appreciate the fact that we have a strong dollar, but it gives them a significant import advantage when they bring products into this country.

When we are competing on a world market, we can compete in production, we can compete in efficiency, but it is pretty tough to compete against subsidies such as those and the strong dollar. What we are asking for in this Farm bill is to be sure that we are included, be sure that we have some kind of floor and safety net so that there is a little bit of stability.

We appreciate your concerns with conservation. We are very confident that the sheep industry is an environmentally friendly animal and we don't have any problem with conservation and the environment. We are comfortable in those areas.

We are making changes. We have been working significantly over the last few years and since we lost the Wool Act in 1993. For those of us that remained in the business, we have made significant changes to become better producers, to provide more value-added products. We are doing a lot of cooperative type of efforts, and I agree with what Mr. McDonald said. We need to make sure that those cooperatives have a chance to get up and running and be efficient.

We are working on scrapie eradication and some other programs to make our product as healthy and as health conscious as possible. We are doing a lot of quality improvements.

One thing I want to make sure that everybody understands, what we are asking for with our assistance program that is in the Farm bill, we are not talking about going back to the old National Wool Act. This is a modest safety net, a floor, just to make sure that there is a little bit of stability in the industry.

We have a couple of other issues with the U.S. Government that are important that we need to get off the ground so that our industry can get going. We have had a program for a promotion program at USDA since February of 2000. We need to get that up and running. That the industry, once it starts putting some money into self-help, will make some progress. We need your support in getting that up and running as quickly as possible. We expect to see that out any day.

Mandatory price reporting, we hope that issue can be taken care of. We think that is one of the problems we have had in the last few months with our decreased lamb prices. Since the mandatory price reporting went into effect, we have had virtually no lamb market reports. We need to make sure that there are some changes made there so that the price reporting comes out and helps us and gives us some significant information that we can use.

The Market Assistance Program that we have been included in in the last couple years has been what has cash-flowed a lot of sheep operations. We appreciate your support on that and we want you to know that that has been a help. It has kept a lot of people in business and it keeps them moving forward.

We will work with you in whatever way we can. As the Senator and I talked about yesterday, we are trying to fit into the Farm bill as you have it right now. We will work with you in whatever way you want to go to make sure that our policies are looking to the future.

I appreciate being here, and thanks for all you guys are doing.

The CHAIRMAN. Mr. Moore, thank you very much for your testimony. Rest assured, we recognize the importance of the sheep industry and the wool and mohair industry in this country. We will get into that more in the questions.

[The prepared statement of Mr. Moore can be found in the appendix on page 81.]

The CHAIRMAN. Mr. William Roenigk, National Chicken Council, Washington, DC, Mr. Roenigk, welcome to the committee.

STATEMENT OF WILLIAM ROENIGK, SENIOR VICE PRESIDENT, NATIONAL CHICKEN COUNCIL, WASHINGTON, DC

Mr. ROENIGK. Good morning. Thank you, Mr. Chairman, Senator Lugar, members of the committee. The chicken producer/processors appreciate this opportunity to present our recommendations and comments on the important issue of poultry fundamentals for the next Farm bill. The National Chicken Council appreciates the chairman's invitation to be part of this very vital discussion.

I am Bill Roenigk, Senior Vice President of the National Chicken Council. I concur with the chairman's opening comments this morning. I also concur with Senator Lugar's comments on the export and international trade situation. They are of great interest to us and we would be pleased to submit our export strategy program to you as you requested.

The National Chicken Council represents the vertically integrated companies that produce, process, and market about 95 percent of the young meat chicken in the United States. Both the domestic and international marketplaces are of great importance to our industry. The industry's long tradition of being market-oriented has served consumers, taxpayers, and crop farmers, as well. Being focused on the market provides a better opportunity to meet the dynamics and challenges of the changing market for food and, thus, grow our business.

Accordingly, we strongly support Federal farm commodity programs and policies that are not only market-oriented, but encompass the capacity to take full advantage of future market opportunities, both here in the United States and overseas.

The National Chicken Council supported the 1996 Farm Bill and continues to believe the principles and objectives of the FAIR Act provide the best path to pursue. In the long-run, market-based policies help make American agriculture stronger. To have policies and programs that are otherwise, at least for those of us who must market a substantial portion of our production in a global marketplace, means our fundamental competitiveness is jeopardized.

The National Chicken Council is a member of the Coalition for the Competitive Food and Agricultural System, CCFAS. Like the other 120 members of this coalition, we are committed to having a farm bill that is based on market-oriented policies and programs. We believe in this commitment because, given the proper operating environment, U.S. agriculture can grow, which, in turn, will stimulate the farm economy and provide increased employment across the United States, especially in smaller towns and cities.

Earlier this month, CCFAS presented its statement to this committee regarding policy fundamentals for the next Farm bill. I will not repeat all the points and issues addressed by that statement, but I will emphasize certain aspects that are of particular interest to our segment of agribusiness.

The National Chicken Council believes it is especially important that the Marketing Loan Program provide for adjustments in loan rates that better reflect average market prices and that producers be allowed to continue to benefit from crop planting flexibility provisions. At the same time, our organization does not support any further supply management measures, nor the creation of a new inventory management reserve.

Further, while the concept of countercyclical income provision may sound good in theory, it is very difficult to properly execute in practice. Thus, the countercyclical payment programs beyond certain provisions in the current law that provide for this type of income balance are not supported by the National Chicken Council. We recommend a market-oriented farm program because, as the economic analysis conducted by the CCFAS has found, both commodity producers and users benefit and benefit more than supply management policies and programs.

The growth market is not the mature U.S. marketplace, but the global marketplace. Furthermore, a robust international market allows U.S. poultry processors to better balance supply and demand for the various poultry parts. Thus, being able to compete in the global market allows U.S. poultry producers to better balance supply with a broader range of consumer demand. In world markets, no animal protein has a better competitive price advantage than U.S. chicken leg quarters.

Basic to being competitive in the world market is the ability of the U.S. poultry producers to purchase corn, soybean meal, and other feed ingredients at costs that are not artificially above world levels. The FAIR Act helps to provide the opportunity to be competitive.

During the 1990's, U.S. poultry producers benefited from a tremendous growth in exports. Chicken export volume increased nearly fivefold over the decade that just ended. Last year, well over 18 percent of U.S. chicken production was sold in international markets. Currently, U.S. chicken exports are running 20 percent ahead of last year. Future increases in world consumption of poultry are predicted to be truly significant. The potential for U.S. poultry producers to supply a part of this substantial increase in global demand for poultry is tremendous, if given the competitive opportunity to do so.

Your support, however, is needed to help us increase these exports, along with other farm exports. The United States must continue to work aggressively and boldly for more liberalized world agriculture trade. All countries must be challenged if they do not live up to their trade agreements. Renewal of the President's trade promotion authority would be a good first step.

Devoting more resources to value-added agricultural exports to a level that at least matches the percentage used by the European Union and other major competitors would be a prudent investment by the U.S. Government. The next Farm bill provides an excellent opportunity to help put the United States in a leadership position for value-added exports.

Turning to conservation and environment, as agricultural production expands, the challenge of protecting soil, water, air, and other natural resources becomes greater. Farm policy that provides incentives promoting sound stewardship for the environment is a positive approach. Conservation measures to protect the environment and environmentally sensitive lands are, of course, appropriate. However, it would not be appropriate in the name of conservation to restrict good, productive farmland, especially in times when the market signals are calling for more supplies. Locking away cropland in the Conservation Reserve Program to manage supply is counterproductive. Enrolled acres in the CRP should be truly environmentally sensitive, with the emphasis on the benefits to natural resources.

An important part of the environmental protection and conservation practices is the sound scientific handling of agricultural animal wastes. The Environmental Quality Incentives Program, as mentioned by at least one or more of the speakers this morning, is an important part of helping poultry and livestock farmers to meet their responsibilities with respect to the Clean Water Act, CAFO, and Clean Air Act. Authorizing adequate funding for EQIP and designating at least 50 percent of the annual funding for animal agriculture would be important for these producers to continue to be good stewards of the environment.

As more attention is focused on the next Farm bill, it is clear that we are at a real crossroads in agricultural policy, where a continuation on a road toward market-oriented farm programs and not a return to the road that guarantees government price supports, coupled with restrictive measures to manage supply. While the government-guaranteed road has greater appeal because it may have fewer bumps and turns, it is a road that provides all who travel it with few rewards in the end.

The next Farm bill should be designed and written to take full advantage when a healthier world demand for food occurs. A farm bill that does not anticipate and encompass the expanding international opportunities for the American farmer is a farm bill that will miss a golden opportunity.

The National Chicken Council looks forward to working with the committee to assist in crafting a new farm bill that allows market forces to reward efficiency, encourage productivity, improve risk management, better allocate resources, and maximize net farm income.

Thank you, Mr. Chairman, for the opportunity to present our statement.

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

[The prepared statement of Mr. Roenigk can be found in the appendix on page 98.]

The CHAIRMAN. Now, we turn to Mr. Pete Hermanson of the National Turkey Federation from Story City, Iowa. Pete, welcome.

STATEMENT OF PETE HERMANSON, PAST NTF CHAIRMAN, NATIONAL TURKEY FEDERATION, STORY CITY, IOWA

Mr. HERMANSON. Thank you, Chairman Harkin, Senator Lugar, and members of the committee for the opportunity to discuss the impact of the upcoming Farm bill, it will have on the turkey industry and to present the industry's suggestions for the bill.

My name is Pete Hermanson. I am part of a family farm operation in Story City, Iowa, where we raise 200,000 turkeys each year and grow corn and soybeans. In the last few years, I have become involved in turkey processing, as well. I am a founder and board member of the Iowa Turkey Growers Cooperative, which owns and operates West Liberty Foods, one of the nation's top 20 turkey processors. I want to thank Chairman Harkin for the vital support he gave the cooperative during the creation of West Liberty Foods. We will talk more about its progress a little later.

I am here today on behalf of the National Turkey Federation, NTF. NTF represents 95 percent of the U.S. turkey industry, including growers, processors, breeders, hatchery owners, and the allied industry. I am proud to be a past chairman of the organization. The committee is to be commended for conducting this hearing. Today, I would like to look at three ways the bill could significantly affect the turkey industry in Iowa and around the country.

One of the biggest challenges facing the turkey industry in my area is the cost of complying with environmental regulations. The current rules and the ones we expect soon from EPA could cost producers with more than 50 animal units a combined total of $12 billion or more for the next 10 years. The National Turkey Federation advocates increasing funding for the Environmental Quality Incentive Program, EQIP, to $2.5 billion annually in the next Farm bill, with the money split evenly between crop and livestock producers.

Additionally, EQIP should be expanded so that USDA can assist producers with single-year projects and can cost-share on planning activities, like drafting of comprehensive nutrient management plans. EQIP should no longer be restricted to producers with fewer than 1,000 animal units, which is equal to 55,000 turkeys. A turkey grower in Iowa who produces 55,000 turkeys is not a big farmer or a rich farmer. Rather than limit participation by farm size, it would be better to set a limitation on the payments any producer can receive in a single year.

NTF recognizes much of the Farm bill debate will revolve around the commodity title. We also know that many on this committee have been critical of the market-oriented reforms in the 1996 Farm bill. I would like, though, to talk about how the previous Farm bill affected Iowa turkey growers and West Liberty Foods.

The Iowa Turkey Growers Cooperative was founded in 1996 when the turkey industry was in the midst of a slump, having lost money for 30 consecutive months. The turkey plant in West Liberty, Iowa, had closed, and the livelihoods of many turkey producers and plant workers were at risk. Thanks to strong guidance from Chairman Harkin and his staff and a loan guarantee from USDA, our co-op was able to purchase the plant and create West Liberty Foods. It has gone on to become a real success story. If a different type of farm bill had been passed in 1996, we might not have survived. Let me explain.

Feed accounts for 70 percent of the cost of turkey production. By late 1995, the country's historic policy of propping up farm prices by controlling production was harming turkey producers and others who raise livestock and poultry. Demand for feed grains here and around the world was increasing, yet U.S. stocks were declining. In the midst of these soaring grain prices and depressed turkey prices, West Liberty Foods was struggling to make a profit. As Chairman Harkin knows, we were in bad shape in 1997.

Turkey prices began to strengthen in 1998, but the price increase alone wouldn't have made us profitable. We needed grain prices to reflect world markets, and the 1996 Farm Bill accomplished that goal. If grain prices once again fall out of line with world supply and demand, as they did in the mid-1990's, the future of many Iowa turkey growers and of West Liberty Foods will be in jeopardy. Also in danger will be the jobs of the 1,100 workers we employ at our plant and the 200 other workers we employ at a further processing plant we just purchased.

I want to make it clear that neither NTF nor I are here to advocate a cheap grain policy. I am a grain farmer, too, but I want grain prices to be strong because of the global market, not artificial domestic programs dictate strong prices. West Liberty Foods would not have struggled as badly in 1997 if $5 corn had been the world price, but we were feeding our turkeys $5 corn and competing against foreign competitors who are paying far less for their grain.

Therefore, the National Turkey Federation believes it is important to avoid market-distorting programs in the next Farm bill. The planting flexibility of the last Farm bill is critical to farmers being able to respond to market demand for feed grains.

NTF is sensitive to the committee's desire to protect farmers during periods of low prices. We know many want a countercyclical program in the next Farm bill. Beyond adjusting in the loan program, creating a countercyclical program that maintains market flexibility is probably not practical. A better solution is to ensure that the AMTA-style payments are at a level that provides farmers sufficient income protection during the widest possible range of economic conditions. The NTF would support payments in the range of combined AMTA and market loss assistance payments for fiscal year 2001.

Finally, an appropriately crafted farm bill can boost farm income by increasing the competitiveness of U.S. poultry in the international markets. It takes about 2.5 pounds of feed to raise a pound of turkey. Every additional pound of turkey we can produce for the overseas markets increases demand domestically for feed grains, oil seeds, and similar feed ingredients.

The NTF strongly recommends the next Farm bill bolster funding for value-added export promotion. The United States is lagging further and further behind our competitors in promoting these products. New Zealand reinvests in market promotion five cents for every export dollar it learns, while we invest less than one penny. The next Farm bill must structure our export promotion program such as the Market Access Program and Foreign Market Development Program so that our spending levels are comparable to our foreign competitors.

In summary, we recommend providing the financial assistance necessary to help poultry and livestock producers comply with the environmental regulations. Maintaining the market-based farm policy will help farmers during periods of low prices and bolstering commodity prices by ensuring a stronger commitment to value-added export promotion. The National Turkey Federation and its many members appreciate the opportunity to share our concerns and recommendations with you. Thank you.

The CHAIRMAN. Mr. Hermanson, thank you very much for your testimony, and thanks for your great leadership on West Liberty. They are doing great.

[The prepared statement of Mr. Hermanson can be found in the appendix on page 108.]

The CHAIRMAN. Now, we come to Ms. Maria Rosmann, Sustainable Agriculture Coalition of Harlan, Iowa. We welcome you here.

I remember being on your farm a few years ago. I haven't been there lately, so I will have to go out.

Ms. ROSMANN. You are always welcome.

The CHAIRMAN. Reading your testimony yesterday, it looks like you have made quite a bit of progress, so welcome to the committee.

STATEMENT OF MARIA ROSMANN, SUSTAINABLE AGRICULTURE COALITION, HARLAN, IOWA

Ms. ROSMANN. Thank you, and again, you are always welcome to visit. Good morning. I thank you again for the opportunity to testify this morning. My name is Maria Vakulskas Rosmann. I am from rural Harlan, which is West Central Iowa. I am testifying today on behalf of the Sustainable Agriculture Coalition. It is a network of organizations who represent farmers, environmentalists, and rural people who come together to formulate practical, effective approaches to agricultural problems.

My husband, Ron Rosmann, and I farm a certified organic farm. It is a 600-acre operation, both grain and livestock. Our crops and livestock include corn, oats, barley, soybeans, turnips, alfalfa. We raise beef, we raise pork, we raise poultry—no sheep, no turkeys yet. We have a cow-calf herd which numbers 100 cows. We feed out all our calves. We raise farrow to finish about 400 hogs annually. I raise about 400 to 500 chickens annually, as well.

Two years ago, I left my position in rural school development to begin the marketing of Rosmann Family Farm's labeled meat and poultry. Neither my husband nor I have any off-farm employment, which is important to share with you today. We employ one full-time hired person, and during the summer months, we are assisted by our three teenage sons, two of whom are in high school, the third a student at Iowa State University.

Our crops have been certified organic since 1994. The beef operation was certified in 1998, and we have been farming what I consider sustainably since 1983. My husband has been farming since 1973, following his graduation from college and return home to the family farm.

Recently, my husband was elected President of the Board of Directors of the Organic Farming Research Foundation based out of Santa Cruz, California. The mission of this foundation is to sponsor research related to organic farming practices, to disseminate this research appropriately, and to educate the public and policymakers, such as yourselves, about farming issues related to organics.

In one year, one year alone, from 1999 to the year 2000, the number of certified organic growers in the United States increased 18 percent, from 6,600 to 7,800. A recent survey by the National Marketing Institute estimates that 43 percent of our population has used organic foods or beverages in the past year, and those figures are high.

A study by OFRF indicates that the nation's land grant universities, however, are failing our organic farmers and ranchers. Of the 885,000-plus acres available for research in the land grant system, only 0.02 percent, 151 acres, is devoted to certified organic research. An earlier study by this foundation found that less than 0.1

percent of Federal agricultural research dollars were being spent on organic farming research.

The coalition supports the continuation of competitive grant funding through the Initiative for Future Agricultural and Food Systems and the coalition also supports the addition of either a specific category for organic farming research or a directive that a percentage of initiative funds be targeted to organic research. We also contend that the certification fee structure must continue to be weighted in a manner that allows family farmers, such as myself, to compete in the organic marketplace. The coalition also strongly urges the committee to expand USDA's recent announcement of cost-share assistance for organic certification, and our farm is being certified at this hour at home, pursuant to the crop insurance bill, from the 15 pilot States to the entire country.

In 1998, we did something very, very unusual for us. We added value to our livestock. Currently, all of our livestock is sold on the organic market. However, we had made the decision to go with our own business, our own marketing, and become our own middleman. Our product is a certified organic, boneless, dry-aged, frozen packaged product available in grocery stores in Des Moines and Ames, Iowa, available through private sales from people primarily in Central Iowa, numbering currently over 110 folks, currently available through the Food Systems Project at Iowa State University through Practical Farmers of Iowa, whereupon all Iowa meals are part of the large catered events in the Des Moines and Ames area.

We also serve or make available the larger amounts for homes, and it is being served this weekend in California at a large event. When I get home, I will be shipping out a substantial amount of steaks to be served at the Claremont Hotel in San Francisco. You can also see who our clients are, what kind of meat that they prefer, and why they prefer it, and that is part of the testimony.

We believe that the new Federal Farm bill needs to include a program that focuses on production ag as a basis for rural development, and we believe strongly that ACRE serves that need. ACRE proposes that a relatively modest proportion of mandatory Federal agricultural funding be dedicated to research, training, and business and marketing assistance, such as what we undertook by ourselves, that it work for both the farm and ranch income. What is really neat about ACRE is that it is a competitive collaborative grants program that can mobilize existing organizations and agencies to provide coordinated assistance in direct response to the needs of agricultural producers.

I have a letter to support this in my testimony, but I wish to strongly state and add our strong support for the inclusion of a competition title in the new Farm bill. Our farm, you can pick out on the flight pattern from Omaha to Minneapolis. I saw my farm yesterday when I flew in, and it was important to say that because I can see the diversity from the airplane, looking down to see the various crops, and it is sad to say that government programs, we feel, have failed miserably to foster good stewardship of the land. They have done the opposite. They have encouraged over-production. They have discouraged crop diversity. They have discouraged crop rotations.

We strongly support the Conservation Security Act introduced by Senator Harkin and Senator Gordon Smith. We also included our recommendations for existing conservation programs in my testimony. However, I strongly, strongly encourage that all farm and conservation programs in this new Farm bill include payment limitations, include stripping all loopholes, and include the increased fraud and abuse penalties.

Finally, I would like to address, if I may, please, the idea of fewer and fewer farmers. Who will farm the land? Who are around anymore to farm the land? The new Federal Farm bill needs a beginner farming and ranch development program, and I have detailed it in my testimony.

Again, I invite you strongly—Senator Harkin, you are welcome anytime on our farm to see organics that work. I would strongly encourage each and every one of you to find the organic, certified organic farms in your area and see that they, indeed, work, and they work for the betterment of our society. Thank you very much.

The CHAIRMAN. Thank you, Maria.

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

The CHAIRMAN. Thank you all very much for your testimonies. I am going to be in Iowa in August. Maybe I will stop by. Like I said, I have been on your farm before, but it has been a long time; I would like to see your latest development. Please give my best to Ron and the family.

You said you now direct market your own beef and stuff. That is something new that I didn't know about. Who slaughters it and who prepares it?

Ms. ROSMANN. This is done at Amend Packing in Des Moines. It is a federally inspected plant. Kent Weis is a fourth-generation butcher. It is done—we are taking animals on Friday of this week, so it is all done in Des Moines and stored in Des Moines. What it does, it is aiding another group. It was very difficult, sir, to find a federally inspected plant that wanted to do work with a smaller producer. We have been with them now three years.

The CHAIRMAN. You said that organic growers increased by 18 percent last year?

Ms. ROSMANN. Again, certified.

The CHAIRMAN. Certified.

Ms. ROSMANN. Certified, the third-party agency coming in to prove what you have claimed.

The CHAIRMAN. You said that only one-tenth of a percent of Federal agricultural research money goes to organic systems research?

Ms. ROSMANN. Yes, sir.

The CHAIRMAN. Well, if that is growing that rapidly, maybe we ought to take a look at that, too, and see about that.

Ms. ROSMANN. What might be interesting, we have compared our yields, our proven yields on the grain end of it for the past 10 years with Iowa State University Extension. We match in Shelby County the corn yield, 135 bushels an acre. We match that average yield. We are down one bushel for soybeans, 43 versus 44.

If I may take the opportunity to say, when discussing about the livestock as part of a farming program, livestock need to be part of the total systems approach to agriculture. It is a vital part. It can't be just corn and beans, beans and corn.

The CHAIRMAN. What do you do with all your manure? You have got chickens, you have got hogs, and you have got cattle. What do you do with all the manure?

Ms. ROSMANN. Manure is spread. In fact, we have to seek other sources for our manure for fertility.

The CHAIRMAN. You do apply it all?

Ms. ROSMANN. Oh, yes. It all gets applied. We compost it and apply it. We do not have confinement systems, but we still obviously have the manure.

The CHAIRMAN. How many acres are you farming now?

Ms. ROSMANN. Six hundred.

The CHAIRMAN. Both you and your husband, and you have one full-time hired person?

Ms. ROSMANN. Three. God bless them, boys.

[Laughter.]

Ms. ROSMANN. It is labor intensive, of course, it is, and right now we are in the middle of oats and barley harvest. It is labor intensive. We are fully employed.

The CHAIRMAN. I also appreciate what you said about the need for USDA to provide assistance to develop direct marketing and value-added enterprise. It sounds like you have done very well, but most people who farm, I mean, direct marketing, that takes time. Not too many people have marketing degrees or know how to market and that can be a real problem. When you started doing this, did you get any assistance at all from USDA for marketing?

Ms. ROSMANN. No, sir.

The CHAIRMAN. None whatsoever?

Ms. ROSMANN. Each of us had taken a marketing class in college, which does not make a marketer. We intentionally started slow. We intentionally started small so that we could learn as we went along. We do not need—we hardly advertise. The advertising that I provide is to let clients know when I will be in Des Moines and when they can place their orders, and our clients are broad.

It is a broad base. It is a broad economic background. They are people who want not only organic product, they want a hormone-free. We have a lot of cancer, radiation, and chemotherapy patients who are able to digest our meat—their claim, not mine—and they are able to tolerate our meat. For whatever reason, we feel fortunate. On the other hand, we are dealing with people of all economic backgrounds and people who want to support family farms.

The CHAIRMAN. Thanks. I will get back to you.

I have one question for all of you, basically. I want to talk about the EQIP program, because this is vital to all of you. Many of you specifically mentioned the need to eliminate caps on the level of payments a producer can receive and to eliminate the restriction that prohibits cost-share money for the larger livestock operations.

Again, we have got to look at all of the aspects of EQIP. First of all, I agree that we have got to get more money into EQIP, and we are going to do everything we can to do that.

However, I am concerned about creating a program that would unfairly subsidize large livestock operations. Now, we have seen how large payments to program crop producers have gone predominately to large farms and helped them grow larger. There are enough studies to show that maybe what we have done inadvertently, not just in the last Farm bill but for farm bills going back for a long time, is that by supporting every bushel, bale, and pound that is produced, obviously, always the bigger get more. The bigger you are, if it is every bushel, pound, and bale, then the bigger you are, the more you get, and that widens the gap all the time, because the percentages will widen that gap.

We see that, for example, in terms of land prices, by some of the things we have been doing, the bigger you are, the more money you get, and the bigger land owners can then out-bid the price of land so that younger people can't get involved. They can't get into that bidding process. The bigger you are, you can bid up the price of land, and we have discussed this a lot here in this committee about how we have maybe inflated land prices through some of these programs that we have had.

Again, maybe we see the same thing happening now with larger feeding operations. On the other hand, we want the larger feeding operations to be environmentally sound. I am on the horns, if you will excuse the pun, of a dilemma here. I want to help the larger operations to meet environmental concerns because that is of a societal benefit. On the other end of that horn is if we provide EQIP money without any caps, more will generally go to the larger producers. Because they are bigger, they will consume more, and, therefore, it will give them a competitive advantage.

How do you do this and make sure that the EQIP money is distributed fairly? I see it as a great dilemma, and I am not sitting here telling you I have the answer. I don't know. We are going to try to figure it out, and any suggestions and help that you have would be most welcome. How do we provide for an equitable distribution of EQIP payments for livestock owners? If we don't have caps, how do you keep it all, most of it, from generally going to the larger producers?

Do you understand what I am saying, and what my problem is in wrestling with this? We want to help the larger producers because I want to help them meet environmental problems, which helps us all, but not to the detriment of the smaller producers who also need that help. I don't know how we do that, and any thoughts or suggestions any of you have, Jon or anyone else, I would be more than welcome to take any advice or suggestions. I didn't mean to pick on you, you were just first in my eyeline of sight there, Jon.

Mr. CASPERS. I will be picked on. I will go first. What I suggest in my testimony and what we have suggested in the past is that we would support a payment limitation of $200,000 per contract and then the elimination of the size test.

The CHAIRMAN. You are saying a cap not on the size, but on the money.

Mr. CASPERS. Right, but just on the money. I guess the current program——

The CHAIRMAN. That might work.

Mr. CASPERS [continuing]. I see eliminating too many of my neighboring producers from participation in the program at that cap. To address your question further, and I would like to talk specifically about some of the rules and regulations that are coming fairly quickly to our industry and across agriculture, specifically EPA's CAFO regulations, the cost of implementing those regulations as proposed by EPA is going to be substantial, and I take some numbers from EPA in the Midwest.

They are anticipating for some different sized operations the 10-year costs of operation for a 1,460-head swine operation of $281,000, 10-year cost. Now, as you go higher in numbers, they have got a 3,400-head operation, the cost of almost $600,000 over a 10-year period, and a 13,800-head operation, which would be a large operation, of almost $2.2 million.

Now, if those operations all had access to $200,000 in assistance for a contract to help implement, to install and implement and operate those systems, obviously, you could bring all those operations under that program and the public could gain the environmental benefits. Certainly, $200,000 is going to represent certainly a much larger benefit for the smaller operation than it does the bigger operation. At the same time, you include them in the program, so you gain the environmental benefit.

The CHAIRMAN. Did you have an idea of how much that might cost us? Maybe you put that in your testimony, I don't know. If you did a $200,000 amount, what would that be over 10 years? We will figure it out.

Mr. CASPERS. Yes. I guess what we have called for is $1.2 billion to be put into the program for livestock and poultry.

The CHAIRMAN. Per year for 10 years?

Mr. CASPERS. Yes.

Senator THOMAS. Mr. Chairman, are you talking about confined feeding regulations, is that it?

The CHAIRMAN. Yes.

Mr. CASPERS. We are talking about, yes, the CAFO regulations that EPA has promulgated.

The CHAIRMAN. Concentrated animal feeding operations.

I will yield to my colleagues now, but I want to get back, John, and talk about the methane that you have talked about, and perhaps some of the others, also, want to talk about methane production and energy, that type of thing that I am interested in, also, perhaps including in the Farm bill. I will yield to my ranking member, Senator Lugar.

Senator LUGAR. Thank you very much, Mr. Chairman. I just jotted down, as you did, that the payment limits issue is clearly one that we have to come to grips with. The $200,000 limit is probably a good idea, but I suspect that this is very different from the sorts of limits that we have had in the past and I am not certain where this leaves everybody with regard to the types of operations they have.

You have the problem with all of our programs, whether it is the commodity title or the EQIP situation with livestock, where there has been great debate in the Congress in the past about payment limits. Essentially, the trend has been to raise those in recognition of larger operations that are efficient in the country and I have supported that. I appreciate the opposing point of view, which says, essentially, that it does mean a larger amount of Federal money goes to larger farmers.

The Sparks report that we often cite indicates that eight percent of operations in the country are doing about 72 percent of the business, whether it is livestock or commodities. We have a pretty high degree of concentration in American agriculture as it stands and probably growing larger as our younger farmers rent land from people who are in the States or elderly people and so forth, who in effect have larger operations, even if they don't have an equity in the land, and that is the way to get a middle-class income, essentially.

At some point, the payments issue is one that has to be resolved by the committee and I appreciate your sort of highlighting that in your colloquy.

Another point that three of you have raised, and maybe more of you would have if we had sort of raised this as a basic issue, is the cost of feed as a part of the picture. As I recall with the turkey situation, 70 percent of the cost comes from feed, 70 percent of the cost of turkey production. The testimony there is that the historic policy, as you have termed it, or propping up farm prices by controlling producers is doing great damage to turkeys and others who are in the livestock and poultry business.

Others of you may have differing sorts of situations, but there is a basic tradeoff here with regard to our attempts to, as we do around this table frequently, the low cost of corn and wheat and prices for beans and what have you, try to think of how we can imagine those going higher. Now, as you imagine them going higher, why, this has a very different sort of impact, as a matter of fact, if we make a concentrated effort to do that. Some would contend the bill the House is considering now with sort of a third layer of pricing, with another target price situation, really achieves, at least temporarily, a higher price, however you get there. That is probably bad news in terms of operations if you are a livestock and poultry person.

At some point, we have to come to grips with the commodity title and the livestock titles in some harmony, or some wholeness, because they are sort of a part of the same picture. Now, most of you are suggesting that the market works and that, essentially, you are prepared to see a more market-oriented situation governing your feed costs. Perhaps as you think through that, you might have further refinements on your testimony and maybe some recommendations with regard to the commodity titles, because this is likely to be a very large issue for the committee.

Then finally, there is mention in most of the testimony about the need for trade promotion authority for the administration. There is mention that NAFTA made an enormous difference, that huge increases have occurred in poultry, in turkeys, in pork, and they have. Of course, that is the ball game in terms of the volume and the movement, the dynamics of the business. If you can solve somehow the feed problem and EPA, in one form or another, these are sort of the parameters of having some future, making some money in the prospect.

My own biases are more toward market solutions in the commodity situation, toward fewer limits with regard to payments in terms of EQIP or with regard to anything in the business, and very strong trade promotion. I mention those to begin with so you have some idea of where we are coming from.

What advice can you give us just off the top of the head today, in the time that I have to ask you this question, about the commodity title? Really, some of you are involved in addition to livestock or poultry, in producing corn or beans or wheat or something else in addition. What is the tradeoff here and what should we be looking at philosophically as we take a look at the commodity title? Does anyone have more testimony on that? Yes, sir?

Mr. HERMANSON. If I could just make a comment, I guess my concern as we look ahead, I have been in Brazil a couple of times, have friends of the family down there, been there a couple times in the last three years, and my concern—I love the people and I love to see them develop and grow, but I am concerned that they will end up with our meat production. I mean, they have got hundreds of thousands of acres that haven't been developed yet and they are working infrastructure. That is what I am concerned about, is that we don't lose agriculture in the U.S.

Senator LUGAR. Trace that through. Why does Brazil end up——

Mr. HERMANSON. What I am saying is if we have an artificially high price of grain here, that will encourage them to develop more grain.

Senator LUGAR. I see.

Mr. HERMANSON. If grain is cheaper, which it is, there is expansion now in the hog production and turkeys are getting down there, too. We have to work in the world arena, I believe.

Senator LUGAR. Well, that is the basic argument of having a competitive price, that it doesn't give away either our grain exports or our meat production prospects, because if our prices for grain are too high, then other countries have lower costs and lower prices and take away those markets, and as you are suggesting, may also induce a meat production or poultry production situation utilizing that differential in world price.

That is a part of our dilemma. There are a good number of farmers who come before this committee and they would say, well, the world out there is a big place, but I have got a farm here now and I want a guarantee of a price that covers my cost, whatever it may be. Now, the rest of you folks will have to do the best you can, but nevertheless, looking after No. 1, we have got to pin this down, all four corners. There are a good number of such farmers, as you may have seen in your associations.

I thank you very much——

Mr. HERMANSON. As a grain producer, at that point in time, it is nice to have good prices, it surely is.

The CHAIRMAN. Balance, get a balance.

Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman, and thanks to this panel of witnesses. You have really been excellent witnesses and I have enjoyed the testimony.

I have a series of questions about EQIP and CRP, but before I get to that, there is something that is very much on my mind that I would like to especially ask the first four witnesses about, and that is the question of what we are doing with respect to foot and mouth disease and whether or not we are providing adequate protection to our industry.

I was recently in England and literally every day in the newspaper, there were scare headlines with respect to mad cow disease, with respect to foot and mouth disease, with respect to other supposed problems, GMOs and all the rest. I would just like your impression at this point, whether or not we are doing everything we should be doing to protect our livestock industry. Mr. Caspers.

Mr. CASPERS. Well, we have certainly felt the effects of that. We canceled our World Pork Expo this last summer due to concerns with all the foreign travelers and foreign visitors. We have, typically, 1,500 or 1,600 foreign visitors attend World Pork Expo every summer, and certainly, we just couldn't find any way really to assure that we could guarantee that they had the proper separation in terms of time away from animals in foreign countries with the potential exposure to animals at that show. We had to go ahead and cancel that show this last summer.

Now, I understand the President in his budget has requested some additional dollars for the inspections at the ports of entry, and that is extremely important that we do that. We, on our Swine Health Committee, which I served as chairman up until recently, continue to get reports of people traveling through ports of entry and really trying to test the system as they come through to make sure that they took proper precautions, that they disinfected their shoes and went through all the proper procedures, and they continue to report, at least at that time, that you almost had to be insistent that somebody do something or assist you in that process. We were, I guess, a little disappointed in that, and hopefully, with some additional funding and people, those inspections could be beefed up and that will happen if there can be additional resources put to that.

Certainly, it is a concern and it is still a concern. FMD is endemic in many parts of the world, in Africa and many parts of Asia, Southeast Asia. For some reason, those breaks in the past haven't made the headlines like we have seen coming out of the U.K. with the break there, but certainly, there is risk from many parts of the world.

Senator CONRAD. Mr. Davis.

Mr. DAVIS. I guess, basically, I would echo the previous witness. Yes, we have to keep in mind that we have not had FMD in this country for over 70 years, so what we have been doing certainly hasn't been a failure. That is not to say we don't need to continue to be concerned, beef up inspections. That is part of why we support that.

Part of our plea for increased research dollars speaks to that issue, particularly as it regards the disease research center at Ames. It is badly needed. There is still more that we don't know than what we know, folks, and we can't afford to get behind on doing those things that give us the answers as best we know how through sound science to further beef up our confidence.

Senator CONRAD. All right. Mr. McDonald.

Mr. MCDONALD. Yes. To answer your question, we are probably not doing enough. One area of concern to me is the reporting of these diseases by our trading partners. I am thinking of the incidents last year where Argentina was declared foot and mouth free and we started setting up the protocol for importing cooked beef from Argentina, and lo and behold, in late summer last year, we started hearing rumors of the disease in Northern Argentina. Yet, it wasn't reported to the WTO until January. That lapse of time potentially, at least, could have caused great harm. The same situation occurred with BSC in Europe. When I participated in the business forum in Buenos Aires in April, I was urging that any trade agreement provide a specific protocol for verification and reporting of these various diseases.

The comments earlier about the protocol that we have instituted in our airports and travel facilities is good. Does it go far enough? I don't know where the good science and practicality meet, but it is certainly a potential disaster to the live cattle industry.

Senator CONRAD. Mr. Moore.

Mr. MOORE. Thank you. I would agree with the others, that it obviously is a real concern. It is a concern for all of the livestock industry. We can be very thankful that we haven't had it in this country for 70 years. Obviously, we are doing something right. Definitely, APHIS needs as many inspectors as possible to make sure that they can cover all of the airports and other points of entry and that we are addressing the issue as a serious potential problem.

We have a disease in sheep of scrapie that we need scrapie eradication. Those rules have been worked on. We need to get them published. As Mr. McDonald said, we have to make sure that the partners that we deal with around the world are following the same protocol as we are as far as reporting the diseases and as far as how we accept their statements and they accept ours.

Senator CONRAD. I thank you for those suggestions and comments. As I have looked at it, the risk that is associated, is enormous. I really think as part of our review here we should seriously consider strengthening protections against hoof and mouth. Being in England and seeing the devastation to their industry, it is very sobering, seeing people lose everything, and that is what is happening there. It ought to alert us all that we have got to take this very seriously. I thank the chairman.

The CHAIRMAN. Thank you. Mr. Roenigk, I know that you wanted to comment.

Mr. ROENIGK. Senator Conrad, if I could just briefly add, fortunately, poultry does not get foot and mouth disease. However, USDA is talking about a six-mile quarantine in case there is an outbreak. I guess they have different options. If poultry is within that six-mile quarantine, we cannot feed our birds, we cannot take our birds out, we cannot take our products out. I don't think USDA has fully addressed that, and it would be devastating for people who don't have the disease but at the same time would bear all the burdens of someone who did have the disease, and so I would like to bring that to the attention of the committee. Thank you.

Senator CONRAD. Thank you for that.

The CHAIRMAN. That is interesting.

Senator CONRAD. I didn't know that.

The CHAIRMAN. I didn't know that, either.

Senator Thomas.

Senator THOMAS. Thank you, Mr. Chairman.

Frank, I want to followup just a little bit. I will be brief. You, having served in the legislature, know it is important to be brief in the answer.

You pointed out that it is necessary to continue the wool payment, hopefully in this $5.5 billion thing. What specifically are you doing? I am impressed with what your industry is doing to move yourselves forward. Could you recite those one more time?

Mr. MOORE. Senator, we have done a lot of things in the last few years. We filed the Section 201 case against Australia and New Zealand to put in place some kind of relief period so that our industry had a little stability. We have worked on scrapie eradication. We have got rules at USDA that are just about to be published and we are going to get that disease under control and that will be a significant step as far as the industry and our image is concerned around the world.

We are working on value-added products. We are working on, in the six-State region that Wyoming is included in—Idaho, Montana, South Dakota, Utah, Colorado—we are also working on what we call a third-generation cooperative, to start a program where we are doing what Mr. McDonald referred to. We are taking care of our product from the gate, at the ranch, to the consumer's plate.

Some of these issues are going to change the way we market lamb and the way we market wool, and these are the kinds of things that our industry has been working on for a long time. We need stability right now to make sure that we can get these things up and running. It is difficult to change an industry, but we are working on it.

Senator THOMAS. You are doing promotion and carcass classifications and so on?

Mr. MOORE. Yes. What we are working on is a number of things. We are trying to go to a grid pricing structure so that we have something that the product is sold based on the quality rather than just on a commodity price.

Senator THOMAS. It is interesting, the problems that you have had with this mandatory price reporting. Why hasn't that come out of USDA and what has been the result of it not coming out?

Mr. MOORE. Well, for the last three months, we have had basically no reports whatsoever. We used to have a voluntary program. Now with the mandatory program and then you put in the restrictions so that there is confidentiality, with the concentration of packers we have in our industry, it is very hard for a report to come out under the current formulas that doesn't immediately identify which players are in the marketplace that day. USDA is trying to address those issues and hopefully will come out with some revised formulas for the reports in the next few days. Definitely, without market reports, we are all kind of working in a vacuum.

Senator THOMAS. That is because there are so few processors that if they reveal it, it is an intrusion into private information, is that concept?

Mr. MOORE. Yes.

Senator THOMAS. That is interesting.

Mr. MOORE. Three major packers in the industry.

Senator THOMAS. Mr. Davis, I admire your commitment to your industry. You said you are going to beef up inspections.

Mr. DAVIS. As soon as I said it, I was afraid somebody would get that.

[Laughter.]

Mr. DAVIS. Further improve, is that better?

Senator THOMAS. Whatever. It is good. You could turkey them up, too, couldn't you?

[Laughter.]

Senator THOMAS. What would you say, you guys in the beef, what would be your first two priorities in this bill for the beef industry? Both of you—either one of you.

Mr. MCDONALD. I would say country of origin labeling and restriction of the USDA grade stamp. That is a cornerstone of our ability to be able to compete in this global market. We need to distinguish and identify our beef.

Senator THOMAS. Thank you.

Mr. DAVIS. I guess those are also policies of ours, but I am not sure I would, in the context of where we sit today, that I would name them as No. 1 and No. 2., with the backlog in the EQIP program and the regulations that are coming down on CAFOs or whatever you call them the biggest need for help is there as the No. 1 priority, and I go back to our research priorities. It is kind of like, in my opinion, maybe more mine than the industry's.

Senator THOMAS. Research on land management or on your product?

Mr. DAVIS. On our—no, as pertains in this bill on disease research and food safety and those types of things.

Senator THOMAS. I see.

Mr. DAVIS. In the big picture, research has been much like livestock has in previous farm bills. It kind of tends to drift down, and I guess I would like to see it stay up a little higher.

Senator THOMAS. OK. The concentration problem, I wonder, is it legitimate to ask the chairman something about jurisdiction? The monopoly jurisdiction, does that go in the Farm bill? Is that something that ought to be there? Some of the things we are talking about here, country of origin, are those things that we have jurisdiction over in the Farm bill?

The CHAIRMAN. Some of it has to do with the Justice Department's jurisdiction. We can set up some policies within the Department of Agriculture to try to address it, but not in the legal aspect. The Justice Department has that jurisdiction.

What was the other one?

Senator THOMAS. The country of origin, those trade issues and so on.

The CHAIRMAN. Well, I don't know if we would have the jurisdiction for mandating country of origin labeling or not. I don't know.

Senator THOMAS. We probably share it with the Finance Committee, I suppose.

The CHAIRMAN. If we do it, they would probably ask for referral.

Senator THOMAS. Well, we want to have some power there.

The CHAIRMAN. Craig, let me just say this. We are ready to break new ground, so——

[Laughter.]

Senator THOMAS. I am sorry to ask that, but as we talk about some of these things, apparently, they don't all go in the Farm bill, of course, jurisdictionally, but they should be brought out and we can do something with it. Thank you, sir. I appreciate it.

The CHAIRMAN. We can always try it.

In order of appearance, Senator Lincoln.

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

Senator LINCOLN. Thank you, Mr. Chairman, certainly for your leadership, and also you have set this committee on a very aggressive schedule to review our current farm policy and to look at what we can do in a positive way to work with our producers. Certainly with what the House is doing, they go to markup later this week, perhaps, to mark up their farm bill proposal, so it is entirely possible that we will see the completed House bill by the time we leave on the August recess. That means we have got a lot to do and I know that we can do it and that is all the more reason why it is so important to have you all here to work with us. We appreciate the witnesses' participation. The commodity group was here last week. We appreciate that.

I come from a State where I do try to balance very much because we have great pork producers, our cattlemen's association, obviously poultry, and certainly a great group of turkey growers in Arkansas, balancing with the commodity groups that we represent.

I just would like to put a plug in, as well, that there are some short-term needs that we are addressing more immediately here. We are very anxious, all to put together an emergency market loss assistance package that will respond to the immediate needs of our farmers and our rural communities, and, ultimately, the clock is ticking on that because September 30 is rapidly approaching. We are going to be working with the chairman. I appreciate his leadership in pushing the committee toward a resolution on this and I hope that we will come up with something that can be very beneficial to everyone, because short-term is obviously very essential to all of our producers.

Beyond the short-term, however, we do need to look at farm policy and a new farm bill that responds to all of agriculture, both producers and livestock producers. Our farmers, our livestock farmers particularly are an essential part of the agricultural community that produces the safest, most abundant, and affordable food supply in the world. I say that regularly because I like the way that it sounds and I want more and more people to understand that. Coming from a seventh-generation Arkansas farm family, I have lived it and breathed it all my life.

As we look at the issues that we are faced with, and I know that Mr. Hermanson brought up some of it in terms of balancing the interests against the row crops and the row crop farmers as well as the livestock producers, I would certainly be interested—Senator Lugar mentioned it a great deal, as well, but if you all have recommendations of how we can better balance.

I know for us, you mentioned Brazil. For row croppers, the fact that we have exported a great deal of technology and allowed those row croppers down there to be very efficient, not to mention the investment we have made in infrastructure that allows them to get their products to that global marketplace that we have talked about. I have to say that, Senator Conrad is not here, but he always puts up an unbelievable chart that indicates the amount of subsidies, export subsidies particularly, that the governments of the EU provide their producers, which put us at a tremendous disadvantage in that global marketplace when you take into account the input costs, the increased input costs particularly that we have seen over the last couple of years and our costs of production through environmental regulations and others.

Is there anybody on the panel that has a good suggestion to how we balance between our row croppers and our livestock producers? I have got a vested interest in this.

Ms. ROSMANN. Make them all organic.

[Laughter.]

Ms. ROSMANN. Your prices, ma'am, will increase. The prices for our grains and our—why are we able to sustain otherwise a family of five and a full-time hired help just doing it the way we do? Multiply that by many, many people. Multiply that by the people whom you hope will replace us in the next generation and maybe you will have the beginnings for a very sound answer to this dilemma.

Senator LINCOLN. Well, I do believe that it is important to recognize the sustainable farming and the organics that are involved there and what the marketplace can sustain. No pun intended, Mr. Hermanson, but I don't think we can go cold turkey. I have got way too many——

[Laughter.]

Senator LINCOLN [continuing]. In terms of the producers that are out there and the elements that we face, particularly in the area of the country that we farm, with unbelievable pests, not to mention the humidity, the moisture, sometimes the drought, other factors that we have to take into consideration in the capital-intensive crops that we grow. They are very different, and the perspective that we have to take sometimes has to be somewhat different.

I do agree that there is a place and that there is room for us to begin to look at more in terms of that, but in terms of balancing that?

Mr. HERMANSON. It is a challenging opportunity that this committee has because I don't think there is an easy answer. The thing that you need to have at least a safety net for the crop farmers. I mean, we need that, and obviously if you are only in crop production, if you could have $10 soybeans and $5 corn, you think you would be happy, but it doesn't work in the whole balance and, of course, we have to work with this global. I don't believe we can build a wall around the U.S.

We have to be in the world market, but by the same token what we have been doing has been some benefit as far as there has been—if a farmer in Iowa grows a crop, with the transition payments and the LDP, there has been cash-flow for him. Feed costs, it has been very beneficial, of course, to the turkey industry because we have had economical feeds and it has given us an opportunity in this co-op that we have, that we have gotten on our feet and we are doing well.

Again, it is not an easy thing, but we have to recognize that there are parts of the world that are just waiting to develop. Of course, I don't think the European common market, even though they subsidize a lot, I don't think that is where our competition will come from. It is the area that they haven't developed yet.

Senator LINCOLN. That may go to a lot of what you have already commented about in terms of making sure that our playing field is fair and certainly to the jurisdiction of trade issues. It is going to be critical. I know for us, in our State, the catfish issue that we have got in terms of labeling, misleading labeling that is coming from the catfish production or the basafish production out of Vietnam, the problems we are having with our poultry industry in Africa, South Africa, in terms of the dumping cases that they are claiming, we have got some real concerns there and we have got to be able to stand up for our producers. I do it at the risk of being called the "fish woman" and a few other things, but it is very important.

Any other comments about our trade issues there or your perspectives of whether we can see more clearly or not whether there is going to be this robust growth in global demand for U.S. agricultural exports that we kind of based the original Farm bill on in 1995? I mean, we instituted that farm bill with the basis that there was going to be this international marketplace and this robust growth in demand.

Mr. ROENIGK. Senator, if I could address that. Yes, I agree, the 1996 Farm bill was based in large part, or some part, that there was going to be this robust growth in international trade for basically all U.S. farm commodities, and to some extent, that happened, but to a large extent, it didn't. I don't think the next Farm bill should say, well, it didn't happen, therefore, it can't happen. It has a more likely chance of happening now. We have seen it already in poultry. As China comes into the WTO, as people's income around the world increases, the first thing they turn to is animal protein, whether it is poultry or some other animal protein, so we need to give ourselves an opportunity to really take advantage of that.

It goes back to the words we were using this morning about balance. Senator Lugar used the word "harmony." I don't know that we will ever achieve harmony, but the balance is difficult. I don't have an answer other than to say if prices are too high for grains, it jeopardizes our competitiveness, but also, too, those higher prices get worked into the price of farmland so that larger farmers see higher prices coming, they go out and perhaps bid on this land and bid it up, and pretty soon, whatever price corn is, it is still not high enough because the corn land costs so much.

At the same time, sometimes users are accused of wanting prices too low for grains, and that is not true because if farmers are not rewarded for their work and their risk, then they go out of business and it is certainly not something we want. We want a good, steady, adequate supply of all feed ingredients and just give us a chance to compete in the world. I appreciate the question. Thank you.

Senator LINCOLN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Lincoln.

Senator Crapo.

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

Senator CRAPO. Thank you very much, Mr. Chairman. Unfortunately, I am going to have to leave in just a couple of minutes to a live interview that starts right at 11 o'clock, so I am not going to be able to ask the questions I had. I did want to introduce my constituent and good friend, Eric Davis, who is here representing the National Cattlemen's Beef Association. He is representative of all the cattlemen that we have in Idaho, and I suspect across the nation. He runs a cow-calf operation and feedlot and runs cattle on State, private, and Federal land in Owyhee County and his family, I believe, has been in business, your operation, over 50 years. When we talk about environmental regulations and the other impacts that people in the livestock industry face and who is helped by our conservation programs and the like, we are talking about Eric Davis.

I told him beforehand that I was going to grill him with questions. Really, what I had was a bunch of softballs to throw at you, so if the chairman would allow, I would like to submit those questions in writing and have them responded to.

The CHAIRMAN. Whatever your desire is.

Senator CRAPO. I will do that, and I just want to also say before I conclude here that I have reviewed all of the testimonies. I particularly focused on yours, Eric, since you are a good friend and constituent, and I want to thank you not only for your testimony, all of you, but for your testimony that focuses on the importance of maintaining free and fair markets. As we develop the farm policies of this country, domestically as well as internationally, we need to recognize that we will get the greatest benefit by focusing on markets and helping them to work effectively. I thought it was truly refreshing to see that kind of testimony and that perspective on how we approach our farm programs.

With that, I am going to have to run or else they are going to start the program without me, but I do have a series of questions, Mr. Chairman, that I will submit for the record and for written answers.

The CHAIRMAN. Thank you very much, Senator.

Senator CRAPO. Thank you.

The CHAIRMAN. Senator Nelson.

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

Senator NELSON. Thank you, Mr. Chairman, and thank you to the panelists for sharing your thoughts with us. Obviously, this is a shared adventure that we are on, trying to find some of the answers to many of the most difficult problems that we are going to face within our economy in the near future. Certainly, it has been an adventure over the last four-plus years.

I am pleased that we are taking time to focus on the whole question about livestock or animal agriculture, because so very often, the discussion seems to be about commodities and other issues, not focused specifically on animal agriculture.

From my perspective in Nebraska, our livestock industry accounts for about 60 percent of our cash receipts, so it is an extremely important part of what we do in the State of Nebraska. Our cattle industry alone is responsible for about one out of every eight jobs in our State. At home, we like to remind people that we have more cows than people. More than 40 percent of the feed grains that are raised in Nebraska go into feeding livestock, and we call that adding value, so it is extremely important as we face the writing of the Farm bill, as we move forward, that we keep in mind the relationship between animal and non-animal agriculture as it relates to a sound program that achieves harmony and balance, if we are successful.

The impact of the Farm bills in the past, I suspect, has had some direct impact on agriculture and now it is not just simply taking into account the price of feed grains, but also the policy that affects conservation practices and other trade practice and whatever it is that we do to develop more markets for agriculture in general.

To wed together the importance of animal agriculture and our commodities agriculture, I came across an article in Top Producer magazine that was timely for this hearing. It is about export competitiveness and the new Farm bill. The author, Marcia Zarley Taylor, says farm bills can't fix it. That is always scary. She argues that the Farm bill has little to do with our international competitiveness, but that other policies do, EPA, a lot of other issues that affect us, the value of the dollar against every other currency in the world, that these do have a lot to affect this.

She says that we really need to embrace livestock. She reminded me that the grain fed to livestock is the most important use of commodities that we produce, and certainly it is when it is such a large percentage. It has also been an extremely important component in rural development, especially in the South and the Great Plains.

The article goes on to point out that United States companies are already some of the largest poultry and hog producers in Brazil, and many of you have already commented on Brazil and Argentina as competitors. The point that she makes is if we chase more of our processors and livestock offshore because of what we do or don't do here at home, no government welfare program yet invented will replace corn and soybean volume channeled domestically. We cannot afford to drive our agriculture offshore. We must, in fact, embrace it. I am very anxious to have you help us understand how we bring together a policy that will do that.

We have already had some discussion about how you deal with the whole field of livestock in the Farm bill and if we create this eligibility for conservation cost share or the incentives assistance that we are talking about and that applies regardless of size, how we are going to be able to make this all come together and balance the dollar against the value that we are seeking to achieve for agriculture.

I leave you with that. I, too, have another obligation, but we are going to have to rely on your knowledge, your experience, to help us find a way to make all this happen, to balance the interests for environmentalism, the interest for international trade, the barriers that we face in many corners of the world, many of them not that far from here, the challenge we have with animal disease and how we bring this all together, because if we don't achieve that balance, I can assure our ranking member that we won't get that harmony any way we try it. He already knows that I am worried that he is in a transition period with his farm and I want to make sure we are transitioning him up, not out.

[Laughter.]

Senator NELSON. I thank you very much, and I will leave you with that. We look forward to more input from you as we move forward. Thank you.

The CHAIRMAN. Thank you very much, Senator Nelson.

To all of you, I made my intentions clear to try to include an energy title in the new Farm bill. I was picking up some interest in various sectors. There has been a lot of attention, of course, paid to ethanol and soy diesel, other bio-based kinds of lubricants and fuels. I heard in recent weeks about the potential for using animal products for bio-fuels. I had not thought about that in the past, but obviously, it looks very promising. I talked to a group representing some of our rendering plants around the country and heard how much can be obtained just from the animal fats and by-products that could be used in terms of bio-fuels.

Mr. Caspers mentioned the use of methane. I ran across someone the other day who is using, if I am not mistaken, an ethanol plant and they are taking methane from both a landfill and a large animal feeding operation and they seem to have a lot of years of supply of methane for the heat processes that they need.

As I look out around the landscape, especially in our State of Iowa, where we have a lot of large hog confinement facilities it has been very contentious in terms of the environment and how we handle that. They used to be looked upon as great energy producers, in terms of capturing the methane from those operations, both in swine and in cattle. It is being done in some places, but I don't know that we are doing much to help assist that from the Federal standpoint. I don't know that we are putting much research money into that, either.

Those are my thoughts on what we might do in the Farm bill. If any of you have any thoughts about that, either today or if you talk with your organizations, and have some thoughts on how we might utilize animal agricultural in energy production, I am very receptive to that. Anything you have to add today, I would be glad to hear, or anything later on, I would be glad to hear, too.

John, you mentioned it, methane production. Obviously, there is a lot of methane in those large confinement operations.

Mr. CASPERS. That is certainly possible. With a little help and some incentives of some kind, whether it is through some additional dollars for research, whether it is for tax credits or whatever, that could certainly be encouraged and is certainly a ready source. It needs some other environmental benefits and certainly can help be one thing that would address the energy shortage and our reliance on imported oil.

The CHAIRMAN. If I am not mistaken, help the environment, too.

Mr. CASPERS. That is correct. That is correct.

The CHAIRMAN. You get a lot of bounces off that, maybe some additional income to the producer. I am looking for thoughts and suggestions as you go along. Does anyone else from the livestock sector have any thoughts? Pete.

Mr. HERMANSON. Last month, some of the people from the turkey industry met with some of your staff members regarding burning of poultry litter to create electricity, and they are working on something in Minnesota, maybe some possibilities, some others. It is a matter in some areas where you can argue that there is a better use for that organic nutrient, but in some areas, it is a challenge because of a place to get rid of it. We would support that continuation of that credit in that area as part of a solution, again, of getting some energy and taking care of a problem byproduct.

The CHAIRMAN. I was in England a couple of years ago and I visited a couple of power plants over there, one smaller one that had been operating for some time and a new one that had just come online, and that is all they are doing is burning chicken litter. That is all they are doing. Well, chicken, turkey—poultry litter is what they are burning. I thought they built one in Delaware. Do you know anything about that, Mr. Roenigk?

Mr. ROENIGK. Yes, Mr. Chairman. There is one proposed and it is planning to come onstream.

The CHAIRMAN. In Delaware, isn't it?

Mr. ROENIGK. Yes. If you look at the projects that are coming, we have a concentration of poultry production in Delmarva, two hours' drive from here, depending on how much traffic is on the Bay Bridge. If you add up all the projects that are planned, both energy and commercial fertilizer, I can see the day when there will be a shortage of poultry litter on Delmarva. We are turning a problem into a real asset. People are going to have to bid for this material and that is a good thing.

The CHAIRMAN. I heard they might be doing something down in Arkansas on that, too, but I will have to ask Senator Lincoln about that, one of these power plants burning chicken litter. I visited the one in England, and it was operating.

Mr. ROENIGK. Yes. It is based on the technology from England. The important part is that they be long-term commercially feasible. There are some tax breaks needed in the beginning to help them get started. I would agree with that.

The CHAIRMAN. Sure.

Mr. ROENIGK. Over the life, they should be commercially feasible and we shouldn't ask taxpayers to keep on supporting those long-term, but some startup help would be appropriate.

The CHAIRMAN. Again, we can't give tax benefits in the Farm bill, but maybe we can promote some things that will get the Finance Committee to begin to look at. Maybe there are some things we can do here to nudge them a little bit.

Last, I just wanted to ask Mr. Davis, the National Cattlemen's Beef Association, you expressed opposition to renewing the farmer-owned reserve. I can tell you, there is some support for that. I don't know how widespread it is, but I keep hearing more and more that we need some type of a support for a farmer-owned reserve, basically to give farmers the ability to market grain more orderly over a period of time.

I hope you take a second look at that, because I can remember, and one of the curses of having been here as long as I have been on the Agriculture Committee, I remember things that went on in the past, and I remember in the 1980's, we had a big drought in the last part of the 1980's. We had a farmer-owned reserve at that time. I remember a lot of my cattlemen and pork producers at that time were very happy that we had that, because prices spiked very high, but we had that reserve that let the grain out to the feeders. That was in the late part of the 1980's.

Again, I just wonder about having a hard and fast position about some form of a farmer-owned reserve.

Mr. DAVIS. I appreciate your comments, Mr. Chairman. Our history has shown that we will work with you and the committee all the way through this process and entertain the thoughts that come. Yet, we do still have our policies that we have to represent, as well.

If I can expand just a bit on that, and kind of on some of the things that have been alluded to all day, we need that balance, that harmony. We need to back up a step or two from here. I am not as old as I look, but I remember being around, not in this town but out where I live, watching some of these things happen before. That is why this panel is here today, because there have been times in the past when we did not have that harmony and it caused great weeping and gnashing of teeth out in the places where we live.

I commend you and the Senate and your predecessors and, hopefully, your successors, when that time comes, to keep us involved in this process. We intend to stay engaged and work with you——

The CHAIRMAN. Good. Well, you will be.

Mr. DAVIS [continuing]. To make it a balanced and harmonized, hopefully, farm bill.

The CHAIRMAN. Don't worry. We are going to make sure you are involved. There is no doubt about that.

On the topic of exports, the Market Access Program and the Foreign Market Development Program are two that we do have jurisdiction over, and to varying extents, help different parts of the industry. Any further thoughts on either the MAP program or the Foreign Market Development Program, the cooperator program, and what countries might look promising? Do you feel that this should be something that we should also strengthen in the next Farm bill? I will just open it up for anyone.

Mr. DAVIS. Mr. Chairman.

The CHAIRMAN. Yes, Mr. Davis.

Mr. DAVIS. Yes. We would like to see the MAP program, in particular, strengthened. We think it has been beneficial to our industry and, really, all of the meat industries. At what level, as we get into those details, either I am going to have to turn around and talk to staff about details, but yes, we think that is an important part of remaining competitive in a global market with our production.

The CHAIRMAN. The Pork Producers Council?

Mr. CASPERS. Yes. The Market Access Program is probably the largest beneficial program that we have. We certainly encourage that and we have called for a doubling of the funding in that. That program has been around for quite a few years under the MAP name, or I can go back far enough when it was called other things. Certainly, that is a huge benefit to us and it has been extremely successful. It is competitive in nature, and so organizations that use the funds effectively are rewarded with, hopefully, more funds in the future, and we have gained through the U.S. Meat Export Federation a fair amount of funding, but there is certainly a much larger need and we can certainly use quite a bit more additional funding to promote that and to continue to expand pork exports from this country.

The CHAIRMAN. You are asking for a doubling, basically, of the MAP?

Mr. CASPERS. Yes. Yes.

The CHAIRMAN. Did you have something, Mr. Roenigk?

Mr. ROENIGK. I believe the current program is funded at $90 million for MAP, and I recall not too many years ago, it was $200 million or even more, and certainly previous levels would be easily used. I know there was an issue of big companies/small companies using these funds. That can be addressed.

One quick example. In Hong Kong, when they had the chicken flu and they had to depopulate their domestic population of chicken, the consumer there was confused as to whether chicken was wholesome or not, and a little bit of advertising, letting them know that U.S. chicken was wholesome, no problem with the flu and so on, really paid off in big dividends. It is a kind of program you can go in on a long-term basis, but also the short problems and address them and it really makes a big difference with just a little bit of money.

The CHAIRMAN. Very good. Anything else?

Mr. MOORE. Yes. I would like to add, the U.S. sheep industry has expanded our wool exports from 7 percent to about 30 percent in the last few years, so we have sent a lot of wool to the Asian countries. Definitely, the MAP program and our export markets are very important to the sheep industry.

The CHAIRMAN. Very good. That is really all I have. Senator Lugar, do you have any other followup questions?

Senator LUGAR. Thank you, Mr. Chairman. Let me just mention one way of trying to perhaps move along the energy situation, whether it is with the livestock producers or grain people, of course is through our research programs that this committee has fostered. I noted the Senate appropriators have included most of the research moneys that we needed, both for the formula grants as well as the cutting edge research. Sometimes the House appropriators have taken a more difficult view toward that. Hopefully, that offers our universities an opportunity to try to convert what is actually occurring in the field to something that is commercially viable and can stand the test without subsidies or pilot projects or what have you, and that is really critical for basic ethanol as well as with the livestock-based energy.

I just want to sort of raise a general question. You have asked Mr. Davis, Mr. Chairman, about the farmer-owned reserve. Let me just say that the farmer-owned reserve, along with set-asides, 275 marketing loan for corn, and various other things bears some reminiscence of policies of the past. Some of those provide, at least in the short term, a higher price of corn, at least if you had bushels of corn to sell on the acres that you hand't set aside.

I am just curious, from the livestock producers' standpoint, and I ask this from my own family's history—Senator Nelson has alluded to my farm, and I don't want to leave in doubt that it is transitional in the sense that we are heading out of there. The transitional farms in the Sparks report were the farms that come after the leading 8 percent, the next 10 percent, and it was suggested there that about half of the income for farms that are in that category come from off the farm. About half comes from on the farm. Beyond that, almost all of it comes from off the farm on a net basis.

My Dad, who passed away 45 years ago, had this sort of a dilemma in the New Deal period. Supply control was the policy. As a result, he was forced by the government to plow under acres of corn and also to kill little pigs. The supply control worked on both sides in those days.

Now, the harmony of the operation came from the fact that he fed the corn to the pigs and some cattle that were on the farm. Most farms in those days had livestock and grain operations, and the economies came by going in the direction of the market. There were times when the corn market or the grain markets were stronger than the livestock market, so you fed fewer or more or what have you.

Times have changed in the last 45 years and many people are into specialties. They deal just with poultry or just with cattle, buy the grain somewhere else, so that we have a problem in terms of policy that is a little bit different. In the initial New Deal period, supply control was across the board. The idea was just simply farmers, if you let them produce, would produce too much. Inevitably, the price would go down, stay down, and there was no way of ever elevating it without getting rid of supply. As a national policy, we did.

What I am curious, and I ask this of the pork producers and the cattle people, over the course of time in the livestock industry, farm policy left the supply control situation. In other words, although it remained with grain and still does, and when we are talking about, whether it is the farmer-owned reserve or set-aside or any of these policies, they get down to the idea, how do you limit supply and how do you sort of knock it down to get the price up in some fashion. On the livestock side, things proceeded without these rigorous management tools of supply control.

As a matter of fact, we have some testimony from the commission appointed by the last Farm bill, some difference even between one of our members and one of the commissioners on strawberries. The suggestion was there ought to be a strawberry program and a fellow that was on the panel said, not on your life. Leave this alone. Essentially, we have got a market out there that you haven't fooled with, in the way that you have fooled with the grain business.

Why did livestock proceed on a market situation without supply control? You pointed out 53 percent of income in our farms come from livestock. This is the majority of dollars at this point, in a fairly untrammeled way. Do you want to leave it that way, and how did it get that way, or what are the values of proceeding that way as opposed to some other? Does anybody have any thoughts for the good of the order?

Mr. DAVIS. I don't know that I am smart enough to answer that question, Senator. In the cattle part of the livestock industry, as you know, we have tried to stay as market-driven as possible for as long as I can remember. Yes, the programs have affected the livestock industry and the way we as individual operators pick out the economic things that we think are the best economic methods to stay in business.

We recognize we have cycles. We are not always on the high of a cycle, either. We have our good times, we have our bad times, but overall, our philosophy, as you know, has been to take those, adjust in response to the market signals, try to do those things to increase demand, do other things to help take the peaks and valleys out of the cycles. We have been unsuccessful in doing that since the 1920's. We still have the peaks and valleys.

There is a recognition that that is part of the biological systems we work with as well as the human aspects that make those decisions, and I guess the bottom line of where we have always come down is we understand the importance of those various farm programs. We understand that they affect us. We understand that most of us do more than one thing and are affected directly as well as indirectly.

Let us let the market work as well as possible, and when we do have programs, if it is a conservation program or a commodity program, if it is in the public interest to preserve or enhance or in some way guide someone to doing a better job, then let us do it for that reason. Understand that it has to be the public that pays for it, and don't do it on the back of another segment of agriculture.

Senator LUGAR. I presume the majority of your members still favor that idea?

Mr. DAVIS. I believe they do, yes.

Senator LUGAR. Would that be true of the membership of pork producers?

Mr. CASPERS. Yes. Our membership is generally supportive of participating in the open free market as much as possible. Certainly, we have some requests where there is additional regulation to be put on our industry, where the public benefits, that the public would assist in the cost of that regulation.

Senator LUGAR. Well, that gets sort of to the EQIP discussion we had earlier on. In other words, let us say you folks wanted to continue in the market, so that relieves the Federal Government from subsidizing you or somehow propping up your prices and what have you. Essentially, you are coming in and saying, if EPA or some other well-minded organization of the government believes that some things ought to occur for other reasons of national policy, namely the good of clean water and the environment, then this is where the Federal Government ought to intervene in your business in terms of providing at least some assistance so that your members can meet these requirements. Otherwise, you have a cost factor vis-a-vis the Brazilians we heard about earlier today or others who may or may not have governments that are that equally interested in the environment.

If that is the case, then we talked earlier about the limits of this type of thing. If you get into this proposition in which we sort of pick and choose what size farms we are going to assist with regard to this, that is a difficult problem, although one that we talk about all the time, but I raised it earlier for that reason. It appears to me there is probably legitimacy in a governmental role there that most of you support.

The other side of the thing that you tend to support is as a cost comes from the environment, from EPA, cost also comes from farm bill policies that deliberately increase the cost of feed, because if we intervene while you are in a free market and make this a different kind of market, you are likely to have a bottom line that is very different, EPA being one subtraction and the Farm bill another.

To the degree you all have grain and livestock, why, you can sort of work this out on the farm. To the degree you don't, and increasingly, I gather, this is the case with some larger operations, why, you have got a problem in which our intervention has some direct effects on this thing.

Does anybody have any comment on that? I will then be still and let the chairman adjourn the meeting. Yes, sir?

Mr. ROENIGK. Just a quick comment. I grew up on a dairy and poultry farm in Pennsylvania. The dairy price was determined by the market order and poultry by the free market order, and my father, I never heard him say that prices of either one were high enough.

[Laughter.]

Mr. ROENIGK. I don't have an answer, but I have a comment, and I do remember the soil bank and my father did like the soil bank, not because we had acres enrolled but because he got a part-time job going out and measuring all the neighbors' fields to make sure that they were in compliance with the soil bank. Just a comment, not an answer.

Mr. HERMANSON. I would just make the comment, I guess, that we should help, as part of the EQIP, to keep production in the U.S. rather than at least pushing it offshore, as was mentioned earlier. Then the other thing that we need to support the grain side, the crop production side of it so that the grain is produced in the U.S. to feed the meat, and we would like to share some of that with the rest of the world.

That is where the turkey industry is. We just want a—if somebody is going to impose some regulations, maybe we need some help with that. We would like to have a good supply of feed, and obviously if you can do some enhancement as far as export, that is good for us, too. Thank you.

Senator LUGAR. I would just add finally, and I will ask Ms. Rosmann to comment on this, I have made the observation in these meetings and from my own experience that over the course of the years, we have gotten about a 4-percent return on invested capital on our farm. To many Indiana farmers, that sounds too high. We are not sure that we have seen that. The others would say, who are not farmers, why are you in the business at all? You could have gotten six percent on government bonds for the last 30 years without the problems of trade.

I am just curious, even if we got it right, assuming we have this market-oriented situation and it is harmonious, is anybody making any money in this panel, I mean, not you individually, but your clients or the people that you are representing today?

Ms. Rosmann, with your farm, obviously, you have got a family. You have 600 acres and you have a very interesting view in terms of marketing your product. Do you make four percent or more on your invested capital? I am just curious, if not, aside from the fact that you love farming, and that is the reason most of us are still in it, because we do, why are you in it? What is the return that comes from this type of operation?

Ms. ROSMANN. We believe strongly, sir, that sustainable agriculture, organic agriculture, not only sustains soil, water, and air, but that it sustains people, and the social capital that is involved with that is tremendous.

Why are we in it? I grew up in Sioux City, Iowa. I was not raised on a farm. I had this notion of what farm life was going to be like when we were married 23 years ago and I found out real quickly that it is not that way. I married an individual who has a profound love for the land. I married an individual whose parents have that profound love and respect for the land and commitment to it.

Again, I call attention that many of us in rural America have to have the second or third jobs to support the hobby of farming. We, again, do not have off-farm employment. That is critical. We are able to use what money we earn—this year, it has been poured back into machinery repair because we are not able to afford to keep up with the types of machinery that we need because it is a diverse operation.

Why are we in it? We are in it because it is the appropriate way to, we feel, raise a family, teach the next generation, should they choose to decide farming as a career, and because we feel that feeding our clients and our global clients. We, too, are involved globally. Our pork goes overseas. It is part of the Berkshire program, where it is sold, marketed directly to Japan. We are part of a network of growers who participate in that. Our soybeans we raise are tofu, food-grade soybeans, so they are marketed directly through Heartland Organic Marketing Co-op, now out of Stuart, Iowa.

We are intimately involved in this process because we feel that small- to medium-sized family farming is the only way to secure our future and our community's future.

Senator LUGAR. What sort of a return do you make on this?

Ms. ROSMANN. Do you think I am going to——

[Laughter.]

Ms. ROSMANN. We, again, make enough, sir, to sustain ourselves. We do. We make a profit. We make a—a just wage? I don't know. Again, a whole lot of it, when you own your own business, it gets poured right back into the expenses. Remember—I will leave with that.

Senator LUGAR. That is a very good reason why you are farming. I just sort of still have the general question as to how we are going to make money in American agriculture, and it is not really clear. This is still a low-return business as you take a look at the opportunity cost for money. The strategy that we try to think of in terms of our Federal legislation ought not to make it worse, but we are really trying to make it better.

This is why I asked each of you to think creatively in terms of really what kind of a policy would make any difference in terms of either return on invested capital in any of your businesses, because absent that, eventually, we are going to have an erosion of people leaving the business. In various ways, we will prop it up, and that has been the policy of the committee and the Farm bill, to save every farmer. Eventually, not everybody wants to be saved, in the event that the returns are very unpromising, and that is sort of a basic question that underlies our work here.

Thank you, Mr. Chairman.

Ms. ROSMANN. If I may, sir, the return on our poultry, the return on our pork, the return on our beef is all a premium, a premium because it is sold on the organic market. The barley, the other small grains that we have, the corn and soybeans, again, are all priced above market, traditional market rates. We would not be able to survive in a traditional sense of that type of agriculture. We are only able to do it because of the value-added concept, however, value-added concept with appropriate pricing in the organic market.

Senator LUGAR. I am suggesting, just so I am not vague, is if you have a 600-acre farm in Iowa, without guessing the land values, but it would sound to me like you have a $1 million net worth if you own all of that without loans, so four percent on that would be $40,000 net profit, say, before taxes. Or if you have got more value in it, why, you need more, and that is the sort of return I am thinking about, just to quantify it. Nevertheless, I appreciate your testimony.

Ms. ROSMANN. Thank you, sir.

The CHAIRMAN. I might add, Dick, that, again, I am hoping that in our next Farm bill that we at least try to provide for support for this kind of diversity. I mean, there is room for all. There are a lot of niche markets out there for agriculture. I have seen other farms in Iowa. I have a friend who grows Oagu beef up around Penora. He has got a nice niche market there. It may not be for everybody, but there are those markets out there. To the extent that we can help promote those, it just gives us more options, gives us more ways of doing things in agriculture to provide more income and keep people on the land.

Obviously, you do have to have a decent return because you have got to pay for the capital. If you are going to go into it, you have to have a decent return, so you have to be able to pay for the capital and improvements and that type of thing, plus have enough money to live on and build a house and raise your kids and send them to school. Beyond that, there ought to be room for people who want to engage in agriculture, as of a way of life. They may never get very rich doing it, but they can have an enriching life and they can be a good part of our rural environment.

It is not necessarily getting bigger, it is doing things differently. The Rosmanns have shown that there are ways of doing that, and other farmers are doing it in Iowa. It is not just the Rosmanns, others are doing different things. Now, again, I am not saying that this is how everything has to happen, but at least there ought to be room for that and there ought to be support for that type of an endeavor in our country.

If we are only spending one-tenth of a percent on the research, maybe there ought to be some more research and support. How do you make these kinds of transitions to different types of agriculture, for example, the knowledge of how to do it and how to transition and do these different things. Like I said, there ought to be some support to at least enable people who maybe don't want to make immense wealth, but they do want to raise a family and have a decent lifestyle and at least have some equity later on in their lives. I am hopeful that we can at least provide for that kind of support. There has got to be room for everybody in this.

With that, I thank you all very much. It was great testimony. Again, I ask you, through your various organizations, that if you have any thoughts on the energy aspect of it, please give us your thoughts and suggestions on that. I would sure appreciate it. Thank you very much.

The committee will resume its sitting on Thursday at 10:30 a.m.

[Whereupon, at 11:33 a.m., the committee was adjourned, to reconvene on Thursday, July 26, at 10:30 a.m.]

APPENDIX

JULY 24, 2001

U.S. Senator

TOM HARKIN OF IOWA

http://www.senate.gov/~harkin/ (202) 224-3254

FOR IMMEDIATE RELEASE
July 24, 2001

Contact: Tricia Enright/ Seth Boffeli

**OPENING STATEMENT OF U.S. SENATOR TOM HARKIN (D-IA)
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
HEARING ON ANIMAL AGRICULTURE AND THE FARM BILL**

"Good morning. Over the last several weeks, we have heard from a wide range of interested groups about their ideas for the next farm bill. We will continue these hearings, at both the full committee and subcommittee levels to build our record for the farm bill.

"Today, we will hear from the animal agriculture industry concerning farm bill issues. Animal agriculture is a very important part of US agriculture. Cash receipts from the livestock sector are projected to account for 53 percent of total cash receipts from production in 2001, and nearly $11 billion of U.S. agricultural exports, about 20 percent of the total. That export total amounts to more than a 50% increase in the last ten years. Livestock plays an important part in Iowa agriculture-- Iowa is the number one producer of hogs and eggs and has many other animal agriculture products. I believe that Iowa's prominence in animal agriculture is reflected by today's panel.

"I would like to welcome and introduce the three Iowans on the panel: Jon Caspers, Vice-President of the National Pork Producers Council comes from Swaledale, Iowa; Pete Hermanson, former Chairman of the National Turkey Federation, hails from Story City, Iowa; and, Maria Rosmann, from Harlan, Iowa who represents the Sustainable Agriculture Coalition.

"Considering the importance of animal agriculture to US agriculture overall, I believe it is time that our farm policy accord animal agriculture the attention it deserves. We should craft a farm bill that addresses the concerns of animal agriculture across this nation. The next farm bill needs to help livestock and poultry producers meet the challenges they face.

"The new farm bill provides multiple opportunities for crafting support for the animal agriculture industry. We must encourage increased research on animal health and diseases and new uses. The new farm bill needs a new energy title, but not just for important products like ethanol and biodiesel, but for using methane generated from animal manure and biofuels derived from animal fats.

"The next farm bill must also provide increased opportunities for livestock producers to expand their businesses both domestically and in the United States through marketing, fair trade agreements and value-added products. That means increased funding for cooperatives and other private initiatives and a strong export programs, like the Market Access Program.

"As many of you know, I believe this Farm Bill needs to expand the conservation title. We need to strengthen existing programs, like the Environmental Quality Incentives Program (EQIP), and create new ones, like the Conservation Security Act, which provides incentive payments for farmers and livestock and poultry producers to maintain and adopt conservation practices, like manure management.

"We need to make a comprehensive review of EQIP, including looking at the current restirictions on cost-share assistance for livestock owners. However, we must be careful to not go down the road of subsidizing large livestock operations unfairly or financing technologies -- such as manure lagoons – that should soon be obsolete.

"Moreover, we must carefully examine the consequences of government involvement. The wrong kind of government involvement - in the name of conservation - could actually hurt the industry or at a minimum distort production decisions or markets.

"Animal agriculture already plays an important role in US agriculture. I look forward to hearing the panel's testimony and working with all of you on crafting sound and forward-thinking farm bill."

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Testimony of

Jon Caspers
National Pork Producers Council

Before the

Committee on Agriculture, Nutrition and Forestry
United States Senate

Concerning

Farm Bill Issues

Presented

July 24, 2001
Washington, DC

The Other White Meat.

Mr. Chairman and Members of the Committee:

My name is Jon Caspers. I am a pork producer from Swaledale, Iowa and serve on the Board of Directors of the National Pork Producers Council (NPPC).

The U.S. pork industry represents a major value-added activity in the agricultural economy and a major contributor to the overall U.S. economy. The $8.7 billion of gross receipts from hog marketings in 1999 represent only a portion of the economic activity supported by the industry. Although the U.S. hog industry has undergone changes in recent years, over 575,595 US residents are involved in various aspects of the industry ranging from input suppliers to producers, to processors and handlers as well as mainstreet businesses that benefit from purchases by people in these industries. Overall, the U.S. hog industry uses fully 16 percent of the soybeans and 12 percent of the corn raised in America.

Changing Pork Industry Trends

Global competition, new technologies, and consumer demands are but a few of the factors that are rapidly changing the U.S. pork industry. Hogs are raised differently today than even just 20 years ago. Hog farms are managed in new and innovative ways. Hogs are marketed on a carcass weight-carcass merit basis verses the traditional live weight selling in the past. Both producers and the packing industry are vastly more efficient but much less flexible than in the past.

Consumer attitudes will determine the future face of the U.S. pork industry. Consumers are generally more demanding about what they eat, its nutritional content and taste. They are more cognizant of and more accepting of familiar brands than ever before which is leading producers into new and exciting marketing and production alliance opportunities and market segmentation and differentiation. Coordination of the production and processing chain with consumer demands is more and more critical to the success of all industry participants, but perhaps most critical to the future of producers.

The pork industry is becoming increasingly global and more competitive than ever before. Because of the internet and the nature of global communications, information and technology are extremely mobile and instantaneous. Canada, the EU, Brazil and Argentina are becoming worldwide competitors as their industries grow and mature.

Food Safety and environmental protection will play an ever-greater role in the decisions made on the farm. Consumers expect meat to have zero risk of food borne pathogens, while also demanding a reduction in the amount of antibiotics involved in livestock production. Environmentally, agriculture is moving inexorably from an unregulated to a regulated industry, driven again by consumer desire for food produced with little adverse environmental impact. Nutrients in rivers and streams caused by farm runoff will no longer be an acceptable byproduct of productive modern American agriculture in the future.

Conservation Provisions

Mr. Chairman, the country's pork producers are extremely pleased and excited that the 2002 farm bill debate is focusing on conserving working agricultural lands, keeping them productive, profitable, and at the same time enhancing the environmental benefits they provide. Your bill, the Conservation Security Act (CSA), is one of the big reasons that the debate has turned in this direction, and we welcome your efforts and commend you for them.

We also note that the Committee's Ranking Member, Senator Lugar, is working on a fine conservation bill with many valuable policy proposals. Again, keeping working lands working while conserving and enhancing our natural resources is the emphasis of his bill, and we cannot overestimate just how critical it is that your final farm bill keep this emphasis on working lands. It is all too easy for many not directly involved in agriculture to slip into thinking that farmers and ranchers should become some type of "eco-managers." This is not a farmer's or a rancher's vision for what conservation and environment policies should be. We want agriculture to produce agricultural goods, profitably, and be protective of the environment. Thank you for introducing a bill that works in this direction, and for your willingness to work with all sectors of agriculture toward that end.

In many ways, Mr. Chairman, NPPC is neutral to the type of specific vehicle used to meet livestock agriculture's critical need for livestock waste management assistance. Our own emphasis has been on amendments to the Environmental Quality Incentives Program (EQIP), for the simple reason that it is a program we and the USDA know and understand, and because straightforward steps can be taken to make it work properly and successfully. Most of the comments we offer below relative to our need for livestock waste management assistance are therefore directed toward amending EQIP. We have been reluctant to contemplate a separate, significantly complicated and new programmatic approach, not because it could not work or help us, but because we wanted to take the straightest path to our goals. That being said, we recognize that many of the things we seek are reflected in your CSA, and we keep an open mind as to the right combination of EQIP and CSA-like provisions the Senate's conservation title should ultimately contain.

Since the start of this debate last year, the organizations representing the majority of the livestock and poultry producers in the country have consistently demonstrated the need for approximately $1.2 billion a year over 10 years to address manure management needs. The need is immediate and pressing. We know that the needs of the livestock sector far exceed these planned increases. For example, since 1997, EQIP has not been able to fund 196,000 contract applications for $1.4 billion in environmental practices. Of that, $800 million came from livestock producers alone. As we have stated in previous testimony on this topic, livestock and poultry producers face, or will soon face, costly environmental regulations as a result of state or federal law designed to protect water and air quality. In addition to state requirements, the regulations will come from the Clean Water Act TMDL program, the proposed CAFO permit requirements, and the Clean Air Act.

The following table summarizes the conservation funding needs of livestock operations with 50 animal units or more.

10 Year Costs, By Category and Species for operations with more than 50 animal units (in million dollars)

	Fed Cattle	Dairy Cattle	Other Cattle	Swine	Poultry	Total
Structural Measures	$346	$3,492	$1,321	$1,402	$813	$7,375
Structural Measures, Technical Assistance	$87	$873	$330	$351	$203	$1,844
CNMP Preparation	$42	$221	$142	$104	$84	$593
Ongoing Nutrient Mgmt, Soil and Manure Tests, etc.	$254	$297	$97	$306	$505	$1,459
Ongoing Nutrient Mgmt, Tech Assistance	$169	$172	$58	$184	$301	$884
Securing Additional Land for Spreading Manure	$8	$2	$0	$3	$33	$46
Total Cost	$906	$5,057	$1,948	$2,350	$1,939	$12,200

Senator Lugar's bill, which would provide EQIP with $1.5 billion a year, to be allocated to row crop and livestock agriculture, will help us meet this need, particularly since his bill will not prescribe a specific percentage of EQIP funds dedicated to livestock versus and row crops. At the same time, we think it likely that some form of equitable and even split of this $1.5 billion annually between livestock and row crop agriculture will take place, leaving us with less than we need. The above analysis leads us to respectfully request that the committee take full advantage of any opportunity that may exist to expand EQIP funding further to come as close as possible to the $1.2 billion a year level of assistance needed by the livestock and poultry sectors.

There are several specific issues that we would like to address as you know prepare final legislative language for the conservation title of your farm bill. We have stated many of the following comments and positions in previous testimony, but they bear repeating and need to be placed in the context of the existing statute.

We feel very strongly that livestock and poultry producers must be eligible for conservation cost share or incentives assistance regardless of the size of their operations. The public clearly wants improved environmental performance and greater environmental benefits from our operations, large and small, and we are anxious to meet these goals. For decades, the federal government has provided billions in assistance to large, municipally owned water and sewage treatment facilities. Every person living in these municipalities has benefited as result, paying less than the true cost for these services, and gaining a cleaner environment as well. We see little difference between these situations and those facing livestock producers today. If society values keeping as many livestock operations as independent as possible, and also values a cleaner environment, then livestock agriculture is prepared to work with the public sector to meet these goals.

The environmental regulations and expectations livestock producers face do not distinguish among operations on the basis of size and we see no reason why assistance to livestock operations to meet these environmental objectives should discriminate on that basis. Family owned or operated livestock operations come in all sizes, and all of these will need cost share assistance if they are to remain economically viable while providing the public with the environmental benefits they obviously seek. It is our view that, without question, any EQIP provision that excludes operations simply on the basis of the number of animals will end up excluding thousands of family owned operations struggling to remain as independent as possible. Many of these producers and their families have made the hard, difficult and expensive choice to expand the size of their operations to capture economies of scale and to take advantage of the most efficient technologies available. We see no justification for penalizing or excluding these operations at the very time when society is demanding a higher level of environmental performance.

We believe that a payment limitation approach, comparable to that used in row crops is a far more appropriate policy approach, except that payments should not be limited by year but by the needs of the overall EQIP contract. We believe a minimum of $200,000 per contract is needed for this work, and even that will be too low in many cases. For example, the Environmental Protection Agency's analysis for the proposed CAFO rule assumes it will cost a 3,444 head farrow to finish swine operation in the Midwest $332,000 in capital costs to comply with the proposed rule[1]. It will also cost approximately $26,000 a year for annual recurring activities for this operation to operate and maintain its new system.

The surest way to help keep independent both the independent swine producer selling pigs on the spot market and the independent producer selling through a contract to a processor, is for USDA to provide financial and technical assistance for the manure management systems necessary. A $200,000 payment limitation would help may of

[1] For a category 3, 3444 head farrow to finish swine operation in the Midwest, that does not have the land at their operation to spread their manure, so the manure is already being hauled off the operation and spread on other farms' lands. The cost figures come from unpublished but publicly available CAFO analysis tables provided by EPA at NPPC's request.

these producers meet their livestock waste management needs without having to turn to the processors for loans or other forms of capital cost sharing arrangements. Many assume that processors should cover the costs of the needed waste management systems. But we believe the only way to force processors to do this also would lead to independent producers becoming more dependent on processors. In many cases, the rational economic choice for the processor would be to purchase the independent producers' facility outright. Further concentration in the swine sector would be the inevitable result, an outcome this Committee and NPPC both want to avoid.

We also note that a $200,000 payment limitation would effectively prevent large processors producing their own hogs with processor-owned production facilities from using EQIP. Such operations are so large, on the order of hundreds of thousands of head, that a $200,000 contract would not be worth the time and effort to pursue.

We feel that protecting water and air quality as it relates to livestock and poultry manure management must be national priorities for EQIP. We encourage your final bill to ensure the program has both of these among its top priorities. We also believe that while the installation of EQIP conservation practices can and will provide benefits to wildlife, the goal of wildlife habitat preservation should not be a purpose of EQIP. In our view, the Wildlife Habitat Incentives Program (WHIP) is the best programmatic home for helping producers practice wildlife conservation on working agricultural lands. We encourage you to remove wildlife as an explicit purpose of EQIP, and support Senator Lugar's proposal to substantially increase funds for WHIP to meet the worthy goals of protecting habitat.

Explicit provisions must be enacted that structure and support the joint effort that will be needed from federal, non-federal and private technical assistance providers to ensure that EQIP financial assistance will achieve its intended purpose. Our cost analysis referenced above incorporates technical assistance costs explicitly. We believe it is very important that this bill not adopt any limitation on the amount of technical assistance to be provided under EQIP that is arbitrary and otherwise not based on what it really costs to help producers design, install and manage conservation practices. Financial assistance is essential, but without full and qualified technical support, the financial assistance will fail. We want EQIP to succeed, and feel the old adage, "penny wise and pound foolish" definitely applies to this situation.

We feel that particular attention must be paid in the legislative language to ensuring that the program allows for the participation of third party private sector certified experts to supplement the technical assistance to be provided by USDA. We note that your CSA provides for the use of such persons, and we support your effort. The approach being suggested by Senator Lugar in his proposal is also very valuable. We welcome his proposal and thank him for his assistance. A voucher system is one way that could be used to meet this need, but there are several others, and we are prepared to offer, immediately, detailed suggestions regarding how this can be accomplished. Whatever the legislative approach taken, it must be well thought through and comprehensive, and ultimately subject to rulemaking through public notice and comment if it is to work properly and have the confidence of all involved.

We request that your bill address the issue of how EQIP will meet many of the nation's top conservation priorities that are not properly delineated on the basis of small geographic areas, like a watershed. The ability of the program to place emphasis on watershed-based assistance must be retained. But there is a substantial number of critical, high value, high priority conservation practices providing valuable environmental benefits that producers across broad parts of the country need assistance to implement. EQIP must place considerable and major emphasis on helping producers adopt these latter conservation practices that are not defined on the basis of a geographic area.

We also ask that your bill examine certain existing provisions of EQIP that add considerable administrative burden with little associated environmental benefit. In particular, we believe EQIP must retain its emphasis on producing significant and valuable environmental benefits, but that it should do so without the impractical and impossible condition of truly "maximizing" such benefits. The term maximization implies being able to compare accurately and equitably tens of thousands of EQIP conservation practices being implemented under entirely different field conditions and often for very different conservation purposes. Maximization under these conditions is unfeasible and not an appropriate objective. Instead, the program should emphasize securing substantial environmental benefits per dollar expended.

We also believe that changes are needed to clarify that an EQIP plan, while necessary to secure a contract for EQIP payments, is not needed to apply to nor be accepted into the program. The program should have proper procedures to govern application and acceptance into the program, but an EQIP plan is far too detailed and costly a requirement for this purpose. We also believe that the legislation must make clear that an EQIP plan can be designed to address only one conservation objective and involve only one eligible practice, and that contracts can be for one year to 10 years, depending on the conservation practices involved.

Many of these requested changes are addressed in Senator Lugar's proposal. While we believe the approaches he has taken on these matters can be refined and improved, they are definitely moving in the correct direction, and we ask that as you prepare your version of the conservation title that you take his proposals into account.

We want to reiterate that we are ultimately neutral to the legislative and programmatic approach taken to meet livestock agriculture's need for assistance as long as the programs can be understood and implemented by USDA without wasted time and resources, and that they work for producers. In particular, once a manure management system is planned, designed and implemented, producers will have annual costs for the ongoing maintenance of those systems. This could be done through the incentive payments approach in EQIP or through some other incentive payments program. Either way, we believe that an incentive payments program will work only if the payments are tied to real costs, according to conservation plans that are accountable and where producers will have ownership of the practices by also incurring cash or in-kind costs to implement them. The approach taken must ensure that producers be compensated fairly relative to producers across county, state and regional lines for the work and activities undertaken with the incentive payments.

Lastly, Mr. Chairman, the emphasis we are placing on keeping agriculture productive and profitable continues into our positions on the Conservation Reserve Program (CRP). We believe the CRP should be amended to make it a priority to keep working lands working. When an entire farm field is enrolled into the CRP, agricultural use of the field is lost for the term of the contract. The CRP should be amended to place emphasis on enrolling buffers and portions of field. The number of whole fields enrolled in the CRP program should be substantially limited. We do not support increasing the CRP's acreage cap, but if it must be done, it should only be for partial field, high environmental benefit practices.

Research

NPPC urges the Committee to double agriculture research funding over the next five years. Funding in agriculture research has remained flat for the last 15 years while other federal research has significantly increased. This trend is no longer acceptable. Additional money is needed to enable producers to continue to produce safe and better food.

NPPC believes that future animal research should be built around the goals of the Food Animal Integrated Research (FAIR) 2002. Those goals are:

1. Strengthen Global Competitiveness
2. Enhance Human Nutrition
3. Protect Animal Health
4. Improve Food Safety and Public Health
5. Ensure Environmental Quality
6. Promote Animal Well-Being

Trade Issues

Market Access Program (MAP) Authorization

NPPC has long supported increasing the authorization of the Market Access Program (MAP). At least a doubling of the current authorization, from $90 to $180 million per year is warranted. MAP and the Cooperator Program have been instrumental in helping boost U.S. pork exports.

Unlike other sectors of the global economy, the agricultural sector is still rife with subsidized exports. While programs such as MAP have been reduced in recent years, our foreign competitors have continued to heavily subsidize and aggressively promote their products in an effort to capture an increasing share of the world market at the expense of U.S. producers. In fact, a recent USDA study shows foreign competitor nations outspending the U.S. by as much as 20 to 1. These nations are spending over $100 million just to promote their products into the United States – more than what the U.S. currently spends under MAP to help promote exports of all American grown and produced commodities world-wide.

The MAP is a cost-share program through which farmers and other participants are required to contribute as much as 50 percent of their own resources to be eligible. Indeed, funding for pork export initiatives and foreign market development are largely supplied by the pork checkoff, which represents a percentage of the hog price received by the producer. The USDA Market Access Program and Foreign Market Development Program funds complement the pork checkoff expenditures in markets around the world. It has been and continues to be an excellent example of an effective public-private partnership.

Global Food Assistance

NPPC continues to support the creation of a new international school lunch program designed to help feed hungry children, improve nutritional standards and provide an outlet for surplus U.S. agricultural products. We feel that this program, the Global Food for Education and Child Nutrition Act, presents a promising opportunity for American producers to assist children in struggling areas of the world. NPPC cautions, however, that it is important for meat and dairy products to be fully represented to the greatest extent possible as this program goes forward.

Trade Promotion Authority Should Be Renewed

U.S. pork producers are major beneficiaries of the Uruguay Round Agreement and NAFTA. While a few bilateral trade agreements are theoretically possible without the passage of Trade Promotion Authority (TPA), the greatest benefits to American agriculture will come from the launch of a new multilateral round of negotiations, and that cannot happen without TPA. It is vitally important, both substantively, and symbolically, for the president to have TPA when ministers gather in November in Qatar in an attempt to launch a new round.

Since 1995, when the Uruguay Round Agreement went into effect, U.S. pork exports to the world have increased 55 percent in volume terms and 40 percent in value terms. In 2000 the U.S. exported a record 566,900 metric tons of pork valued at $1.316 billion. Pork exports from the U.S. to Mexico exploded in 1994 when NAFTA went into effect. Even with the devaluation of the peso U.S. pork increased market share in Mexico -- this never would have happened without NAFTA. Mexico is now the pork industry's second most important market behind Japan.

The United States is uniquely positioned to reap the benefits of liberalized world pork trade. U.S. pork producers are the lowest cost producers of the safest, highest quality pork in the world. But without the renewal of trade negotiating authority for the Executive branch by Congress, U.S. pork producers and the rest of U.S. agriculture will be forced to remain on the sidelines while other countries continue to negotiate new trade agreements at a staggering pace.

The rapidly expanding Brazilian pork industry -- a key competitor to the U.S. industry -- now has preferential access into many markets to the detriment of U.S. producers. Canada, another significant competitor, has gained preferential access into Chile and other Western Hemisphere nations through free trade agreements. While the United States sits idly by, Chile, Mexico, and Canada have wrestled away from the United States the mantle of the Western Hemisphere's trade leader. These countries along with the European Union are gaining the benefits of trade for their citizens while the U.S. engages in an over-hyped dialogue about the benefits of trade.

NATIONAL CATTLEMEN'S BEEF ASSOCIATION

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Testimony

of the

National Cattlemen's Beef Association

to the

Senate Agriculture Committee

The Honorable Tom Harkin, Chairman

Presented by

Eric Davis
NCBA Vice-President

July 24, 2001

Producer-directed and consumer-focused, the National Cattlemen's Beef Association is the trade association of America's cattle farmers and ranchers, and the marketing organization for the largest segment of the nation's food and fiber industry.

Chairman Harkin, Senator Lugar, and the Members of the Senate Agriculture Committee,

The National Cattlemen's Beef Association appreciates the opportunity to present to you and the Senate Agriculture Committee our views on farm policy and our policy positions going into to the 2002 Farm Bill. I am Eric Davis, Vice-President of the NCBA. I am a rancher from Bruneau, Idaho.

Industry Background

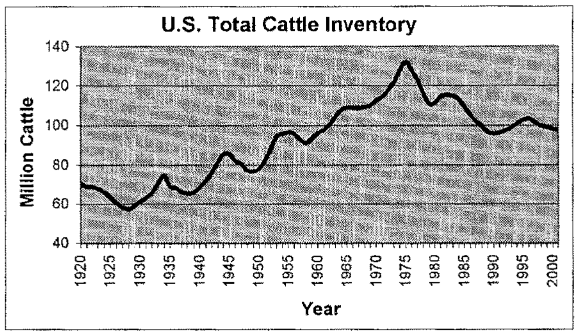
In our first opportunity to testify in front of the Senate Agriculture Committee on the upcoming farm bill debate, we want to take some time to impress upon this Committee the importance of the beef and livestock industry to American agriculture. The sale of cattle and calves is the single largest contributor to farm receipts. Livestock sales account for nearly half of all farm receipts and sales of cattle and calves account for 40 percent of all livestock sales. Livestock also consumes more than 3 out of every 4 bushels of the three major feed grains (corn, sorghum and barley) used domestically. Cattle in feedlots account for nearly one-forth of the total grain consuming animal units and all beef cattle account for nearly 30 percent. If dairy cows are included, all cattle make up 40 percent of all total grain consuming animal units.

Annually, the beef industry consumes corn, wheat, grain sorghum, barley, oats and an assortment of feed ingredients including co-products from wheat milling, flour milling and ethanol production. Because of the versatility of the ruminant animal, the beef industry is also able to take advantage of feed ingredients such as screenings and grain cleanings that other segments of agriculture are unable to utilize. Of the \$190 - \$200 billion dollars in annual farm income from commodity sales during the past decade, the beef industry has contributed \$35 - \$40 billion annually. Plus, as indicated earlier, beef cattle consume nearly 30 percent of the \$20 - \$27 billion of feed crops sold annually. Clearly, the livestock industry contributes more to farmer incomes than the government -- even at recent expenditure levels to supplement farm incomes.

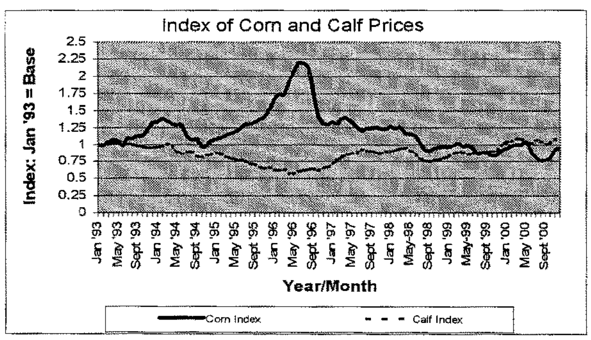
As the largest segment of agriculture, the beef industry is concerned about government programs that inadvertently affect the price of feed grains or result in distorted market signals. These actions can have major impacts on the economic well being of the beef industry. We do not support direct price or income supports for the beef industry. We are concerned about programs that would increase farm income by raising input prices on the beef industry.

A general rule of thumb states that calf prices decline by \$1 to \$1.20 per hundredweight for every 10-cent per bushel increase in the corn price and feeder cattle prices decline by about 70 cents for every 10-cent per bushel increase in corn price. Some cattle feeders have indicated that this impact is conservative and the impact on calf prices is closer to \$1.50/cwt. for every 10-cent per bushel corn price increase. Ranchers are willing to accept these price impacts when they come from changes in supply and demand, but not from acts of Congress that distort grain prices and pit one industry group against another.

The market is powerful. The beef industry understands it and embraces it. We are all familiar with the beef cycle--its ups and its downs. But it works. When prices are good, as they are now, producers hold heifers back and increase their breeding herd to produce more calves. In time, the industry begins producing too many calves, and more beef is going to market than can be sold profitably and prices begin to fall. As this occurs, producers cull more cows, sell more heifers and reduce herd size -- eventually reducing supply until prices begin to rise. And the cycle starts all over again. As shown in the graph below, the length and duration of this cycle may change, but on average it lasts about 10 years and it has been in place since at least the 1920s. Production peaks tend to be in the middle of each decade with cyclical low production near the beginning of each decade. The cattle cycle occurs because individuals make independent decisions that collectively impact the entire the market, and over time, these individual actions have an aggregate effect. The beef industry does not want these market forces to be distorted by government price floors or income supports.



In 1996, when corn was over $5 dollars a bushel and calves were trading at a discount to fed cattle, we had a lot of people lining up wanting to help us with federal dollars. Our industry said NO. Majority opinion in the beef industry was that the market would take care of our problems and it has. Today, the beef industry is one of the few bright spots in American agriculture. We believe prices are strong because we let the marketplace work and have focused on building demand for beef.



We continue to work on improvements to the infrastructure that keeps our industry strong. These advancements focus on agricultural research, a science-based approach to regulations and inspection, market development, product promotion, and trade. We do not spend time or political capital trying to enact programs to deal with market downturns that in the end would only encourage over-production and extend the downside life of the cattle cycle. The market is truly a powerful force and is the beef industry's greatest strength.

Federal Farm Policy
Nonetheless, the members of NCBA understand that farm programs are a major component of US domestic policy and will remain so for the foreseeable future. Therefore, NCBA has been and will continue to be focused on ensuring that farm policy does not benefit one part of agriculture at the expense of another. NCBA will not consent to US farm policy that is financed out of the pockets of the beef industry. With that in mind, NCBA is keeping a close eye on the following areas that could cause problems for the beef industry and the NCBA:

1. **Mandatory set-asides, acreage reduction programs and production controls**. If these proposals operate as intended, farmers would be induced to take land out of production, decreasing the supply of grain in the marketplace resulting in higher prices. Higher prices would be good for farmers and the US Treasury, but these higher prices would be funded out of the pockets of beef and other livestock producers. Ultimately, grain producers in other countries just increase production and the US gives up market share. This proposal would amount to a transfer of income and risk from one sector of agriculture to another and to international grain producers. NCBA is opposed.

2. **Farmer-Owned Reserve**. In a FOR program, farmers are induced by government payments to place grain into storage until the price rises to a specific level. When grain reaches that level it is released on the market. This program is deliberately designed to hold grain off the market by restricting supply, subsequently leading to higher prices. Farmers are paid storage by the government and receive the higher prices when their grain is released. It may be good for farmers, however the higher price is paid by livestock producers who must pay artificially high prices. This program also leads to quality degradation of grain as good quality grain is put into storage and poorer quality grain is taken out of storage. This proposal would amount to a transfer of income and risk from one sector of agriculture to another. NCBA is opposed.

3. **Non-Recourse Loan Forfeitures**. In the past, these programs led to increases of government stocks. As implemented, farmers would take a loan out on their production from the government. If prices rose, they would sell their grain and repay the loan. However, if prices stayed low, they would simply forfeit their crop to the government to repay the loan. Historically, this led to buildup of government stocks -- where grain quality deteriorated -- and reduced short-term grain supply. Ultimately artificially higher cash grain prices resulted (in the short-term until government released its stocks on the market) while the government incurred high storage costs on surplus grain. These programs resulted in high cost to the federal government and increased volatility in grain prices to beef and livestock producers. This proposal would amount to a transfer of income and risk from one sector of agriculture to another. NCBA is opposed.

4. **"Flex-Fallow" type program.** This program creates an incentive for producers to set aside a percentage of land by offering higher loan rates on grain that is produced from the land that stays in production. This proposal could have two results. First, it could amount to a de facto set aside program that would restrict production, decrease grain supply and increase prices. If this result occurs, it would amount to a transfer of income and risk from one sector of agriculture to another. NCBA is opposed.

   However, the second outcome could have even more deleterious affects on the agriculture economy. Producers could choose to set aside a portion of their most "fragile" acres and then strive to increase production on the most productive acres to take advantage of the higher loan rates. Many of these "fragile" acres may not even be in production today and could end up being turnrows, row spacings, irrigation pivot corners, or stream banks that often are not farmed anyway. Hence, this program appears to significantly raise loan rates by offering a "false" set aside incentive. This proposal would only exacerbate the current surplus situation because higher loan rates would create a tremendous incentive to over produce on highly productive land and take land out of production that may not be in production to begin with.

5. **Federal dairy buyout, herd reduction program or mandatory dairy supply-management.** The dairy industry is an integral part of the beef industry. However, because of the potential impact on beef markets, the NCBA would be opposed to any government program that would create an incentive for culling of dairy cows in response to low milk prices. This issue is discussed further in the testimony.

Should proposals such as these become part of the legitimate farm bill discussion, NCBA will seek to mandate--by USDA and the recognized research community--a complete impact study of these proposals on the beef industry. I reiterate. NCBA will oppose any government program that has a negative impact on the beef industry. The beef industry has worked hard to increase producer profitability along with consumer confidence and demand. We have also worked with industry partners and government to protect our industry from risks such as foreign animal disease. We do not want our advancements in these areas to be erased by farm policy that puts success at risk.

The NCBA believes that there are many positive aspects to the 1996 farm bill. Though the 1996 bill has been much maligned in recent years, it is interesting to note that many of the proposals for the 2002 farm bill have focused on modifications to the basic 1996 bill. In short, proposals seek to continue and expand eligibility for AMTA payments, rebalance loan rates, and expand eligibility for marketing loans. NCBA's position on these issues is simple. As long as the loan program is focused on marketing loans and there is political willingness to accept the resulting budget exposure that these loans entail, we are indifferent to what levels are established for individual commodity loan rates.

NCBA does recommend, however, that the time frame and averaging methods used to establish or rebalance loan rates be consistent across all eligible commodities. If each commodity uses different base years, averaging method or even a fixed loan rate to rebalance loan rates, then it is conceivable that within a short span of time, the rates would be once again out of balance leading to loan rate induced planting decisions. Using the same base years and calculation methods for all commodities will facilitate an ease of understanding marketing loans by the marketplace. NCBA and our members insist that grain move and be a part of commerce, not tied up in storage and held off the market. Marketing loans provide federal support to farmers at the prevailing loan rate but the grain still trades at the prevailing market price. As such, marketing loans are acceptable to the beef industry and the costs of these grain-specific programs have been estimated in testimony by other organizations directly representing feed grain producers. Most requests for funding range from doubling baseline projections (to $18 billion) to more than $25 billion for income- and price- support programs.

While they are acceptable to NCBA, marketing loans do have downside implications for trade agreements and on farmer planting decisions. Statutory AMTA payments are green box, supplemental AMTA payments have been deemed amber box by the Administration and the marketing loan program is amber box. If we raise loan rates and increase the number of commodities eligible, the US may reach or exceed the amber box ceiling. The US may lose credibility in international negotiations if we increase the very activities that we are asking other countries to disavow. However, the US did not reach nuclear disarmament in the 1980s through unilateral action. We spent until the Russians broke the bank -- then we negotiated a settlement. If breaking the EU farm subsidy bank is part of the overall negotiation strategy, then maximizing our amber box payments may have merit. Obviously, it will give the US something to negotiate away later, but it could also hurt our short-term coalition building efforts with Cairns and Mercosur countries.

Second, in testimony presented to the House Agriculture Committee, one group stated that rebalancing loan rates "could slightly lower feed grain costs if acreage for feed grains expands in response to the higher loan rate." Agricultural economists have relayed the similar message to NCBA that farmers would increase plantings in response to higher loan rates, leading to lower cash prices. It is interesting to note that "Freedom to Farm" has been criticized for not providing an adequate safety net and not dealing with overproduction. However, current proposals to increase loan rates would seem to exacerbate the ongoing problems of low prices and oversupply and may very well reach the cap on amber box payments. The safety net solution would then be forced to consist of green box AMTA payments to farmers. While this strategy may help facilitate a spending war with the European Union and the ultimate demise of European farm subsidy programs, it seems counter-intuitive for American agriculture to support policies that stimulate over-production leading to lower prices.

Dairy Policy

Mr. Chairman, I would like to focus on the dairy industry briefly. The senior members of the Committee are familiar with the challenges faced by the beef and dairy industries over the years. Nonetheless, for the benefit of the newer members of the committee I would like to touch on a few historical episodes. The NCBA and our predecessor organization, the NCA, has typically taken a hands off approach to dairy policy as it relates to the entire dairy pricing system. However, 6% to10% of dairy revenues comes from sales of cattle and calves for beef. Dairy cows make up nearly half of the total cow slaughter and can have a tremendous impact on the beef industry.

In 1986, the USDA mishandled a dairy buyout, or a dairy termination program (DTP) that was part of the 1985 farm bill. The buyout cost the government $1.8 billion in payments to entice dairy producers to exit the business for a minimum of five years. Of that total, $677 million were collected from assessments on dairy producers. An additional $400 million was allocated and spent to subsidize beef exports and other programs to help mitigate impacts of the DTP on the beef industry. This ill-conceived program flooded the beef market and in short was an unmitigated disaster to the beef industry. Prices for fed cattle declined nearly $6/cwt.during the first week as futures markets declined by maximum limit moves for three consecutive days then an additional $1/cwt. on the fourth day. Prices for fed cattle remained $5-$7/cwt. below previous year levels for at least 6 months after implementation of the program. Prices for calves and yearling cattle declined by $10 - $15/cwt. as lower prices for fed cattle and general confusion and uncertainty in the marketplace were factored into lower prices paid by feedlots. In all the dairy buyout cost the beef industry upwards of $1 billion during 1986 and early 1987.

The dairy buyout was added to the 1985 farm bill in conference and USDA made a series of blunders in its implementation that were documented in subsequent Congressional hearings. There were lawsuits and oversight hearings. Some people would like to forget this fiasco, but if you say "dairy" to some cattle producers, they'll say "buyout." NCBA and the beef industry learned some valuable lessons in 1986 about the potential impacts and unintended consequences on the beef industry from supply management programs in dairy or other commodities and will not allow a program of this type to ever occur again.

From time to time, various dairy supply proposals arise that are not as objectionable as the 1986 dairy buyout. However, their effect could be the same. NCBA will keep a cautious eye on any proposal that could lead to more dairy cattle going to market than would otherwise occur under normal market driven conditions. The dairy industry is an important part of the beef industry and beef production is an important product of the dairy industry as cull cows and veal calves ultimately end up in the food chain. We want dairy producers to be profitable, but not at beef producers' expense, and not because government programs determined who would be winners and who would be losers.

Conservation and Environment

Mr. Chairman, this Committee's commitment to conservation and the environment are of particular interest to the cattle industry. There are a whole host of conservation initiatives that have been proposed for this Farm Bill. We are paying close attention to these efforts and are encouraged by their recognition that conservation must be a key component of our farm policy. We are encouraged that the initiatives proposed all place an emphasis on helping producers keep their operations and productive lands working and profitable while they move to the next level of conserving the natural resources on their lands.

Regardless of what form the final conservation title will take, we are aware that the financial resources committed to conservation spending over the next ten years will make the 2002 Farm Bill a great milestone in federal conservation policy. We appreciate this opportunity to provide you with our views and observations as you craft the details of these provisions for your farm bill package.

Mr. Chairman, because there have been several proposals already -- some amending the current programs and others providing entirely new programs. NCBA wants to stress that whatever form the final package takes, it is critical that the 2002 farm bill make a major, new commitment to providing livestock producers with conservation cost share and incentive payments assistance in the context of voluntary, incentive-based programs.

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. The federal regulations under the Clean Water Act include the Total Maximum Daily Load Program (TMDL's), and the proposed new Concentrated Animal Feeding Operations (CAFO's) permit requirements. Federal regulators also are exploring the possibility of expanding federal regulation of agriculture under the Clean Air Act. At the same time, state legislatures or agencies around the country have enacted or are considering stringent environmental requirements that are to be applied to livestock producers, and in some cases, all of agriculture. Such states include Alabama, California, Iowa, Maryland, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Washington, Wisconsin, and others.

The commitment to financial assistance that is needed in the 2002 farm bill has to be matched by a similar commitment to an ample supply of public and private technical assistance. The 2002 farm bill must reverse the trend that started with the 1985 Food Security Act, and restore technical assistance to at least pre-1985 levels. This must be done if we are to keep economically viable producers on the land, be able to conserve our natural resources for future generations and provide the environmental benefits being demanded from American agriculture by the public. There also is an ongoing need for new and innovative research in the conservation arena to support the objectives laid out above.

Summary of Our Positions

We have several specific suggestions and requests for provisions to be included in the 2002 conservation title. Our testimony today goes into these items in some detail. The major highlights of what we suggest are summarized below:

1. More than $12.2 billion is needed to address the projected 10-year costs of federal, state and local mandatory manure management, water and air quality protection requirements. The structural elements of these costs are projected to be $9.8 billion (including the preparation of comprehensive nutrient management plans), and the ongoing 10-year management costs are projected to be $2.4 billion.
    - Producers must be eligible for this assistance regardless of the size of their operations. A payment limitation system comparable to that used in row crops should be adopted.
    - These needs are national priorities that must be met with the funds made available for this purpose, irrespective of other priorities that might exist for the program.
    - Explicit provisions must be enacted that structure and support the joint effort of federal and non-federal technical assistance providers that will be needed to support this work.

2. The objectives in 1 above could be met through substantial amendments to the existing Environmental Quality Incentives Program (EQIP), or in an entirely new program.
    - If carried out through EQIP, EQIP must be amended to focus exclusively on soil, water and air quality issues. The current wildlife objectives supported by EQIP should be moved to the existing Wildlife Habitat Incentives Program (WHIP), making WHIP the wildlife program for working agricultural lands. NCBA feels that protecting water and air quality as it relates to livestock and poultry manure management must be national priorities for EQIP. We encourage your final bill to ensure the program has both of these among the top priorities. We also believe that while the installation of EQIP conservation practices can and will provide benefits to wildlife, that the provision of wildlife habitat should not be a purpose of EQIP.
    - In our view, the Wildlife Habitat Incentives Program (WHIP) is the best programmatic mechanism for helping producers practice wildlife conservation on working agricultural lands. We encourage you to remove wildlife as an explicit purpose for EQIP, and support your effort to substantially increase funds for WHIP to meet producers' needs for doing wildlife work.
3. Producers' costs and technical assistance needs for the ongoing maintenance of the manure management systems must also be funded.
    - This could be done in EQIP or through some other incentive payments program.
    - These provisions should also work for and support the needs of row crop producers.
    - An incentive payments program will work only if the payments are tied to real costs, according to conservation plans that are accountable and where producers will have ownership of the practices by also incurring cash or in-kind costs to implement them.
    - The program must ensure that producers be compensated fairly relative to producers across county, state and regional lines for the work and activities undertaken with the incentive payments.
4. The Conservation Reserve Program (CRP) should be amended to make it a priority to keep working lands working. When an entire farm field is enrolled into the CRP, agricultural use of the field is lost for the term of the contract.
    - This means that emphasis must be placed on enrolling buffers and portions of field.
    - The number of whole fields enrolled in the CRP program should be substantially limited.

Mr. Chairman as you know, the NCBA represents that segment of agriculture that owns and manages our nation's private grazing lands. These grazing lands contain a complex set of interactions among soil, water, air, plants and animals. They contribute significantly to the quality and quantity of water available for all of the many land uses, and they constitute the most extensive wildlife habitat in the US. Our next generation farm bill must continue to recognize the contributions these grazing lands make to a healthy environment by providing financial and technical support for grazing lands and grasslands conservation programs.

Specifically, the Grazing Lands Conservation Initiative (GLCI) has been a very successful and productive educational and technical assistance program to conserve and enhance private grazing land resources. We encourage this Committee to reauthorize the GLCI to ensure that benefits continue to be realized through this program.

The NCBA also has supported proposals to assist ranchers in restoring and conserving grasslands. There currently are no federal programs that conserve grassland, ranch land, or other land with comparable high resource value, other than wetlands, on a national scale. Legislation has been introduced that creates a Grasslands Reserve Program to provide a mechanism for ensuring continuation of economic activity while conserving these high resource value lands.

For years we have been hearing concerns from our members about the continuing disappearance of our nation's grasslands. They have expressed a desire to have available to them a mechanism for conserving the grasslands, but at the same time allowing for continued economic activity. The Grasslands Reserve Program (GRP), as proposed, is a voluntary program that would allow for the purchase of term and permanent easements, but allows for continued grazing and economic activity.

The NCBA supports voluntary conservation easements, both term and permanent, because they are consistent with private property rights and can be designed to protect the availability of land for agricultural uses. Several of our state affiliates already have set up land trusts to hold easements for producers and others are in the process of doing so. Producers have recognized that voluntary conservation easements can be a valuable tool in many property owners' financial plans, which can significantly affect income taxes, property taxes and income flow.

By far, the bulk of applicants are interested in permanent easements – not only because of their estate tax ramifications but also because these producers love the land from which they earn a living. They want to preserve for future generations the object of their life-long effort. While we support permanent easements, they must not be the only option. There should also be a shorter-term option for those who cannot or do not wish to make a permanent commitment. Regardless, we believe the GRP is a proposal worthy of close consideration. It provides a mechanism for meeting the economic and conservation objectives Americans want to see in farm policy and provides financial support for ranchers and the west, who traditionally have received relatively little recognition through the past Farm Bills.

Justification for the Needed Financial and Technical Assistance

Current water quality expectations for the livestock industry will cost swine, fed cattle, dairy and poultry operators with operations of more than 50 animal units at least $12.2 billion over 10 years. The livestock industry has estimated these costs and Table One below summarizes the results. Our staff is available to meet with Committee to review these estimates in detail. Staff considered the costs associated with both structural and agronomic measures and the associated technical assistance. The analysis also includes an estimate of the costs operators will face as they seek additional land for the application of their manure. The analysis uses estimates of capital costs for such work, as used recently by USDA, current public and private programs that are carrying out such activities, and published USDA estimates of the number of livestock and poultry operations of various sizes subject to these provisions.

The upfront costs in Table One total approximately $9.8 billion, and include the costs associated with comprehensive nutrient management plan (CNMP) preparation, the financial and technical assistance costs of designing and constructing or upgrading manure management systems, and the initial costs of simply locating persons with land that are willing to accept excess manure. The on-going management costs total approximately $2.4 billion, and include the financial and technical assistance costs of ensuring that nutrients are applied according to sound agronomic and conservation practices.

In comparison, EPA has estimated the costs of its proposed CAFO regulations for operations with more than 300 animal units at $930 million a year. EPA has underestimated the true costs to these livestock and poultry operators because, by OMB scorekeeping rules, they assumed that all of these operations are already in full compliance with current federal CAFO standards and requirements. We also believe that EPA has underestimated the true costs that operations between 300 and 1000 animal units will face to ensure they are not exposed to significant Clean Water Act liability.

This analysis does not represent the full costs of meeting EPA's recently proposed CAFO regulation. It does not include the regulation's proposal for covering all swine lagoons and poultry manure, nor does it include the costs of lining lagoons and pits in areas that could leak to groundwater that are in turn connected to surface waters. It also does not include the costs of hauling excess manure for application to the additional land necessary to meet a phosphorous standard (although we have estimated the costs of finding the land that could be used for this purpose).

Table 1, 10 Year Costs, By Category and Species for operations with more than 50 animal units (in million dollars)

	Fed Cattle	Dairy Cattle	Other Cattle	Swine	Poultry	Total
Structural Measures	$346	$3,492	$1,321	$1,402	$813	$7,375
Structural Measures, Technical Assistance	$87	$873	$330	$351	$203	$1,844
CNMP Preparation	$42	$221	$142	$104	$84	$593
Ongoing Nutrient Mgmt, Soil and Manure Tests, etc.	$254	$297	S97	$306	$505	$1,459

Ongoing Nutrient Mgmt, Tech Assistance	$169	$172	$58	$184	$301	$884
Securing Additional Land for Spreading Manure	$8	$2	$0	$3	$33	$46
Total Cost	$906	$5,057	$1,948	$2,350	$1,939	$12,200

Programmatic Requirements

As stated above, delivery of the needed financial and technical assistance to livestock producers could be met through substantial amendments to EQIP, or carried out by an entirely new program. What follows are the amendments to EQIP that we believe are needed to meet our stated objectives. But many of these amendments collectively could constitute the key elements of a new program, if that were the route selected by the Committee.

1. We believe that EQIP payments should be available to all livestock producers, regardless of size, and total payments should be limited in a manner comparable to that for row crop producers under federal income support programs.
    - The current program does not make EQIP 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 larger livestock operations from structural assistance ensures 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.
    - In addition, this exclusion discriminates against livestock producers relative to their counterparts in row crop agriculture and the general wastewater treatment community. Federal farm program benefits are made available to row crop producers without reference to their size. These programs simply limit the total level of payments that row crop producers are eligible to receive.
    - Federal clean water programs have historically provided large wastewater facilities with a broad range of generous grants and support in order to help ensure that they can meet the nation's water quality objectives.
    - Livestock operations should receive treatment similar to that given to row crop operations under federal income support programs.
2. EQIP should be explicitly amended to direct the Secretary to allocate EQIP dollars to livestock producers for the purpose of helping them meet federal, state and local mandatory manure management and water and air quality protection requirements. Helping producers build, plan and operate manure management systems are of such national priority that they should eligible for funding without going through the state and local priority setting and bidding process.
3. Water and air quality protection should be made the sole purpose of EQIP. The wildlife functions should be moved to WHIP.

4. The program should provide the proper assurances that EQIP 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 will not be defined by a geographic scope. In other situations, producers in a defined geographic area like a watershed will be in need of priority attention. EQIP must be amended to ensure that it can address all of these situations.
5. EQIP should provide for contracts involving single practices or multiple practices, and contracts that range in length from 1 to 10 years as appropriate to the conservation issue that needs to be addressed. Existing law provides for 5-10 year contacts.
6. The EQIP application process must be streamlined, and coordinated with the conservation planning process to minimize administrative burden and duplication and avoid funds being diverted from producers to administrative activities.
7. CCC statutory authority currently requires that EQIP payments to a producer cannot begin until the year after a contract is signed. This provision needs to be changed to permit payments to producers in the year a contract is signed.
8. EQIP must be amended to ensure that funds will be provided for:
   - Helping producers improve and computerize their farm decision support data and record-keeping systems;
   - Helping producers plan and implement agricultural BMPs designed to improve air quality.
9. Amendments are needed to ensure that producers will be able to get the technical assistance they need to successfully participate in the program.
   - In addition to ensuring that there USDA-based technical assistance is funded, producers must be able to access and use private sector or non-federal conservation technical assistance from "certified" providers like Certified Crop Advisors, Independent Crop Consultants, conservation district professionals and other qualified persons.
   - The program should in no way impede producers who want to use their own funds to purchase "certified" planning assistance, and the funds producers use for that purpose should apply to their cost share contribution.
   - These non-federal technical assistance provisions must be addressed in detail as part of the formal EQIP rulemaking.
10. EQIP must provide the appropriate confidentiality to protect producers' EQIP records.
11. EQIP should maintain current authority to provide funding to all producers including crops, livestock, fruits and vegetables. It should continue to provide 50 percent of funding to livestock and 50 percent to crops.

Disaster Programs

The NCBA supports efforts to assist producers when Mother Nature deals a blow. This is why the NCBA supported language in the "2000 Agricultural Risk Protection Act" that directs resources to programs for pasture, range and forage losses. NCBA will continue to work with the Risk Management Agency and its contractors to develop programs and policies that work for cattle producers. NCBA supports making the Livestock Assistance Program a regular program with $250 million in funding available when producers need the assistance. One priority for

NCBA is to prevent unintended consequences of any of these programs. We will work to ensure that there are proper incentives for land stewardship and animal well being.

Agricultural Research, Surveillance, Monitoring and Foreign Animal Disease
The Committee is well aware of current issues facing the beef and livestock industries. Bovine Spongiform Encepalopathy (BSE) and Foot and Mouth Disease (FMD) have been on the minds of beef producers and on the televisions and in the magazines of American consumers. In the middle of this onslaught though there are some interesting statistics. A consumer survey conducted on behalf of the beef industry indicates that consumer confidence in beef's safety has actually increased despite the fact that 81% of consumers have heard of BSE since the fourth quarter of 2000. The NCBA believes that consumer confidence in our beef system is not an accident. It is the result of industry and government efforts to insist on science-based measures and decisions to keep our industry free from disease and our consumers confident in the wholesomeness of our product.

The US must set the world standard for our research, inspection, surveillance and food safety monitoring system to instill confidence in our customers, both domestically and abroad. The NCBA calls upon Congress to commit to doubling funding for agricultural research to $2.4 billion annually over the next 5 years. This funding would include construction of a National Animal Disease Center at Ames, Iowa at a cost of $350 million. This facility could help provide important diagnostic, monitoring, and surveillance for diseases that could infect the national livestock herd. The cost of this facility may seem high, but it would provide long-term benefits for agriculture, particularly in light of the Foreign Animal Diseases that exist around the world. Given the amount of money that was expended in direct payments to agriculture in FY 2000, this facility could have been built 75 times over.

Conclusion
Mr. Chairman, many of the areas in which NCBA has significant interest are beyond the scope of today's hearing. We have included these in an Appendix to this testimony. NCBA policy is directed toward minimizing direct government involvement in agriculture. To that end, NCBA will oppose any policy that favors one producer or commodity over another. Farm policy that guarantees a profit or restricts the operation of the marketplace should be discouraged. NCBA does not support policy that sets prices, underwrites inefficient production or manipulates domestic supply and demand.

Mr. Chairman, I would like to also submit for the record a copy of a letter from NCBA President Lynn Cornwell to American Agriculture. I would like to highlight one sentence from the letter. "It is time for all of us to step outside the traditional thought process and develop a comprehensive package that assures sustainability and competitiveness of US agriculture during the 21st century." Thank you again and I look forward to continuing this dialogue as the process unfolds. I would be happy to answer any questions.

APPENDIX

Taxes
NCBA supports complete repeal of the Death Tax and sunset provisions included in the legislation recently signed into law. NCBA also supports a reduction in Capital Gains Tax, improvement of income management tools such as the Farm and Ranch Risk Management Account, repeal of the Alternative Minimum Tax, and the full 100% deductibility of health insurance premiums for the self-employed. NCBA will work with Congress, the Administration, and our coalition partners to make these significant changes to the US Tax Code.

International Trade
NCBA has been and continues to be a strong believer in international trade. We support aggressive negotiating positions to open markets and to remove unfair trade barriers to our products. We support the Market Access Program that helps expand opportunities for US beef and urge $200 million in MAP funding to augment long-term market development efforts for US agricultural products. Congress should approve Trade Promotion Authority for the President.

We also support Congressional and regulatory action to address unfair international trade barriers that hinder the export of US beef. We encourage the Committee's continued strong and vigilant oversight of the enforcement of any trade pact to which American agriculture is a party. Accordingly, we appreciate and commend Chairman Combest and Ranking Member Stenholm for their efforts in the passage of Carousel Retaliation. We ask the Committee to urge the administration to implement Carousel Retaliation to deal with current European non-compliance. Related to the European beef ban and the Carousel Retaliation issue, the NCBA supports the "Trade Injury Compensation Act" that would allow any funds collected from the implementation of retaliatory duties to be used by the beef industry for consumer education and market development in the international marketplace.

Competition
NCBA also supports the critical role of government in ensuring a competitive market through strong oversight. This includes the role of taking the necessary enforcement actions when situations involve illegal activities such as collusion, antitrust, and price-fixing. However, government intervention must not inhibit producers' ability to take advantage of new marketing opportunities and strategies geared toward capturing a larger share of consumers' spending for food. In short, the government's role should be to ensure that private enterprise in marketing and risk management determines a producer's sustainability and survival.

Country-Of-Origin Labeling
The NCBA supports legislative and regulatory action that would rescind the use of USDA quality grades on imported beef carcasses and on cattle imported for immediate slaughter. We appreciate the efforts of many Members of this Committee for keeping pressure on USDA to bring this issue to a resolution. The NCBA supports mandatory country-of-origin labeling for all imported beef. USDA estimated that the cost of this program would be $30 million.

We have submitted to the USDA a proposal for a voluntary certification program that would allow a "Beef: Made in the USA" label on beef. We continue to work with USDA and our industry partners for swift implementation of this proposal.

Interstate Shipment of State-Inspected Meat
NCBA supports legislation that would allow meat inspected by state departments of agriculture to be shipped across state lines. This would create additional competition in the packing sector and create marketing opportunities for family-owned packing companies that are currently limited to simply marketing in state. Working with the industry, NCBA made significant progress on this issue in the 106th Congress. We will continue to negotiate and seek consensus legislation that will make interstate shipment of state-inspected meat a reality.

Dealer Trust
The NCBA supports the creation of a "Dealer Trust" to protect the financial stability of cattle producers when the buyers who purchase livestock file bankruptcy. This legislation would create a trust to provide payment to the sellers of cattle if the buyer becomes unable to pay due to bankruptcy or other impediment to payment.

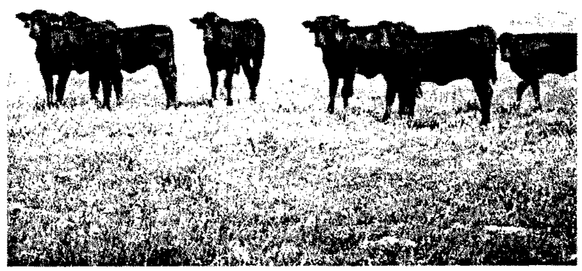
Property Rights
The NCBA will continue to work with Congress to pass legislation that requires federal agencies to prepare a takings impact assessments on private property prior to taking action. This legislation should provide relief and compensation to landowners for property that has been taken for a public purpose.

Testimony of the Ranchers-Cattlemen Action Legal Fund,
United Stockgrowers of America
(R-CALF USA)*

To the Senate Agriculture Committee
Hearing on Livestock Issues for the New Farm Bill

Presented by Dennis McDonald,
Open Spear Ranch,
Melville, Montana

July 24, 2001



(Calves on the Open Spear Ranch, Week of July 16, 2001)

Mr. Chairman, I would like to begin by thanking you for inviting me to speak here today on behalf of the Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF USA). My name is Dennis McDonald, and I am a cow-calf operator and the owner of the Open Spear Ranch near Melville, Montana. I have been an active member of R-CALF USA since its inception in 1998, and I currently serve as chairman of its international trade committee.

* R-CALF USA, P.O. Box 30715, Billings, Montana 59107. Telephone: (406) 322-4169. Facsimile: (406) 252-3176. E-mail: rcalf@wtp.net.

R-CALF USA is a national cattlemen and cattlewomen's organization representing the live cattle industry on trade and marketing issues. R-CALF USA focuses upon issues of interest to cow-calf operators, backgrounders, and local feedlot operators. R-CALF USA is the fastest growing cattle organization in the United States with members in over 38 states.

I. Cattle Chapter Within the Farm Bill

The United States cattle industry is significant to the overall U.S. economy. It is the single largest sector in agriculture with approximately 1 million cattle producers in all 50 states. These producers generate approximately $30 billion annually for our national economy. Cattle producers contribute significantly to our rural communities and represent a cultural foundation that provides the fabric of the American way of life.

The viability of this important industry is threatened. As members of the Committee are likely aware, the cattle industry is characterized by cyclical, and often volatile, price patterns. In recent years, the troughs in pricing for live cattle have gotten deeper and lasted longer while price recovery has occurred for shorter periods of time. Cattle producers and rural communities have experienced reduced leverage in the market due to the limited number of purchasers. If the current situation is not addressed, the viability of the cattle industry in the United States will be even further threatened.

R-CALF USA is convinced that a cattle chapter to the Farm Bill could help restore greater equilibrium to pricing, and thus help the U.S. market for live cattle operate as an actual market.

R-CALF USA is aware of legislation supported by both parties that addresses some of the issues that R-CALF USA proposes for the Farm Bill, and R-CALF USA encourages the Committee to include the language from some of these bills within a cattle chapter.

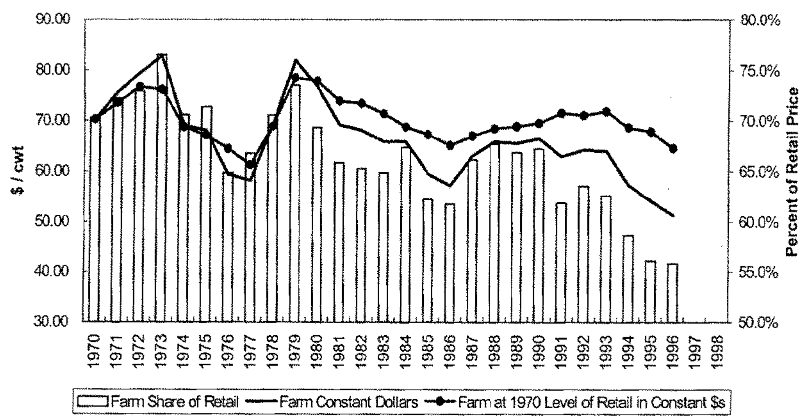
II. Fairer Share of Retail Dollar

In restoring equilibrium to cattle prices, R-CALF USA believes that the Farm Bill should focus upon helping ensure that cattlemen and cattlewomen will receive a fairer share of the retail dollar obtained from the cattle they produce.

The producer's share of the beef retail dollar has fallen from some 70 percent in the 1970s to below 50 percent in 1996, while the nominal farm-to-retail price spread has widened from 40 cents per pound to over $1.40 per pound.[1] In a word, cattle producers over the past three decades have received an ever-shrinking share of the retail dollar that consumers pay for beef. The following chart shows the changes in the farm share of the retail dollar for beef, the price the rancher has received for cattle, and the price the

[1] See Hahn, W., et al., U.S. Beef Industry: Cattle Cycles, Price Spreads and Packer Concentration (ERS Report) Technical Bulletin No. 1874 (April 1999) at 18.

Live Cattle - Farm Price vs. Retail Price
In Constant Dollars (1970)



rancher would have received had the farm retail share remained at 1970 levels. Prices in the chart are in constant 1970 dollars.

In terms of retail dollars, if a rancher in 1997 received the same percentage of the retail dollar for beef as was the case in 1970, he would be getting nearly $50 more per hundredweight. This phenomenon accounts for a substantial portion of the depressed prices received in the last decade and for a major part of the price/cost squeeze experienced.

R-CALF USA is convinced that the Farm Bill will help U.S producers obtain a fairer share of the retail dollar if it contains provisions addressing the following issues: unfair contract practices, enforcement of the antitrust laws, transparency in the market, country of origin labeling, the interstate shipment of state-inspected beef, research and development and value-added programs, rural economic development, incentives for improving the environment, and factors in the international market that operate to the disadvantage of U.S. producers.

III. Elimination of Unfair Contract Practices

R-CALF USA believes that provisions within the Farm Bill addressing contract practices could help ensure that producers will be able to obtain a greater share of the retail dollar. The Farm Bill should eliminate forms of contracts that distort market forces. For example, a cattle chapter should require that contracts for the sale of cattle be on a fixed-price basis. Ledger contracts, which allow buyers to loan producers operating expenses at considerable risk to producers, should be prohibited. The capricious termination of contracts as a form of retribution should not be permitted. Furthermore, the Farm Bill should prohibit packers from owning livestock more than fourteen days prior to slaughter with the exception of plants that process less than 100 head per day.

IV. Better Enforcement of Antitrust Laws

Better enforcement of the antitrust laws would help U.S. cattle producers gain more of the retail dollar. R-CALF USA requests that the Farm Bill provide for increased resources for the enforcement of laws that have already been enacted for the benefit of cattlemen and cattlewomen. Specifically, R-CALF USA asks for increased funding for the enforcement of the Packers and Stockyards Act (PSA). In addition, R-CALF USA requests that the Farm Bill provide for a review of penalties for violations of the PSA. Mr. Chairman, R-CALF USA appreciates your introduction of S. 282, which would establish in the Antitrust Division of the Department of Justice a position with responsibility for agricultural antitrust matters, and R-CALF USA strongly supports this legislation. R-CALF USA would also like to thank Ranking Member Richard Lugar for his cosponsorship of this bill.

V. Need for Increased Transparency

R-CALF USA believes that increased transparency in the cattle market will help U.S. producers gain a fairer share of the retail dollar. In drafting a cattle chapter, R-CALF USA asks that members of the Committee concentrate on developing mechanisms that will achieve greater transparency.

R-CALF USA was a strong advocate of the livestock mandatory reporting legislation that was passed during the last Congress, and R-CALF USA has been extremely concerned with the non-reporting that has characterized data released publicly to date. Nothing in the statute authorizes the elimination of information on a national or even a larger regional basis. USDA has the authority at the present time to provide complete national information. This lack of market information discourages competitive bidding.

R-CALF USA is hopeful that USDA's recently proposed reforms for the implementation of this law, through a change to the 3/60 Rule, will result in the effective operation of the Livestock Mandatory Reporting Act. Although R-CALF USA appreciates USDA's efforts to improve implementation of the mandatory reporting law, R-CALF USA notes that it supports the elimination of the 3/60 Rule. R-CALF USA encourages members of the Committee to continue monitoring the mandatory livestock reporting situation.

VI. Country of Origin Labeling

R-CALF USA believes that U.S. producers will invariably benefit when consumers can distinguish high quality U.S. products from those produced in other countries. For this reason, R-CALF USA is a strong advocate of country of origin labeling for beef. Most other major beef-producing and beef-consuming countries already have such laws on their books, and R-CALF USA does not understand why U.S. producers and consumers should not benefit from labeling laws. R-CALF USA advocates the adoption of a country of origin provision in the Farm Bill that would provide that U.S.-labeled beef would be beef from animals exclusively born, raised, and slaughtered in the United States.

Consistent with our position on country of origin labeling, R-CALF USA supports the restriction on the use of USDA's grade stamp to only meat that was born, raised, and slaughtered in the United States.

VII. Interstate Shipment of State-Inspected Beef

R-CALF USA is concerned with current U.S. laws which prohibit the interstate shipment of beef from state-inspected packing plants. At the present time, beef processed through slaughter facilities cannot be sent across state lines unless federal inspection occurs. These laws penalize smaller packing plants, which are less likely to undergo federal inspection than major facilities. Ironically, through equivalency agreements between the United States and other countries, some beef inspected by foreign governments can be shipped into the United States, and between states, although not undergoing inspection by the USDA. The prohibition on the interstate shipment of state-inspected meat is nonsensical, and R-CALF USA encourages the Senate Committee on Agriculture to include language ending this prohibition in a cattle chapter to the Farm Bill.

VIII. Support of R&D and Value-Added Programs

A cattle chapter should provide for research and development programs on expanded uses of cattle and cattle products, such as higher quality and lower-fat products. A cattle chapter should put into place assistance programs for producer cooperatives and grower-owned value-added enterprises, including the introduction of microslaughter facilities similar to what has been used in New Zealand to give producers greater opportunities to provide a differentiated product to consumers and introduce alternative outlets for live cattle. Specifically, R-CALF USA asks for the establishment of a $150 - $200 million experimental fund to promote value-added programs. Successful program recipients should be required to disclose all facets of their business enterprise for a suggested period of two years, thus enabling replication by other interested parties.

Funding to promote microslaughter facilities would address the thinning out of processing operations that has occurred throughout the country, which has led to increased concentration in the market.

IX. Support for Economic Development for Rural Communities

The decline of rural America overall has significantly impaired U.S. cattle producers. For example, local repair service industries are disappearing from rural communities. The infrastructure of rural communities is collapsing.

Likewise, problems in the cattle sector have of course harmed rural communities.

In addition to restoring rational pricing in the cattle sector, R-CALF USA advocates the inclusion within the Farm Bill of programs that will restore the health of America's rural communities. For example, the Farm Bill should provide support for business development incentive programs for rural communities. Furthermore, loan programs should be established that could be used to address the needs of local communities.

Programs to revitalize rural America would do much to improve the state of the cattle sector.

X. Incentives, Not Punishments, For Improving the Environment

America's farmers and ranchers are the country's primary stewards of the land. It is essential that the Farm Bill provide mechanisms that will reward agricultural producers for taking measures to improve or enhance the environment. Such mechanisms could include payments, or other incentives, for production and equity losses associated with conservation-enhancing measures. Likewise, producers should not be penalized for maintaining their properties in ways that protect the environment, *e.g.*, penalized for the presence of endangered species on their lands.

XI. Leveling the Playing Field in the International Market

The international market for live cattle has contributed to the declining share of the retail dollar received by U.S. cattle producers. The United States is the most open major market in the world for imports of cattle and beef; at the same time, too many foreign markets remain closed, or significantly restricted, to exports of U.S. beef and cattle. In addition, producers abroad often operate under very different market conditions, *e.g.*, receive export subsidies for cattle and beef. Lack of parity in market access between the United States and other markets, as well as other factors such as subsidies, exacerbate the depth and length of low prices in the U.S. cattle cycle.

The Farm Bill should note that the goal of the United States in international trade negotiations should be to achieve parity in market access. U.S. cattle producers should not be deprived of the current limited U.S. market protections until parity exists for U.S. products in the international market. R-CALF USA advocates the elimination of export subsidies. R-CALF USA also strongly urges that market distortions for key inputs, such as feed grains, caused by the Canadian Wheat Board and other state trading enterprises be eliminated. R-CALF USA asks that live cattle and beef be considered as "perishable products" in trade negotiations. The bill should encourage the international harmonization of standards for common inputs used in the production of cattle, such as veterinary medicines. Furthermore, U.S. sanitary standards should be vigorously enforced to protect the United States from problems found abroad, such as bovine spongiform encephalitis (BSE) and foot and mouth disease (FMD). Overall, the Farm Bill should take steps to ensure that international competition rules concerning the trade of live cattle and beef are rules-based and are non-distortive.

XII. Conclusion

By helping U.S. producers capture a greater share of the retail dollar, the implementation of these proposals will assist cattle producers in meeting market challenges and will help them thrive as well as survive. Not only is the issue the survival of an industry, but also of a way of life: a culture and heritage that serves to form the moral fiber of our country. The well being of our rural communities is inextricably tied to a thriving cattle industry. A cattle chapter to the Farm Bill will help American producers adapt and continue to provide the best beef in the world while at the same time participating in the preservation and restoration of rural America.

American Lamb Council

American Sheep Industry Association, Inc.

American Wool Council

www.sheepusa.org

Statement of Frank Moore
Vice-President
American Sheep Industry Association (ASI)
before the
Committee on Agriculture, Nutrition, and Forestry
United State Senate
Washington, D.C.
July 24, 2001

On behalf of the nation's sheep and goat producers, I want to personally thank the Committee for holding these important hearings. I appreciate the opportunity you have provided to discuss the U.S. industry's recommended program for the upcoming Farm Bill.

As you are well aware, due to the Committee's active support of recent emergency measures to assist our industry, these are very trying times in our business.

While presenting for the record the economic situation facing America's sheep and goat industries, we are also providing the Committee with specific recommendations of a program that will assist American farmers and ranchers.

As much of agriculture today is in a very serious economic situation, so is the nation's sheep industry. The wool market worldwide is severely depressed with the average price of U.S. wool falling from 38 cents per pound in 1999 to 33 cents in 2000, the lowest price in 30 years; the lowest since 1971 without adjustment for inflation. The majority of wool prices available do not even cover the cost of shearing the sheep, much less the transportation and testing expenses. In fact, thousands of producers have been storing one to three years of wool production due to depressed prices. A large portion of the wool in storage in the U.S. has moved back into the market place during the past year due to the need for revenue for the sheep operations and we believe also due to the emergency payments for the 1999 wool clip. A portion of the wool production particularly in the midwest was simply discarded or given away as the market price was less than transportation costs to a warehouse or wool pool location in order to sell the product. This is an extremely frustrating situation for those producers.

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Wool has historically represented 5 to 20 percent of U.S. sheep operation revenue depending on quality and volume of the clip, but when wool becomes an expense versus income, it affects the entire operation. Loss of five percent of income often means the difference between profit and loss for farms and ranches.

The wool market depression is readily apparent in all wool producing countries. Excess production in countries such as Australia with an enormous stockpile of wool which depressed the market throughout the 1990's, and increased competition from chemical fibers in textile production have been two key factors. A third factor for American wool prices has been the strength of the U.S. dollar. Three factors, American growers have no control over.

Likewise, the mohair industry has experienced stagnant market conditions during the last 6 years. While sheep operations expect 20 percent or less of the operating revenue to be derived from the sale of wool, mohair producers on average generate 75% of their gross income from the sale of the mohair fiber. Unlike sheep, Angora goats are primarily fiber producers, and a much smaller percentage of the gross revenue is generated from the sale of live animals for meat consumption. Thus, the impact of the depressed market prices for mohair during the last 6 years has caused mohair production to decline from 13 million lbs. in 1995 to a projected 2.75 million lbs. for calendar year 2001.

Although the "average" market price for mohair during the specified period has been below cost of production, the mohair market during the last 18 months has seen an increase in market price for the finer grades of over 300%. This has resulted in approximately 40% of the clip selling at modest profits while the remainder of the clip remains unsold and in storage. Some producers have chosen to sell their clip for prices well below the cost of production. Thus, 60% of the total clip is still being marketed at below the cost of production. The higher prices have reduced the decline in mohair production throughout the US. Historical trends have shown that as finer mohair escalates in price, the coarser grades begin to sell at a premium in due time. Thus, producers are hopeful that the upward trend in market prices will eventually result in a market price for adult that will surpass cost of production.

This market crisis underscores the importance of the emergency market loss assistance provided for the 1999 and 2000 production. While the recommendations we present today are specific for the next farm bill, market loss assistance for 2001 is also strongly supported.

There is tremendous support in the industry for inclusion of a permanent support program for agriculture. This will be debated and ultimately implemented by Congress in the next farm bill. We believe that workable opportunities exist in the form of a marketing loan program, tied to world wool and mohair prices to add a much-needed measure of stability and income during world market depressions. Without a doubt, our agriculture lenders will be easier to work with if there is a modest safety net for these crisis periods.

<u>The European Union provides approximately $2 billion annually in government price support and subsidies to their sheep producers.</u> The European Union maintains permanent quotas on lamb imports to their member countries. Sheep inventories in Europe have not experienced the severe decline in numbers that we have in the U.S. If we cannot change the sheep support programs of Europe and level the playing field then we absolutely must consider providing some form of safety net programs for U.S. producers.

<u>The industry recommended wool marketing loan and loan deficiency payment program is as follows:</u>

- The loan rate is set at $1.20 per pound average with a schedule of premiums and discounts to adjust for value differences. This rate would mirror the benefit of the 40-cent per pound, emergency market loss payments for the 2000 crop and the approximate costs of production as compared to the loan rate for cotton.

- Repayment is based on lower of world price or principle and interest.

- The Agricultural and Food Policy Center estimates an annual cost of $19 million as the projected cost for wool. The projected cost for wool and mohair combined is $22 million annually.

- The marketing loan is non-recourse. Any storage costs are the responsibility of the producer.

- A basic minimum loan rate provision provides an avenue for all producers to participate without inefficient testing of off-sort wool or small lots, which is particularly important to the farm flock sector. A sales receipt for the current year's wool would be submitted with the application form to receive the deficiency payment of the difference between a basic rate of possibly 40 cents and the sale price on a greasy basis. (Greasy wool is raw wool as sheared from the animal). We believe this is an important component to ensure delivery to all producers across the nation.

While participation rate at this level is not the majority of production, the number of farms to participate is a considerable share of U.S. sheep operations. A wool pelt credit provision would be included to ensure appropriate benefit for wool sold on the lamb pelt at the minimum basic loan rate for non-tested wool.

- Existing payment limitation provisions for marketing loans and loan deficiency payments would be applicable to the wool and mohair program.

- The industry has a committee of wool experts from across the United States developing a further detailed schedule of premiums and discounts for recommended use. A schedule, as demonstrated in the enclosed examples, is absolutely workable for the wool and mohair industries.

- Modest safety net at a modest expense.

The program and repayment rate is tied to world wool market prices, which provides a key element of market orientation to the industry. Overall expectations of the wool market are for strengthening of fine wool prices as sheep inventories worldwide decline and the demand for wool products improve.

We have positive indicators of a stronger wool market in the future particularly in monitoring the Australian wool market indicator this season. Improvement is not an overnight event obviously, as the Australian stockpile is still in existence but dwindling and the overall economy for apparel consumption could decrease.

The market-oriented provisions of this recommended program lend itself to further strength of U.S. production for our domestic and the international market. Enhanced product testing and description under this program will improve our ability to market overseas; it improves the product description in order to interest more buyers of U.S. product, whether domestic or international textile companies. Loan values are tied to the world price indicators to avoid market disruptions but must move into the marketplace eventually due to the recourse provision. The loan provision provides an essential risk management function which is available no where else in the sheep industry for any of our production.

- Mohair would work the same as the wool program with the loan rate being set at a different rate. The loan rate recommended by Dr. David Anderson of the Texas A&M Agricultural and Food Policy Center recommends a $5.25 lb. loan rate. While the mohair industry feels Dr. Anderson is correct in his analysis of an average before premiums and discounts, the industry recommends an average loan rate of $4.20 lb. be considered. Enclosed within your package you will find a schedule organized by industry experts offering a recommendation of seven separate grades to ensure equitable rates are established for categorized grades.

In today's strengthening market the program would only pay a deficiency payment on three of the seven recommended grades within the schedule at today's market price. With limited mohair production worldwide and the demand strengthening for finer natural fibers, the expectations are for strengthening mohair market conditions in the future. Added to increasing market opportunities created through industry efforts, the average market prices look favorable going forward. However, the industry's rapid decline during the past 6 years necessitates a safety net to provide stability within the industry and allow time for the markets to return to profitability. The estimated cost of the mohair program within today's market conditions would result in the total cost of the program being approximately $2.75 million annually.

The mohair industry has seen a reduction in total production of 74% since 1995, due to unstable market conditions with extreme volatility and severe drought in the region that produces over 90% of the mohair nationwide. Producers have either reduced their herd sizes or liquidated entirely to compensate for the adverse conditions. Industry experts feel confident that a modest cost-effective safety net to protect against volatile world market prices and the exchange rate problems would help stabilize the industry. All agree production volume would level off at current levels and the industry would have the security necessary to encourage growth and achieve success from its product and market developments aimed at re-building and re-vitalizing the industry.

The American Sheep Industry Association is committed to helping industry adapt to the changes in the wool market. This year we are working to advance our marketing channels, better describe wools so they can be sold electronically and will aggressively seek to replace our lost U.S. apparel and textile industries as users of U.S. wool. We are optimistic that these production and marketing programs will enhance the United States wool producer's position and price relationship to other wool producing countries. We have successfully moved during the 1990's to the international wool markets growing from 7 percent of U.S. production going overseas to 30 percent today.

The mohair industry has worked diligently during the last five years to develop and create new products and markets that will increase competition and ultimately increase the price of mohair. The primary emphasis has been directed toward adult mohair where the weakest market conditions exist. Nevertheless, time is needed to allow these efforts opportunity to generate results, which the industry feels will result in better market prices for the producer. The US, along with South Africa, produce over 90% of the world's production of mohair. Thus, the US industry faces a barrier in remaining profitable with our largest competitor due to the obvious differences in cost of production. As a result the industry has focused on developing niche products aimed at US consumers that are market friendly and reward a modest market.

We understand the changes in the U.S. textile industry will mean additional changes for U.S. wool producers and we intend to meet the challenge however, I firmly believe the marketing loan and loan deficiency payment will provide a measure of stability to allow producers to do their part.

Dr. David Anderson of the Texas A&M Agricultural and Food Policy Center has worked with the industry for more than six months to provide the in-depth analysis of the marketing loan/loan deficiency payment program for wool and mohair. The modest cost estimate of this program does not reduce however, the importance of this price support for America's sheep and goat producing farms and ranches, which is very critical to their financial stability.

Mr. Chairman, my message to you and the members of the committee is that a workable safety net is needed for agriculture producers and that the sheep and goat industry must be included in that policy. Our industry is proof of what happens to an entire business when a national safety net is totally eliminated. With the elimination of the industry support, there were no price supports whatsoever for the 1995 through 1998 clips. I operated my business without any price support for four years and survived, but I can tell you the situation is tough. Over 25 percent of the U.S. sheep farms and ranches have gone out of business in this decade. Mohair production is down 74% since 1995.

We have lost industry infrastructure from trucking companies, to shearing crews, to lamb processing companies, wool warehouses and wool textile companies. We depend on these segments of our industry to produce and market our wool production. As they leave the business, it brings additional economic hardship to our family farms and ranches. The recommended program as a permanent provision will assist not only producers, but, these affiliated segments of the lamb and wool business from shearing companies to textile mills. Each of which producers depend on and in turn they depend on our production for their livelihood. Stability of the industry with the help of the program allows further investment by each affiliated business and an overall strengthening of the sheep industry.

Mr. Chairman and members of the Committee, I assure you that only the best and toughest sheep farmers and ranchers are left today. We are committed to investing in our industry, and are utilizing or investigating every tool we can find including cooperatives, processing ventures, quality improvement programs, and marketing and promotion support.

The industry has had a proposal before the U.S. Department of Agriculture for over a year. We are hopeful, that Secretary Veneman will soon publish the proposed order for industry funded marketing and are grateful for your support in this regard. We are committed to change as demonstrated by the industry adjustment plan approved by the sheep industry. However, our efforts depend on sufficient revenue from lamb and wool sales to make needed investments. I fear that continued losses in the wool market will impede our ability to make investments.

As the Committee builds the Farm legislation with the specifics provided by industry today in crafting the agriculture programs of the future, I commit our full assistance to you in this important undertaking.

Given the discussions in the U.S. House of Representatives this month regarding agriculture policies and support programs, I want to mention that neither the market loss assistance payments nor this recommended marketing loan can be compared to the old national wool act. The recommended marketing loan program in fact mirrors the existing programs of the other commodities.

As we finish the 2001 wool season it is evident that emergency assistance is extremely important for this year given the record low prices, the lowest since 1971. We sincerely appreciate the effort and leadership you have provided in both consideration of emergency assistance for this year's production and the long-term goal of a permanent safety net for wool and mohair producers.

The American Sheep Industry Association policy agrees with the other livestock organizations regarding support for the Conservation title. Specifically, the increase in EQIP funding and targeting for livestock operations is an important priority.

As an additional livestock issue of interest to the committee, as much as the American Sheep Industry Association supports the Mandatory Price Reporting system for lamb we have not received adequate lamb market information since April 1, 2001. We are encouraged however with USDA's commitment to provide a weekly national carcass report, daily central U.S. carcass report and boxed lamb report this week. The department believes that the 3/70/20 provision will provide the mechanism to publish reports from the data received from the industry. Without a doubt, the lack of market information the past three months has wrought chaos throughout the industry and we anxiously look forward to corrections in the price reporting system in as quick as manner as possible.

Again Mr. Chairman I thank you and the committee for conducting these hearings and giving producers the opportunity not only to tell you of the severe economic conditions, but as importantly the chance to provide specifics to address the problem. I appreciate this opportunity and the committee's continued support of American sheep and goat industries and am pleased to answer any questions.

EVALUATING A MARKETING LOAN PROGRAM FOR WOOL AND MOHAIR

AFPC Briefing Series 2001-1

David P. Andersón
James W. Richardson
Edward G. Smith

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Department of Agricultural Economics
Texas Agricultural Experiment Station
Texas Agricultural Extension Service
Texas A&M University
February 2001

Evaluating a Marketing Loan Program for Wool and Mohair

The wool and mohair industries have been in a period of radical transition over the last few years. A number of issues have adversely impacted wool and mohair producers. These include loss of milling infrastructure, world economic events that have severely damaged mohair export markets, increasing imports of lamb, and severe drought.

This analysis builds on an econometric model of the sheep and angora goat industries. The models estimate and project supply, demand, and price. Projections are made over the 2001-2005 period. Simulation modeling techniques are used to develop probabilities of outcomes. That allows for the development of average government costs and probabilities of costs in each year. Loan rates are developed using cotton as the model. The current cotton base loan rate of $0.519 per pound is evaluated relative to estimates of cotton variable costs of production. That relative level of support is maintained relative to costs of production for wool and mohair. Because wool and mohair have another product (meat), typical returns for meat are subtracted out of costs to develop a wool and mohair production cost.

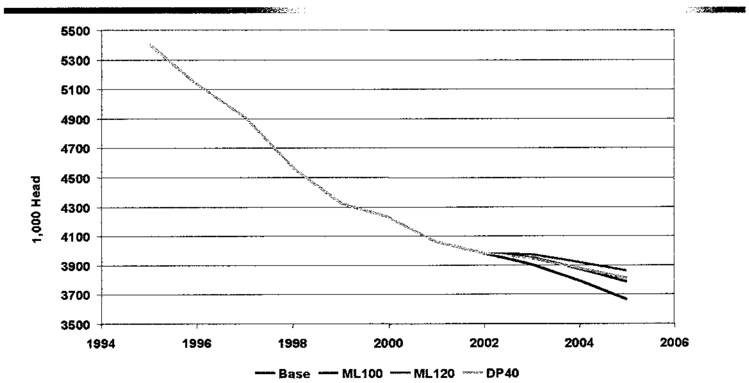
Two potential loan rates, $1.00 and $1.20 per pound grease for wool and two loan rates for mohair of $5.25 and $4.20 per pound are evaluated. These loan rates are base loan rates from which quality premiums and discounts can be taken. The wide disparity in mohair loan rates is due to a wide difference in receipts for goats sold for meat. Working with industry participants, a potential schedule of premiums and discounts has been developed and is presented in this paper. That schedule shows that it is possible to develop premiums and discounts from market information. Some fine trimming to this example would be necessary.

Results

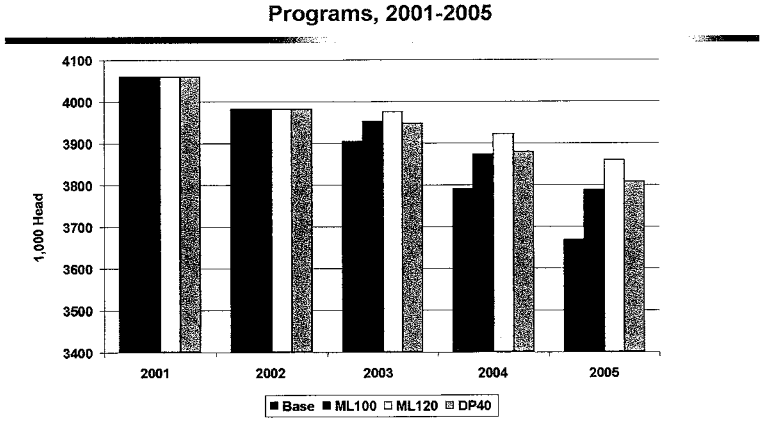
The baseline results indicate that stock ewe numbers decline to about 3.6 million head by 2005. Slaughter lamb prices remain relatively stable in the $78 to $80 per cwt. range. National average wool prices rise from about $0.60 cents per pound grease to about $0.80 per pound grease by 2003 and remain there throughout the period. Government costs under the $1.20 per pound loan rate average about $19 million dollars per year. Costs under the $1.00 per pound loan rate average about $10 million dollars per year. Government costs decline through the period as wool prices recovers.

Under the baseline, angora goats shorn stabilize decline to 334,000 head then increase to 440,000 head by 2005. Loan deficiency payments under the $4.20 and $5.25 loan rates for mohair average about $1.4 and $3.7 million per year, respectively. The premium and discount schedule around the loan rate indicates that most payments are made on the coarser adult hair which supports the breeding infrastructure base of the industry. Fine quality kid hair receives fewer payments, as it is more reliant on market prices.

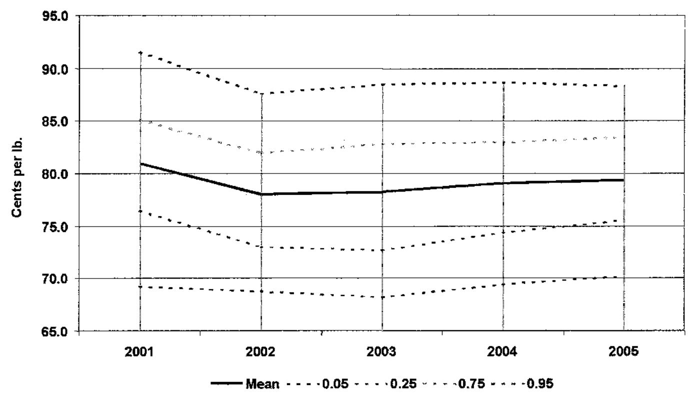
Stock Ewe Number, 1995-2005



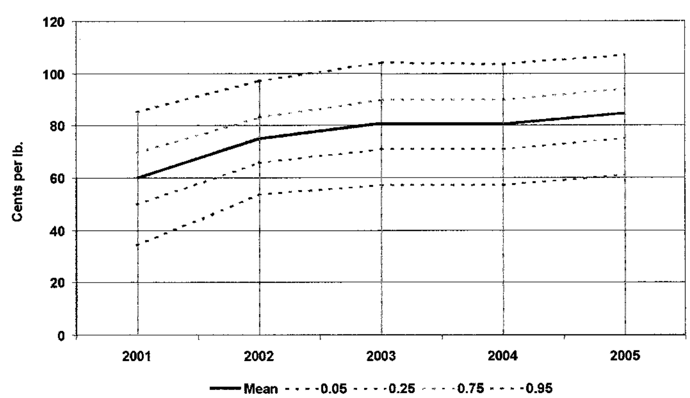
Average Annual No. Stock Ewes for Alternative Programs, 2001-2005



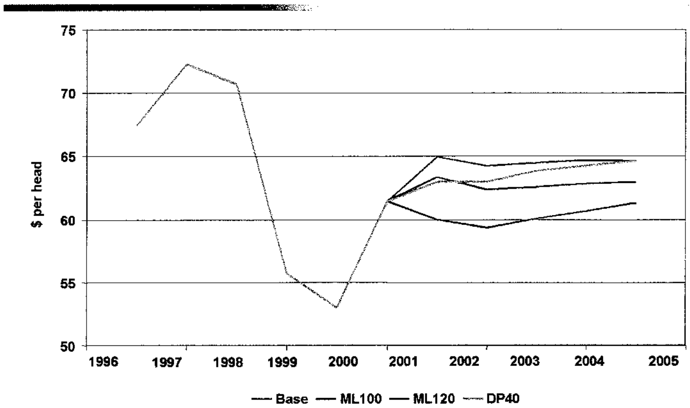
Risk Exposure for Lamb Price, 2001-2005



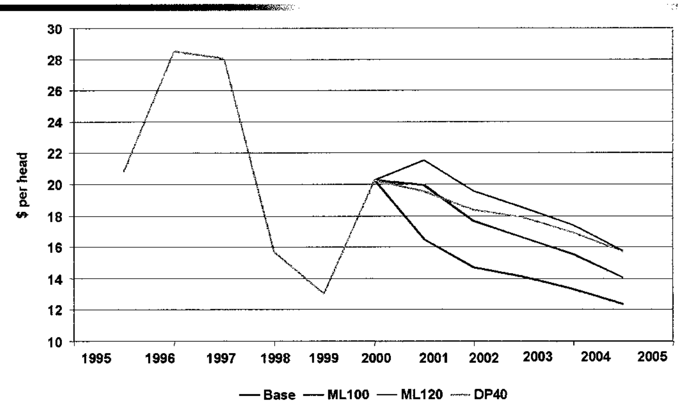
Risk Exposure for Wool Prices, 2001-2005



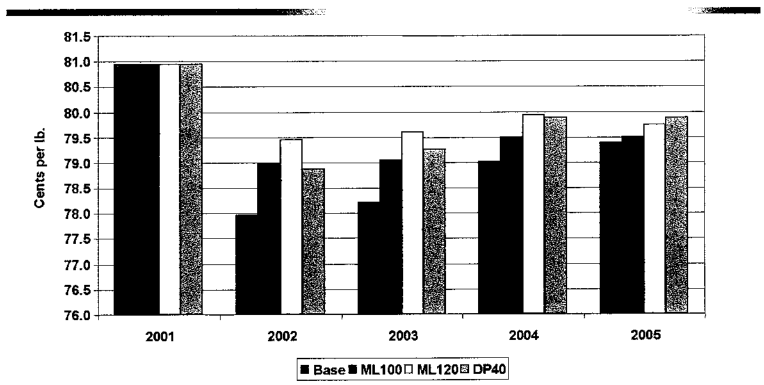
Total Returns per Ewe, 1995-2005 ($/ head)



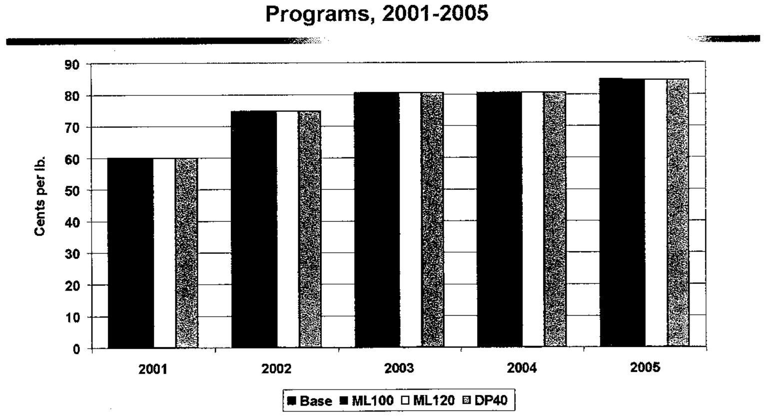
Net Returns per Ewe, 1995-2005



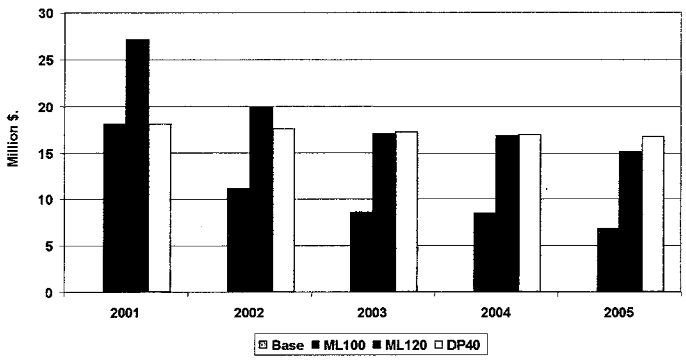
Average Annual Lamb Prices for Alternative Programs, 2001-2005



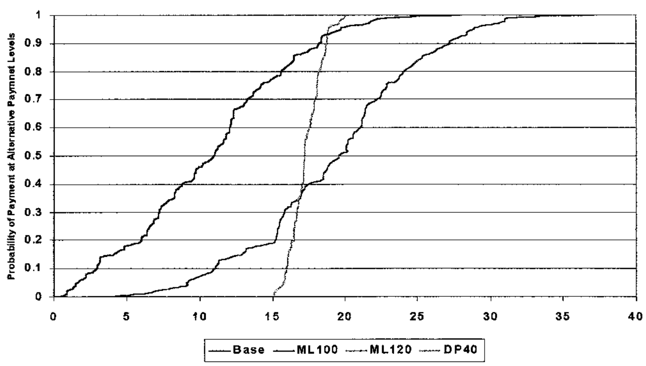
Average Annual Wool Price for Alternative Programs, 2001-2005



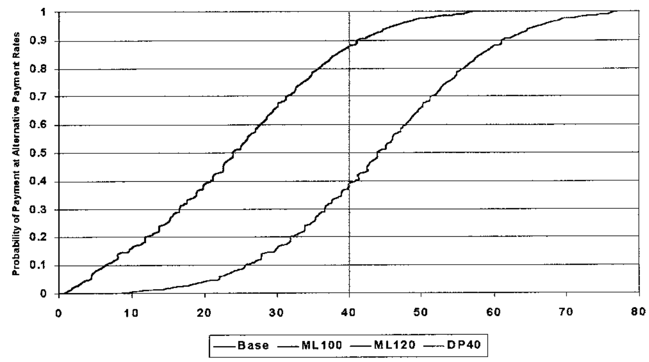
Average Annual Government Payments, 2001-2005



Average Annual Government Payments to Wool for Alternative Programs (Mil. $)

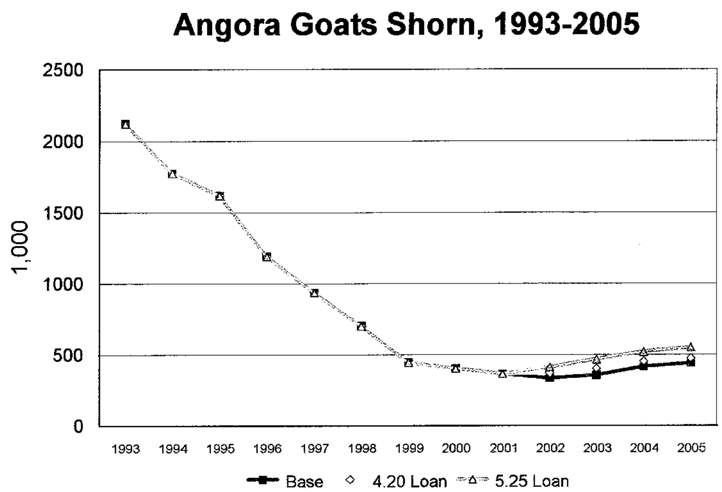


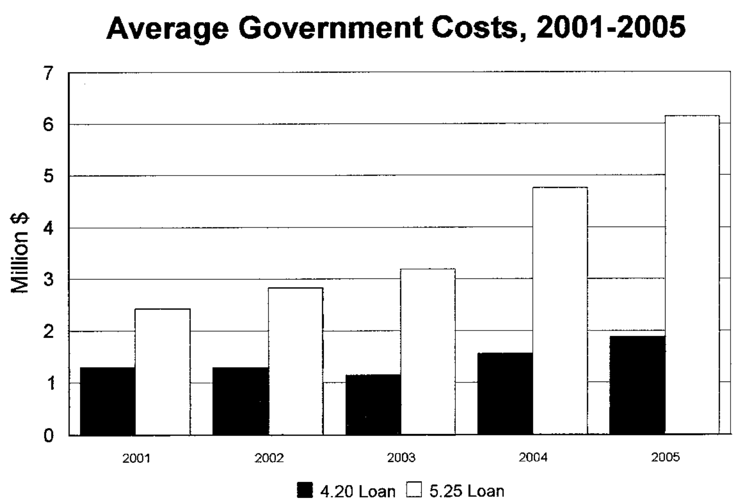
Average Annual Government Payment to Wool
for Alternative Programs (Cents/Lb.)



Potential Wool Premium/Discount Schedule

Micron	Loan Rate $/lb. Clean	Loan Rate $/lb. Clean
under 19.6	3.85	4.25
19.6-21.0	2.40	2.80
21.1-22.5	2.12	2.52
22.6-24.0	2.00	2.40
24.1-26.0	1.91	2.31
26.1-29.0	1.75	2.15
over 29.0	1.60	2.00


Angora Goats Shorn, 1993-2005
2500
2000
1500
1000
500
0
1,000
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Base
4.20 Loan
5.25 Loan


Average Government Costs, 2001-2005
7
6
5
4
3
2
1
0
Million $
2001 2002 2003 2004 2005
4.20 Loan
5.25 Loan

Potential Mohair Premium/Discount Schedule

Micron	Category	Loan Rate $/lb.
under 26	Fine Kid	8.00
26-28	Good Kid	6.00
28-30	Avg. Kid	5.00
30-32	Fine Yg. Goat	4.50
32-34	Avg. Yg. Goat	4.00
34-36	Fine Adult	3.25
over 36	Avg. Adult	2.75

STATEMENT OF THE

NATIONAL CHICKEN COUNCIL

REGARDING POLICY FUNDAMENTALS FOR THE NEXT FARM BILL

HEARING OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

THE HONORABLE TOM HARKIN
CHAIRMAN

PRESENTED BY

WILLIAM P. ROENIGK
SENIOR VICE PRESIDENT
NATIONAL CHICKEN COUNCIL
WASHINGTON, DC

TUESDAY, JULY 24, 2001

Thank you, Chairman Harkin, Senator Lugar, and Committee Members for the opportunity to present the chicken producers/processors' recommendations and comments on the important issue of policy fundamentals for the next farm bill. The National Chicken Council appreciates the Chairman's invitation to be part of this very vital discussion. I am Bill Roenigk, Senior Vice President of the National Chicken Council. In the interest of time I will summarize my full statement, but request that my complete statement be submitted for the record.

Market-Oriented Approach

The National Chicken Council (NCC) represents the vertically-integrated companies that produce, process, and market about 95 percent of the young meat chickens (broilers) in the United States. Both the domestic and international marketplaces are of great importance to our industry. The industry's long tradition of being market-oriented has served consumers, taxpayers, and crop farmers well. Being focused on the market provides a better opportunity to meet the dynamics and challenges of the changing market for food, and thus, grow our businesses. Accordingly, we strongly support federal farm commodity programs and policies that are not only market-oriented, but encompass the capacity to help take full advantage of future market opportunities, both domestically and internationally. Any future farm program, like any good, successful food company today, must be flexible and nimble, both in times of stress and in times of robust market growth.

The National Chicken Council supported the 1996 Farm Bill and continues to believe that the principles and objectives of the Federal Agricultural Improvement and Reform Act (FAIR) provide the best path to pursue. In the long-run, market-based policies will help make American agriculture stronger by laying the foundation for rewarding efficiency, encouraging productivity, managing risks, allocating resources, and maximizing net farm income. To have policies and programs that are otherwise, at least for those of us who must market a substantial portion of our production in the global marketplace, means our fundamental competitiveness is jeopardized.

CCFAS Position Supported

The National Chicken Council is a member of the Coalition for a Competitive Food and Agricultural System (CCFAS). Like the other 120 members of this coalition, we are committed to having a new farm bill that is based on market-oriented policies and programs. We believe in this commitment because given the proper operating environment, U.S. agriculture can grow which, in turn, will stimulate the farm economy and provide increased employment across the United States, especially in smaller towns and cities.

Earlier this month, CCFAS presented its statement to this Committee regarding policy fundamentals for the next farm bill. I will not repeat all of the points and issues addressed by that statement, but I will emphasis certain aspects that are of particular interest to our segment of agribusiness.

NCC believes it is especially important that the marketing loan program provide for adjustments in loan rates that better reflect average market prices and that producers be allowed to continue to benefit from crop planting flexibility provisions. At the same time, NCC does not support any further supply management measures nor the creation of new inventory management reserves. Further, while the concept of a counter-cyclical income provision may sound good in theory, it is very difficult to properly execute in practice. Thus, counter-cyclical payment programs beyond certain provisions in the current law that provide this type of income balance are not supported by NCC.

NCC recommends a market-oriented farm program because, as the economic analysis conducted for the CCFAS has found, both commodity producers and users benefit. And, benefit more than supply-managed policies and programs.

Value-Added Products

Ex-Secretary of Agriculture Earl Butz once referred fondly to chickens as "condensed corn." His point is somewhat correct. While the primary cost of producing chicken is corn and oilseed meals, the total value of a chicken is much more. When a chicken company sells its products, it is marketing the value of feed ingredients, labor, energy, and all the other inputs. By being able to market more chickens, especially in overseas markets, the ripples in the economic pond become larger and more frequent.

More Exports = Success

Certainly, the domestic U.S. market is where the majority of poultry is sold. Increasingly, however, the growth market is not the mature U.S. marketplace, but the global marketplace. Furthermore, a robust international market allows U.S. poultry processors to better balance supply and demand for the various poultry parts. North America is essentially the only region of the world where consumers overwhelmingly prefer breast meat or the white meat parts of the bird. All other regions of the world have a very strong preference for leg meat. Thus, being able to compete in the global market allows poultry producers to better balance supply with a broader range of consumer demand. In world markets no animal protein has a better competitive price advantage than U.S. chicken leg quarters.

Basic to being competitive in the world poultry market is the ability of U.S. poultry producers to purchase corn, soybean meal, and other feed-ingredients at costs that are not artificially above world levels. The FAIR Act helps to provide the ability to be competitive, especially in countries like China where the price of products must be globally competitive or the business will go to U.S. competitors.

An appropriately crafted farm bill can maintain or even increase the competitiveness of U.S. poultry in the international markets. Increased poultry exports benefit grain and oilseed farmers as much as these exports benefit poultry producers. It takes two pounds of feed to raise a pound of chicken. Every additional pound of poultry the United States can produce for the overseas markets increases demand domestically for feed grains, oilseeds, and similar feed ingredients, while stimulating employment, and enhancing incomes for all involved in the flow of product to market.

In the past three decades, world consumption outside the United States has increased more than 500 percent to a quantity that is now four times the size of the U.S. poultry consumption volume. By comparison, U.S. poultry consumption over the past three decades has tripled.

One example of the potential for increased U.S. poultry exports is to consider that China's average per capita consumption of poultry is less than one-fifth the U.S. level. If the average Chinese consumer ate just one more chicken per year rather than the average six per year currently consumed, the increase in Chinese consumption would represent more than one-sixth of current U.S. chicken production. China's membership in the World Trade Organization will be positive for American agriculture, as China will be required to meet the obligations and responsibilities of WTO membership.

During the 1990s, U.S. poultry producers benefited from a tremendous growth in exports. Chicken export volume increased nearly five-fold over the decade just ended. Last year well over 18 percent of U.S. chicken production was sold to international markets. Currently, U.S. chicken exports are running more than 20 percent ahead of last year. Future increases in world consumption of poultry are predicted to be truly significant. The potential for U.S. poultry producers to supply a part of this substantial increase in global demand for poultry is tremendous if given the competitive opportunity to do so.

Support Needed To Foster Farm Exports

The United States must continue to work aggressively and boldly for more liberalized world agricultural trade. All countries must be challenged if they do not live up to their trade agreements. Renewal of the President's "trade promotion authority," previously known as fast-track negotiating authority, would be a good step. However, if this step is not taken, it should not be an excuse to hold back vigorous work on international trade negotiations. Further, the United States must seek to open markets through the inclusion of agriculture in regional and bi-lateral trade agreements.

Devoting more resources for value-added agricultural exports to a level that at least matches the percentage used by the European Union and other major competitors would be a prudent investment by the U.S. government. For too long now, the EU has led in the export of value-added products. The next farm bill provides an excellent opportunity to help put the United States in a leadership position for value-added exports. Stronger promotion of such products provides a triple benefit in the case of poultry. It leads to greater poultry sales abroad, it increases feedgrain and oilseed sales at home, and it will encourage the EU to re-think its export subsidy program levels.

Related to the export situation is the issue of U.S. trade sanctions against Cuba and certain other countries. Misusing food as a foreign relations weapon has not proven effective. Trade sanctions involving food should not be the first resort when the United States has a serious dispute with another country. Farmers in this country pay the price for such actions.

The bottom line for poultry exports is that this segment is at serious risk unless government provides the support to enable U.S. poultry exporters to keep pace in a very competitive and often unfair world trade environment. U.S. exports are being undermined by the actions of foreign governments in numerous markets throughout the world. If these WTO-illegal actions are not successfully challenged, our ability to compete in the world marketplace is seriously diminished.

Further, U.S. agriculture does not have adequate tools to compete with export subsides and well-financed promotional programs by other foreign governments. The two primary programs administered by USDA to assist U.S. agricultural commodities – the Foreign Market Development program and Market Access Program – are severely underfunded. As a result, U.S. agricultural export organizations face closing overseas promotion offices at a time when the opposite should be occurring. USDA's Foreign Market Development program and the Market Access Program have been extremely beneficial in promoting U.S. poultry products overseas. These funds assist the U.S. industry in gaining market access. If the new Farm Bill is to be successful, whatever final form it takes, adequate support for the exports of agricultural products must be provided.

Conservation and Environmental Protection

As agricultural production expands, the challenge of protecting soil, water, air, and other natural resources become greater. Farm policy that provides incentives for promoting sound stewardship for the environment is a positive approach. Conservation measures to protect environmentally sensitive lands are, of course, appropriate. However, it would not be appropriate in the name of conservation to restrict good, productive farmland, especially in times when market signals are calling for more supplies. Locking-away cropland in the Conservation Reserve Program (CRP) to manage supply is counter-productive. Enrolled acres in the CRP should be truly environmentally sensitive with the emphasis on benefits to natural resources.

An important part of environmental protection and conservation practices is the sound, scientific handling of agricultural animal waste. The Environmental Quality Incentives program (EQIP) can play a more important part in helping poultry and livestock farmers fulfill their responsibilities with respect to meeting the Clean Water Act TMDL program, the proposal CAFO permits requirements, and The Clean Air Act. Authorizing adequate funding for EQIP and designating at least 50 percent of annual funding for animal agriculture will be important for these producers to continue to be good stewards of the environment. A strong, effective, and well-funded title in the next farm bill that provides for voluntary incentive-based conservation programs, including all aspects of nutrient management programs and similar programs, would be one of the best public investments over the next 10 years.

Conclusion

As more attention is focused on the next farm bill, it is clear we are at a real crossroads in agricultural policy. NCC urges a continuation on the road toward market-oriented farm programs and not a return to the road of guaranteed government price supports coupled with restrictive measures to manage supply. While the government-guarantees road has greater appeal because it may have fewer bumps and turns, it is a road that provides all who travel it with fewer rewards in the end.

In the mid-'90s, a robust global market was envisioned for U.S. agricultural exports. Although that robust growth has not yet been fully realized, the next farm bill should be designed and written to take full advantage when a healthier world demand for food occurs. A farm bill that does not anticipate and encompass the expanding international opportunities for the American farmer is a farm bill that will miss a golden opportunity and leave U.S. agriculture on the wrong road. The future path for farm policy must put U.S. agriculture on firmer, more positive footing so that American farmers can achieve real success.

The National Chicken Council looks forward to working with the Committee to assist in crafting a new farm bill that allows market forces to reward efficiency, encourage productivity, improve risk management, better allocate resources, and maximize net farm income. Thank you for the opportunity to provide our statement.

NATIONAL Turkey FEDERATION

STATEMENT OF THE

NATIONAL TURKEY FEDERATION

REGARDING THE NEXT FARM BILL

HEARING OF THE COMMITTEE ON AGRICULTURE

THE HONORABLE TOM HARKIN
CHAIRMAN

PRESENTED BY

PETE HERMANSON
PAST NTF CHAIRMAN
STORY CITY, IOWA

TUESDAY, JULY 24, 2001

Thank you Chairman Harkin, Senator Lugar and members of the Committee for the opportunity to discuss the impact of the upcoming Farm Bill on the turkey industry and to present the industry's suggestions for the bill.

My name is Pete Hermanson, and I am part of a family farm operation in Story City, Iowa, which is located in the central part of the state. In addition to raising 200,000 turkeys each year, I also grow corn and soybeans on my farm. And, in the last few years, I have become involved in the processing end of the turkey industry as well. I am one of the founding members and I serve on the board of the Iowa Turkey Growers Cooperative, which owns and operates West Liberty Foods, one of the nation's Top 20 turkey processors. I want to take a moment here at the outset to thank Chairman Harkin for the vital support he gave the Co-op during the creation of West Liberty Foods. I'll talk more about its progress a little later.

I am here today on behalf of the National Turkey Federation (NTF). NTF represents 95 percent of the U.S. turkey industry, including growers, processors, breeders, hatchery owners and allied industry. I am proud to be a past chairman of the organization.

The Committee is to be commended for conducting this hearing and for taking the time to listen to the views of poultry and livestock producers. As someone who has spent his life as both a turkey grower and a crop farmer – and who has focused lately on food processing – I can assure you the Farm Bill has a profound impact on all segments of agriculture. Today, I'd like to look at three ways the bill could significantly affect the turkey industry in Iowa and around the country.

Environmental Rules Could Undermine Commodity Prices

The Conservation Title often fails to get the attention it deserves. One of the biggest challenges facing the turkey industry in my area is the cost of complying with environmental regulations. We're not here today to quarrel with the content of current federal and local regulations or with new EPA rules that could arrive as soon as this year. There are other venues more appropriate for those concerns. What is certain is that these rules will be expensive. Some estimates indicate state and federal rules could cost producers with more than 50 animal units a combined total of $12 billion or more during the next 10 years. For many of the small and medium-sized producers in the turkey industry, their share of this burden could simply be too much. NTF thinks it imperative that the next Farm Bill helps producers with the cost of environmental compliance.

The National Turkey Federation advocates dramatically expanding the Environmental Quality Incentives Program (EQIP). This program, which helps farmers and ranchers enhance environmental activities on their operations, was created in the 1996 Farm Bill and, though under-funded, has benefited agriculture producers. We propose increasing funding for EQIP to $2.5 billion annually through the life of the next Farm Bill, with the money to be split evenly between crop and livestock producers. Additionally, EQIP should be altered so that USDA can assist producers with single-year projects and can cost-share on planning activities, such as the drafting of comprehensive nutrient management plans.

Most importantly, EQIP should no longer be restricted to producers with fewer than 1,000 animal units, which is equal to 55,000 turkeys. A turkey grower in Iowa who produces 55,000 turkeys is not a "big farmer" or a rich farmer. He or she is going to have trouble paying for these new environmental regulations, and he or she should have a chance to participate in EQIP. Rather than limit participation by farm size, we think it would be better to set a limitation on the payments any producer can receive in a single year or across the life of the Farm Bill.

Commodity Title Must Not Hurt Poultry and Livestock

The National Turkey Federation recognizes much of the debate in the upcoming Farm Bill will revolve around the Commodity Title. We also know that many on this Committee have been critical of the market-oriented reforms in the 1996 Farm Bill. I would like to take just a moment, though, to talk about how the previous Farm Bill affected Iowa turkey growers and the men and women who work for West Liberty Foods.

The Iowa Turkey Growers Cooperative was founded in 1996, during one of the darkest periods in turkey industry history. The industry at that time was in the midst of a slump, having lost money for 30 consecutive months. Poor industry performance led to the closure of the turkey plant in West Liberty, Iowa, and the livelihoods of many turkey producers, and of the plant workers, were at risk. Thanks to strong guidance from Chairman Harkin and his staff, and a loan guarantee from USDA, the Co-op was able to purchase the plant and create West Liberty Foods. We went on to become a real success story, but in the early days, we very nearly failed. If a different type of Farm Bill had been passed in 1996, we might not have survived. Let me explain.

Feed accounts for 70 percent of the cost of turkey production. By late 1995, this country's historic policy of propping up farm prices by controlling production was doing great damage to turkey producers and others who raise livestock and poultry. Demand for feed grains, both in the United States and around the world was increasing, yet U.S. stocks were declining. The results were U.S. grain prices approaching record highs and turkey industry losses approaching record lows.

The worst part is that these short-term profits for farmers were creating a long-term problem for them in the international markets. Other nations, namely Canada, Argentina, Brazil and Australia, were making up for the declining U.S. production and beginning to take valuable overseas markets from us. The situation had reached the point where U.S. poultry and livestock producers were seriously considering importing foreign grain.

In the midst of these soaring grain prices and depressed turkey prices, West Liberty Foods was struggling to make a profit. As Chairman Harkin knows, we were desperately seeking additional assistance through much of 1997. Fortunately, a leveling of grain prices and a strengthening of turkey prices ultimately saved West Liberty Foods.

The increase in turkey prices was the industry's doing; we began to make better production and marketing decisions. But, that price increase alone wouldn't have made us profitable. We needed grain prices to reflect world markets, and the 1996 Farm Bill accomplished that goal.

I could cite many macro-economic reasons for maintaining the market reforms of the 1996 Farm Bill. But, I'd rather cite a micro-economic reason. If grain prices fall out of line with world supply and demand, as they did in the mid-1990s, the future of many Iowa turkey growers and of West Liberty Foods will be in jeopardy. Also in danger will be the jobs of the 1,100 workers we employ at our plant and the many other workers we expect to employ at the further processing plant we just purchased. Yes, we need to make sure this Farm Bill doesn't hurt farmers, but there are other hardworking American families it needs to protect as well.

Before I go into our specific recommendations, though, I want to make one thing clear – neither NTF nor I are here to advocate a "cheap grain" policy. I'm a grain farmer too, and I want strong grain prices. But, I want grain prices to be strong because the global market has dictated strong prices, not because government programs are artificially inflating them domestically. West Liberty Foods would not have struggled as badly in 1997 if $5 corn had been the global corn price. But, we were feeding our turkeys $5 corn and then trying to enter the export markets against foreign competitors who were paying far less for their grain.

Therefore, the National Turkey Federation believes it is important to avoid market-distorting programs in the next Farm Bill. The planting flexibility of the last Farm Bill is critical to farmers being able to respond to market demand for feed grains, which in turn ensures the turkey industry is able to respond quickly to domestic and international demand for its products.

NTF is sensitive, though, to the Committee's desire to protect farmers during periods of low prices. We know that many groups are calling for creation of a "counter-cyclical" program in the next Farm Bill, and we note that the House Agriculture Committee apparently intends to include such a program in its version of the bill. NTF thinks a market-based formula, without caps, for marketing loan program rates might be one way to address the issue. A five-year moving average, dropping the highest and lowest years from the calculation and multiplying by 85 percent would be of potential benefit to farmers.

Beyond that adjustment, creating a counter-cyclical program that maintains market-based flexibility is probably not practical. Certainly, NTF has not been able to come up with such a program. We think a better solution is to ensure that AMTA-style payments are at a level that provides farmers sufficient income protection during the widest possible range of economic conditions. The National Turkey Federation would support payments in the range of the combined AMTA and market loss assistance payments for Fiscal Year 2001.

United States Must Capitalize on World Poultry Market Potential

Finally, I would like to touch briefly on exports. An appropriately crafted Farm Bill can maintain or even increase the competitiveness of U.S. poultry in the international markets, and that in turn would lead to greater farm income. It is critical to remember that increased poultry sales abroad benefit the grain and oilseed farmer as much as these exports benefit poultry producers. It takes about 2.5 pounds of feed to raise a pound of turkey. Every additional pound of poultry the United States can produce for the overseas markets increases demand domestically for feed grains, oilseeds, and similar feed ingredients.

In the past three decades, world poultry and meat consumption outside the United States has increased dramatically. Last year, almost nine percent of all U.S. turkey production was sold into export markets, a nine-fold increase from a decade ago. Potential world consumption of turkey is truly remarkable.

NTF strongly recommends the next Farm Bill bolster funding for value-added export promotion. The United States is lagging further and further behind our competitors in promoting these products. The European Union and its producers in 1995 spent $314 million on agricultural export promotion; by 1998 that figure was more than $400 million. The CAIRNS Group – which includes Australia, Brazil, Canada and New Zealand – doubled government and producer funding from $282 million in 1995 to more than $600 million in 1998. That figure could top $1 billion in 2001. New Zealand is particularly aggressive, reinvesting into export promotion five cents for every export dollar it earns.

Our record in the United States pales by comparison. Federal-producer export investment was $225 million in 1995 and increased to $287 million in 1998. The trend is flat going into 2001, and we are reinvesting into export promotion less than one penny of every export dollar we earn. The next Farm Bill must structure our export promotion programs such as the Market Access Program and Foreign Market Development program so that our spending levels are comparable to those of our foreign competitors.

Conclusion

In summary, we recommend providing the financial assistance necessary to ensure environmental regulations do not drive poultry and livestock producers out of business. We support maintaining a market-based farm policy while ensuring farmers receive assistance during periods of low prices. And, we recommend bolstering commodity prices by ensuring a stronger commitment to export promotion – especially value-added promotion.

The National Turkey Federation and its many members appreciate the opportunity to share our concerns and recommendations with you. Thank you.

Sustainable Agriculture Coalition

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STATEMENT OF
MARIA VAKULSKAS ROSMANN

on behalf of the
SUSTAINABLE AGRICULTURE COALITION

to the
U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

HEARING ON LIVESTOCK ISSUES FOR THE NEW FEDERAL FARM BILL

JULY 24, 2001

Good morning and thank you for the opportunity to testify before this Committee. My name is Maria Vakulskas Rosmann from rural Harlan in west central Iowa. I am testifying today on behalf of the Sustainable Agriculture Coalition, a network of organizations representing farmers, environmentalists, and rural people who come together to formulate practical, effective approaches to agricultural problems.

My husband Ron Rosmann and I operate a 600-acre certified organic grain and livestock farm. Our crops and livestock include corn, oats, barley, soybeans, turnips, alfalfa, and our own beef, pork and poultry, packaged and sold under the "Rosmann Family Farms" label as well as sold on the organic market. We have a cow-calf herd numbering 100 cows and we feed out all the calves. We raise about 400 hogs and 400 to 500 chickens, annually. Two years ago, I left my position in school development to begin the marketing of our "Rosmann Family Farms" labeled meat and poultry, and neither Ron nor I have any other off-farm employment. We employ one full-time hired person and during the summer months we are assisted by our three teenaged sons, two of whom are in high school, the third a student at Iowa State University.

Our farming operation provides concrete examples of some important livestock issues for the new federal farm bill which I will address this morning.

- **Organic Livestock Production Research and Certification**

Our crops have been certified organic since 1994; the beef operation since 1998. We have been farming in a sustainable manner since 1983. My husband has been farming since 1973, following his graduation from Iowa State University, when he took over the operation of the family farm where he was raised. We are certified organic farmers by choice because of a sincere willingness to be environmentally sound stewards of the land in our care, using production systems that we have found to be profitable.

Our family's commitment to organic and sustainable farming extends beyond the farm gate to a wider community of organic farmers and researchers. Recently, my husband Ron was elected president of the Organic Farming Research Foundation, a non-profit foundation directed by certified organic farmers. The mission of this Foundation is to sponsor research related to organic farming practices, to disseminate research results to organic farmers and to growers interested in adopting organic production systems, and to educate the public and decision-makers about organic farming issues. The community served by the Foundation is growing rapidly. In one year, from 1999 to 2000, the number of certified organic growers in the U.S. increased 18% from 6,600 to 7,800 producers. The Foundation estimates that another 15,000 producers are using organic methods but are not certified. With the full implementation of national organic standards, this growth will probably accelerate significantly. Organic production is the fastest growing sector of the agricultural economy in the U.S. A recent survey by the National Marketing Institute estimates that 43% of the U.S. population has used organic foods or beverages in the past year.

Despite the rapid growth of the organic sector, a recent study by the Organic Farming Research Foundation indicates that the nation's land grant universities are failing our organic farmers and ranchers. The report, entitled *State of the States: Organic Farming Systems Research at Land*

Grant Institutions 2000-2001, spotlights pioneering organic research programs in North Carolina, Ohio, Iowa, West Virginia and Minnesota but also reveals an overwhelming lack of investment in organic systems research by our public agricultural institutions. Of the 885,863 available research acres in the land grant system, only 0.02%, or 151 acres, is devoted to certified organic research. An earlier study by the Foundation, entitled *Searching for the "O" Word,* found that less than 0.1% of federal agricultural research dollars were being spent on organic farming systems research.[1]

With respect to the research title of the farm bill, the Sustainable Agriculture Coalition supports the continuation of competitive grant funding through the Initiative for Future Agricultural and Food Systems. Within the Initiative, the Coalition supports the addition of either a specific category for organic farming research or a directive that a percentage of Initiative funds, across all existing categories, be targeted to organic farming research.

Another issue for organic producers is the cost of certification under the new National Organic Program. Most importantly, the certification fee structure must continue to be weighted in a manner that allows family farmers to compete in the organic marketplace. It would be cruelly ironic if the new national program had the unintended effect of placing new financial burdens on the small and mid-sized farmers who led the way on organic farming. The Sustainable Agriculture Coalition strongly urges the Committee to expand USDA's recent announcement of cost-share assistance for organic certification, pursuant to the crop insurance bill, from the 15 pilot states to the entire country. We believe this provision, which currently would cost just $4 million per year, should be made part of the pending economic aid package for fiscal year 2002 and should be a regular feature in the new farm bill for the following years.

- **Family Farm and Ranch Participation in Direct Marketing and Value-Added Enterprises**

In 1998, Rosmann Family Farms entered the value-added arena with our livestock, starting with the beef operation. This involved the creation of a new business within the business from which Rosmann Family Farms was begun. Our product is a certified organic, boneless, dry-aged, frozen packaged meat which is available now in three grocery stores in Des Moines and one in Ames, Iowa. Our meat is also sold privately to approximately 110 customers primarily in the Des Moines and Ames area. We are also members of the Food Systems Project of the Practical Farmers of Iowa organization. This group makes meats, fruits and vegetables available as a catered meal package to hotels, restaurants, and catered events under the heading of an "All-Iowa" meal. Currently, consumer demand for this "All-Iowa" meal program exceeds supply. A fourth way we make our product available is through private sales of quarters, halves and the whole animal. We follow all government guidelines from the harvesting of the meat, to its storage and its sale.

Like any start-up business owners, my husband and I did not just create this operation out of thin air. Our principal goal through these meat sales is to provide a value-added product. Although

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[1] Both of these Organic Farming Research Foundation reports are posted on the web at <www.ofrf.org/publications/index.html>. See also an Omaha World-Herald article, *Most Land-Grant Schools Slight Organics",* attached to this testimony.

we are able to sell all our animals in various organic markets, we find that marketing them ourselves has opened our eyes to the demand for meat from hormone-free, antibiotic-free, and organically fed livestock. Our intention was to provide a source of meat to individuals whose reasons for purchasing with us are varied, as are their backgrounds. Our private-sale clients represent many backgrounds and age groups. Some are chemotherapy and radiation patients who tell us they are able to easily digest our meat product. They are individuals whose own physicians have encouraged them to avoid eating products produced with growth hormones or antibiotics. Some of our customers tell us they just want meat with flavor, juiciness and tenderness, and some tell us they are people who wish to support family farmers.

Doing our own marketing has shown us the need for assistance to farmers and ranchers, and other small business owners, who are developing marketing and value-added enterprises, either individually or in groups in communities across the country. Early on, we determined that although we were quite skilled in production agriculture, we were lacking many skills in the marketing end. We found ourselves inventing rules of the game as we went along.

Based on our own experience, we believe that the new federal farm bill should include a program that focuses on production agriculture as a basis for rural development. The program should provide the flexibility that will allow family farmers and ranchers to work in collaboration with other individuals, organizations, and institutions in a direct hands-on fashion to obtain practical assistance and advice in establishing direct marketing and value-added enterprises.

The *Agricultural Community Revitalization and Enterprise (ACRE)* initiative developed by the Sustainable Agriculture Coalition, and other member organizations of the National Campaign for Sustainable Agriculture, provides for such a program. ACRE proposes that a relatively modest portion of mandatory federal agricultural funding, (about two percent of the amount spent on farm income support in fiscal year 2000) be dedicated to research, training, and business and marketing assistance to foster enterprises that can enhance farm and ranch income, as well as increase small business employment opportunities in rural communities. ACRE is a competitive, collaborative grants program that can mobilize existing organizations and agencies to provide coordinated assistance in direct response to the needs of agricultural producers. Priority in the ACRE proposal is given to projects that are developed with the participation of farmers and ranchers.

We are delighted that Senator Harkin is reviewing the ACRE proposal for inclusion in the new farm bill and we urge its adoption by the Committee. Action must be taken to reverse the shrinking farm and ranch share of the food dollar and to revitalize self-employment opportunities in agriculture and rural communities.

In addition to fostering new channels for agricultural marketing through direct markets, I wish to add our strong support for the inclusion of a competition title in the new farm bill. Livestock producers face a market with fewer and fewer purchasers and with increasing contract production. Growing concentration, along with unfair contract terms, have left producers at a severe disadvantage. The Sustainable Agriculture Coalition supports strengthening of the authority under the Packers and Stockyards Act to deal with unfair and deceptive trade practices, as well as more stringent Packer and Stockyards enforcement measures. The Coalition also supports including in the new farm bill the Producer Protection Act as proposed by the 16 state attorneys general and the adoption of stronger bargaining rights for contract farmers through amendments to the Agricultural Fair Practices Act.

- **Conservation on Working Agricultural Land**

Our farm doesn't look like the conventional Midwest two-crop operation. I'm proud of that. It is a diversified family farm operation that combines crops and livestock in production systems that aim to enhance the environmental wellbeing of the farm and the surrounding countryside. This brings me to a major concern that all of agriculture is facing in the U.S. today. It is sad to say that government farm programs have failed to foster good stewardship of the land. In fact, they have done just the opposite. They have encouraged over-production of a few bulk commodities like corn, wheat, soybeans, etc., often on fragile lands with high erosion rates. For over fifty years, farm programs have discouraged crop diversity and crop rotations in the Midwest. Loan deficiency payments continue to encourage farmers to plant as much corn and soybeans as possible in order to receive the most subsidy. The majority of the government subsidies go to the largest producers, just the ones who need the support the least. The payments result in higher rental and land prices, overproduction, and lower farm income. This rush to produce has also resulted in overuse and dependency on pesticides. Today's technology has allowed us to farm thousands of acres but at what price to our soil and water resources? The pollution of our water in Iowa, for instance, due in large part to the large livestock confinement systems, is a disgrace. Diverse and integrated conservation practices have all but disappeared because of this rush to produce in order to receive government subsidies.

I believe that the new federal farm bill must provide alternative incentives to farmers and ranchers who have, or who will, incorporate sound conservation practices and systems into their operations. The Conservation Security Act of 2001 (S. 932), introduced by Chairman Harkin and Senator Gordon Smith provides these incentives. This Act allows producers of all crops and livestock to address the conservation needs on their farms and ranches based on the choices they wish to make about what to produce. For those of us who raise livestock and poultry, the Act provides a tool to adopt alternatives to costly infrastructure fixes for flawed confinement technologies and systems. Another important feature of the Act is the three-tiered approach to conservation planning, which promotes integrated resource management systems and gives farmers and ranchers an option to develop whole farm plans, rather than addressing conservation measures in a piecemeal fashion.

The Sustainable Agriculture Coalition urges the Committee to adopt the Conservation Security Act as a cornerstone of farm and conservation policy. In addition, we support the continuation and enhancement of the Conservation Reserve Program buffer initiative, the Wetlands Reserve Program, and the Environmental Quality Incentives Program (EQIP). We encourage the Committee to take the necessary steps to keep EQIP focused on problem watersheds and to increase its focus on sustainable crop and livestock systems, rather than diverting payments to large-scale, confined livestock and poultry systems. All farm and conservation programs in the new farm bill should include strong payment limitations, stripped of all loopholes, and should also include increased fraud and abuse penalties.

- **Fostering the Next Generation of Farmers: Beginning Farmer Issues**

The final issue I want to address is the most important for the future of agriculture in the U.S. The trend is toward fewer people involved in farming with very few young people getting into farming. Who will be our farmers of the future? You can count on one hand the farmers in our county under the age of 30. While many farmers here are telling their children to stay away from agriculture, we have encouraged our sons to take an active role on our farm, learning the skills and work ethic they will need should they decide to farm in the future.

Federal farm policy cannot continue to focus on helping existing producers to just hang on or providing the means for them to exit from agriculture altogether. We must have farm policy and programs that foster and encourage our young people to take up farming or to stay in farming. There are a variety of ways to go about this. We need the agricultural research and extension system to take a greater interest in developing innovative farm transfer strategies, alternative marketing ideas, and low capitol investment approaches to farming that make optimal use of young farmers' labor and management abilities. The new federal farm bill also needs a Beginning Farmer and Rancher Development Program, first proposed by the National Commission on Small Farms. The proposed program, as developed by the Sustainable Agriculture Coalition, has been endorsed by the National Farm Transition Network and by the USDA Advisory Committee on Beginning Farmers and Ranchers. The federal program would provide mandatory funding for federal matching funds to state and local beginning farmer programs for training, education, outreach, and technical assistance.

The last two farm bills included numerous changes to FSA credit programs to orient them more to the needs of beginning farmers and ranchers. The new farm bill should pick up where the 1996 Farm Bill left off and make further improvements. Finally, the Sustainable Agriculture Coalition encourages the Committee to make innovations in federal conservation programs to make them work better for beginning farmers and ranchers and to ensure that beginning farmers and ranchers receive a fair share of program funds.

In closing, I wish to thank the Committee for this invitation to testify on the new federal farm bill. I would also like to invite all of you to visit our family in Iowa and see firsthand a diversified, organic livestock farm in operation.

[Attached to my statement are: a copy of the article from the Omaha World-Herald noted in my testimony; brief descriptions of the *Agricultural Community Revitalization and Enterprise* (ACRE) initiative, a Beginning Farmer and Rancher proposal, and the Conservation Security Act; and a copy of an earlier letter sent to the Committee in support of a Competition Title in the new federal farm bill.

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Most Land-Grant Schools Slight Organics

BY LIZ ALLEN
THE AMES TRIBUNE

Ames, Iowa — Bryan Bradley grew up on a farm.

So when he moved to the country four years ago with his wife, Angela, and their three children, he knew exactly what he wanted to do: grow produce.

Not just any produce — organic produce. He made the decision because he wanted to earn extra income and protect the environment, he said.

Bradley wasn't sure how to do it, but he received help from friends.

What he didn't do was call Iowa State University for help.

He's not alone. Many organic farmers say land-grant universities like ISU haven't always listened to their problems.

"They were comfortable talking about it, but they weren't as up on it as some people are," said Bradley, who is part of a community-supported agriculture project called the Magic Beanstalk.

A new report criticizes the nation's 67 land-grant institutions for not paying more attention to organic research.

The report was done by the California-based Organic Farming Research Foundation. The report said land-grant schools are failing to devote enough land to organic research.

In fact, the report said that out of nearly 886,000 acres of research land in the land-grant system, only 151 acres were set aside for organic research.

"We found only five states in the country with research land that had been put through the certification process," said Jane Sooby, author of the report. Those states are Iowa, Minnesota, Ohio, North Carolina and West Virginia.

Sooby said that surprised her.

The report said land-grant universities have spent a lot of time and money working on chemical and large-scale production that "marginalized many other areas of inquiry, including smaller-scale and more environmentally appropriate farming techniques."

The report also said the system failed to meet the needs of small- and moderate-size family farms.

Kathleen Delate, an organic researcher, said ISU has been a leader in organic agriculture. She has worked with farmers on organically certifying their farms and on improving organic-farming practices.

ISU has 7,500 acres for farming research; 17 are dedicated to certified-organic practices.

"Right now, we can't meet the organic demand," she said. "No other school has this portfolio."

Delate has worked with soybeans, red clover, alfalfa, broccoli, apples, blueberries, corn, wheat and other crops. She wants to start more research on existing organic plots. More work means more people are needed to do the work. There just aren't enough people who have strong backgrounds in pesticide-free farming, she said.

Elizabeth Dyck, an assistant professor of agroecology at the University of Minnesota, said she's envious of Delate's job because it focuses on research.

About 60 percent of Dyck's job is spent in the classroom. The rest is spent doing research, which is not enough, she said.

Minnesota also fared well in the organic report. The University of Minnesota has 120 acres of certified-organic research land.

Dyck said the University of Minnesota has so much land set aside for organics because a benefactor willed a farm to the university. Much of the land hadn't been touched in years, and the university decided it was the perfect time to turn it into an organic farm.

In addition, Minnesota had groups similar to the Practical Farmers of Iowa in place. Dyck said she doesn't know if her university got into organic farming sooner than other schools, but her school had the support-system in place.

Sooby said states such as Iowa and Minnesota have been progressive in organic research and deserve praise.

So why are most land-grant universities slow to catch on to organics?

Sooby said it's probably a combination of politics and economics that push policy. Some schools had people interested in alternative ag, including some researchers at ISU. "I think you're seeing a lot of fruits from that earlier work," Sooby said.

When Delate, assistant professor in organic agriculture and horticulture, started at ISU in 1997, she had the first U.S. appointment geared to organic practices.

At that time, ISU didn't have an research land solely for organ research. In five years the number h increased to 17 acres. There are a additional 25 to 30 acres waiting f transition this year, she said.

Delate studies everything from tl best crop rotations for Iowa to the ra and timing of compost applications organic-crop protection methods planting and tillage technologies.

She also is comparing tl agroecology and economics of organ and conventional production of cor soybeans, oats, barley, alfalfa, r clover, green peppers, broccoli ar medicinal herbs.

Farmer Gary Guthrie said a lot h changed over five years. He sa professors such as Delate ha developed a vision for organics.

He said he has received good advi for dealing with pest problems ar would ask professors he has met f additional help.

There's still not enough researc focused on organic farming, sa Guthrie, an organic grower ar resident of Nevada, Iowa.

THE AMES TRIBU

PRODUCE: Gary Guthrie plants organic onions on his farm in Nevada, Iowa. Guthrie said that organic farming has changed lot over five years but that much research still needs to be done.

AGRICULTURAL COMMUNITY REVITALIZATION AND ENTERPRISE INITIATIVE

Efforts to strengthen rural economies should include and in many cases begin with family-scale, agricultural-based rural development. Now more than ever, family farmers and ranchers want alternatives to increase their income and provide more direct access to local and niche markets. Because concentration and vertical integration among processors has increased to such an extent that farmers and ranchers have very few market access options, **a key component to the development of a more sustainable food and agriculture system is the empowerment of farmers and ranchers to retain control of their product longer, improve their access to consumers, and increase their share of food system profit.**

Farmers and ranchers need new tools to increase their share of the food dollar—a meager share that continues to drop, often below the actual cost of production. Increasing the farm and ranch share of the food dollar is a major step towards improving the economic condition of our agricultural communities and is a practical answer to meeting a growing consumer demand for a healthy, safe food supply. **The proposed initiative would create within the farm bill a $500 million program using mandatory funding to turn innovative ideas and entrepreneurial approaches into a better future for agricultural communities.**

ACRE would provide **competitive grants** to a wide range of eligible recipients including farm and ranch networks, cooperatives, producer associations, community based organizations including those that serve small minority and socially disadvantaged landholders, small business associations, community development corporations, local governments, universities and other organizations. Priority would be given to innovative collaborations and partnerships and to direct participation by farmers, ranchers and other entrepreneurs.
Grants would support efforts that:

- Increase the farm and ranch share of food system profit;
- Increase the number and quality of rural self-employment opportunities in farming, ranching, food related and other non-farm rural enterprises;
- Support revitalization of agricultural communities through entrepreneurship, value-adding enterprises, new production systems, and alternative marketing channels; and
- Enhance consumer choice and access to a diversity of agricultural products produced in a manner that contributes to the social, environmental, and economic vitality of agricultural communities and the nation as a whole.

Competitive grants under ACRE would support the following types of activities:

* Applied research * Education * Training and outreach * Technical assistance
* Feasibility and marketing studies * Business planning assistance
* Market development assistance * Legal assistance
* Market transition strategies * Farm and business succession

The program would be administered through CSREES by a multi-agency council with extensive stakeholder participation.

For more information, or for a copy of the complete text of this draft initiative, please contact Ann Wright with the Sustainable Agriculture Coalition at 202/547-5754.

BEGINNING FARMER AND RANCHER INITIATIVE

Background

The future of a dispersed, individually owned and operated family farm system of agriculture depends on the ability of new farmers and ranchers to enter agriculture. In recent decades, farm entry rates have declined much faster than rates of farm failures/closures, so that the major changes in farm numbers have resulted from lack of new entrants. In many states, the farmer "replacement" rate has fallen to below 50 percent.

The barriers that hinder a new generation from entering agriculture are significant and include:

* insufficient farm exit and farm entry strategies
* inability to acquire initial capital investment
* policy biases favoring current over future landowners
* high rental rates and land prices due to competition from established farmers or developers
* lack of community support, and
* inadequate financial, managerial, production, and marketing assistance.

In the early 1990s, Congress responded to some of these concerns by enacting major changes to federal farm credit programs. Many of these new efforts have born fruit and have increased new farming opportunities. However, access to credit is only one of many issues facing potential beginning farmers. Credit needs to be available in the context of a broader set of services. Among the broader programs that have sprouted up around the country -- mostly generated by non-governmental organizations -- are apprenticeship and mentoring programs, land link efforts to match retiring and young farmers, education on new farm transition models, whole farm planning, and a variety of training programs. While beginning farmer training and outreach programs, through cooperative extension and/or non-governmental organizations, exist to a limited degree in 16 states, they are greatly underfunded compared to the need.

This initiative -- endorsed by the National Farm Transition Network, the USDA Advisory Committee on Beginning Farmers and Ranchers, the National Campaign for Sustainable Agriculture, and others -- addresses the need for federal support for innovative beginning farmer and rancher outreach, heightened research aimed at the specific needs of beginning operations, improvements to the existing set of credit programs, and special attention to beginning farmer and rancher concerns in conservation and rural development programs.

Section-by-Section Summary

Title I - Research, Training, and Outreach

Section 101 - Beginning Farmer and Rancher Development Program

Establishes a Beginning Farmer and Rancher Development Program to support new and established local and regional training, education, outreach, and technical assistance initiatives whose purpose is to foster new farming opportunities. Funded through a new mandatory spending account, with annual amounts starting at $20 million and increasing to $40 million over 5 years. Administered by the Cooperative State Research, Education, and Extension Service on a competitive basis, with 25% non-federal matching requirements. Targeted especially to collaborative local, state, and regionally-based networks and partnerships that may include Extension, community-based, non-governmental organizations, relevant USDA and state agencies, universities, community colleges, and other appropriate partners.

Section 102 - Beginning Farmer and Rancher Research and Extension Program

Establishes a new Beginning Farmer and Rancher Research and Extension Program dedicated to researching, developing, and disseminating farm tenure, transfer, succession, finance, development, management, production, and marketing models and strategies that foster new farming and ranching opportunities. Administered by CSREES on a competitive basis under Section 406 of AREERA.

Section 103 - Fund for Rural America

Amends FAIR Act to specifically include beginning farmer and rancher research, education, and extension grants as eligible uses for Fund for Rural America research spending and beginning farmer and rancher programs as eligible recipients of Fund rural development spending.

Section 104 - Initiative for Future Agriculture and Food Systems

Amends AREERA to specifically include beginning farmer and rancher research, education, and extension grants as eligible uses for Initiative for Future Agriculture and Food Systems funds.

Section 105 - Risk Management Education

Amends risk management education program to include a subsection on beginning farmer and rancher risk management strategies, including farm transition alternatives, equity financing, conservation investments, marketing and diversification strategies, and value-added production.

Title II - Credit Programs

Section 201 - Reservation of Loan Funds for Beginning Farmers and Ranchers

Reauthorizes without amendment the Consolidated Farm and Rural Development Act's (Con Act) loan fund targeting features for direct and guaranteed farm ownership and operating loans.

Section 202 - Transfer Authority

Reauthorizes without amendment the Con Act's late-year transfer authority to move unused guaranteed operating loan funds to beginning farmer down payment and beginning farmer farm ownership loan accounts.

Section 203 - Beginning Farmer and Rancher Down Payment Loan Program

Amends the down payment program to make it more flexible, extend its reach to a greater number of potential borrowers, and increase significantly the total number of customers served by any given overall direct farm ownership loan funding level. Also provides that when a down payment loan has been approved by FSA and FSA is out of direct farm ownership funds, the private lender in a down payment loan transaction may (a) elect to provide all the financing using an "interest assist" guaranteed loan, or (b) provide bridge financing of the FSA component, with FSA authorized to refinance the bridge loans when FSA additional funding becomes available.

Section 204 - Interest Assisted Guaranteed Loans

Amends the "interest assist" program to give qualified beginning farmers and ranchers, including minority and other socially disadvantaged farmers and ranchers, priority for new interest assisted operating loans, and limits the maximum 4% interest rate reduction to loan amounts of up to $100,000 to beginning farmers and ranchers, with a 2% interest rate break for loan amounts up to $300,000 to beginning farmers and ranchers and all other qualified borrowers.

Section 205 - Aggie Bonds

Authorizes guaranteed loans to be used in conjunction with state beginning farmer program first time farmer ("aggie bond") loans, subject to enactment of corresponding changes to the IRS code. Expresses sense of Congress in support of tax law changes to allow such guarantees and to exempt aggie bonds from the volume cap on industrial revenue bonds.

Section 206 - Inventory Land Sales

Lengthens the statutory timelines for inventory land sales so that land is available for sale to beginning farmers for no less than one complete normal land sale season.

Section 207 - Borrower Training

Continues the current borrower training requirement and program. Directs the Department to develop clear, consistent, and transparent waiver criteria, based primarily on demonstration of functional equivalency. Provides authority for FSA to waive the three year farming requirement if the training is taken and successfully completed.

Section 208 - Pilot Projects

A - Beginning Farmer and Rancher Equity Assistance

Authorizes the Department to offer beginning farmers and ranchers equity-enhancing start-up assistance in annual payments for up to five years in amounts not to exceed the total cost to the government of average FSA beginning farmer operating loans for a similar duration.

B - Land Contract Pilot

Authorizes a pilot project to test the effectiveness of loan guarantees for contract land sales from private land sellers to qualified beginning farmers and ranchers in cases where the loan meets all underwriting criteria for guaranteed loans and a bank or other lending institution serves as escrow agent.

C - Guaranteed Lease Pilot

Authorizes a pilot to encourage landlords to lease land to beginning farmers and ranchers and to provide flexibility in obtaining equipment and facilities leases.

D - Value-Added Farm Coop Loan Program

Establishes a pilot direct participation loan program to provide low interest, limited duration federal loans in combination with private financing to assist beginning farmers and ranchers gain a stake in value-added agricultural coops. Also tests the use of interest-assisted guaranteed loans for beginning farmers and ranchers to use to enter value-added agricultural coops.

Title III - Conservation Programs

Section 301 - Farmland Protection Program

Amends the federal Farmland Protection Program to incorporate a preference for farmland protection programs that integrate concern for future farmers and ranchers, not just saving farmland and open space.

Section 302 - Conservation Incentive Programs

Amends conservation incentive programs to provide an option for up-front, lump sum payments to qualified beginning farmers and ranchers in return for full term contracts for conservation practice installation and environmentally-sound management according to the terms of the particular conservation incentive program. Also provides authority for the Department to establish beginning farmer and rancher target participation rates and/or bonuses/incentives for beginning farmer and rancher participants in particular conservation incentive programs.

Title IV - Rural Business and Cooperative Development Programs

Section 401 - Rural Business and Coop Development Programs

Amends rural business and coop development programs to include explicit eligibility for beginning farmer projects as well as projects that incorporate substantial participation by beginning farmers and ranchers.

Section 402 - Farm Coops

In instances where USDA is delivering financial assistance to value-added agricultural coops, provides authority to the Department to provide incentives to coops that reserve at least 10% of membership in the coop for qualified beginning farmers and ranchers.

For more informaiton, or for a copy of the complete text of this initiative, please contact Ferd Hoefner with the Sustainable Agriculture Coalition at 202/547-5754.

CONSERVATION SECURITY ACT
S. 932/H.R. 1949
Section by Section Summary

Section 1: **Title** - Conservation Security Act of 2001.

Section 2: **Findings** - Notes the environmental challenges facing agriculture, the natural resource and environmental benefits agriculture can contribute to society, the need to reward good stewardship, the substantial decline in federal support for conservation assistance on private lands, and the need for a better balance between federal funding for conservation on working lands and for land retirement.

Section 3: **Conservation Security Program** - Amends Subtitle D of title XII of the Food Security Act of 1985 to add a new Conservation Security Program (CSP).

GOALS - The program shall promote:

* conservation of soil, water, energy, and other related resources
* soil quality protection and improvement
* water quality protection and improvement
* air quality protection and improvement
* soil, plant, and animal health and well being
* diversity of flora and fauna
* on-farm conservation and regeneration of plant and animal germplasm
* wetland restoration, conservation, and enhancement
* wildlife habitat restoration, conservation, and enhancement
* reduction of greenhouse gas emissions and enhancement of carbon sequestration
* protection of human health and safety
* environmentally-sound management of invasive species
* and other similar conservation purposes.

ELIGIBILITY - Private agricultural land, including cropland, rangeland, grassland, and pasture, is eligible for the program. Private forested land is eligible if integrated into agricultural operation as an agroforestry practice. Whole fields enrolled in the Conservation Reserve Program and land enrolled in the Wetlands Reserve Program is not eligible. Land that is initially enrolled in production of a commodity after the date of enactment is not eligible if soil loss exceeds the soil loss tolerance level.

PLANS - Participants shall develop a conservation security plan, identifying resources, practices, and implementation schedules. All participants must be in compliance with existing highly erodible land and wetland conservation requirements. All participants are encouraged to undertake a comprehensive evaluation of the conservation needs of the whole farm or ranch in the context of improving profitability, environmental performance, and quality of life, and to develop a strategy for monitoring and evaluation. Conservation security plans shall address state and local conservation priorities.

PRACTICES - Participants shall enroll in the program under one of three tiers of conservation practices. Land management, vegetative, and structural practices are eligible if they are necessary to achieve the objectives of the plan, their primary purpose is resource protection and environmental enhancement, and they are the lowest cost alternatives available. Practice standards shall be based on the NRCS field office technical guides and shall include measurable goals. Sustainable economic use shall be allowed for all land enrolled in CSP, including buffer and restoration enrollments under tier 2.

INNOVATION - Participants enrolled in tier 2 or 3 may incorporate on-farm research and demonstration activities within their conservation security plan to explore innovative approaches to whole farm planning, total resource management, integrated farming systems, germplasm conservation, carbon sequestration, agro-ecological restoration, agro-forestry, invasive species control, energy conservation, and farm/environmental results monitoring. Pilot testing of innovative conservation practices and systems shall be allowed for all tiers. Upon evaluation of pilot tests, the new practices may be incorporated into the technical guides.

TIERS - Participants choose to enroll at one of the following three tiers.

Tier One - Tier I participants shall address priority resource concerns on part or all of their farms/ranches, may include both existing and newly implemented practices, and shall meet applicable conservation practice standards. Tier I practices include soil conservation, quality, and residue management, nutrient management, pest management, invasive species management, irrigation water conservation management, grazing management, fish and wildlife habitat management, fish and wildlife protection, air quality management, energy conservation measures, biological resource conservation, worker health and safety protection measures, animal welfare management, plant and animal germplasm conservation and evaluation, contour farming, strip cropping, cover cropping, recordkeeping, monitoring and evaluation, and related practices.

Tier Two - Tier II participants shall address priority resource concerns on the whole farm/ranch, meet applicable resource management system criteria, and may include both existing and newly implemented practices. Tier II practices include all tier I practices plus a variety of additional practices requiring land use adjustments, including resource-conserving crop rotations, rotational grazing, conversion to soil-conserving uses, the full array of partial field conservation buffer practices (e.g., filter strips, riparian buffers, windbreaks, contour buffer strips, etc.), wildlife habitat restoration, prairie restoration, wetland restoration, agroforestry practices and systems, and other similar practices. All tier II practices may include economic use of the land that achieves resource and environmental benefits and is approved as part of the conservation security plan.

Tier Three - Tier III participants shall address all resource concerns on the whole farm/ranch, meet applicable resource management system criteria, and may include both existing and newly implemented practices. Tier III practices include all tier I & II practices in the context of a conservation security plan that integrates a full complement of conservation practices to foster the long-term sustainability of the natural resource base and improve the profitability and quality of life associated with the operation.

CONTRACTS - Upon approval of conservation security plans, conservation security contracts will be entered into by the owner/operator and USDA. The contract period for tier I enrollments shall be 5 years, and for tier II and III, shall be, at the option of the owner/operator from 5 to 10 years. Provision is made for plan modifications during the life of the contract consistent with the objectives of the program. Contracts may be renewed by the owner/operator if they are in compliance with the expiring contract. Renewals at the tier I level must increase the level of conservation treatment by adopting new practices or complying with applicable resource management system criteria.

PENALTIES AND REFUNDS - If the owner/operator fails to maintain a conservation practice for the period specified in the conservation security contract, the USDA has the option to require a refund of all or a portion of the payments made under the contract. If the owner/operator violates a term or condition of the contract, the USDA may determine that the violation warrants termination of the contract and a refund of all or a portion of the payments. If the USDA does not determine that the violation warrants termination of the contract, the USDA may require the owner operator to refund payments or accept adjustments to future payments under the contract.

ADVANCE PAYMENTS - Upon entering a CSP contract, a person shall receive an advance payment equal to the greater of $1,000 (tier 1), $2,000 (tier 2), and $3,000 (tier 3) or 20% of the annual payment under the contract.

ANNUAL PAYMENTS – For tier I contracts, annual payments shall not exceed $20,000; for tier II contracts, annual payments shall not exceed $35,000; and for tier III contracts, annual payments shall not exceed $50,000.

The amount of payment within the limitations shall be based on a reasonably objective and transparent formula to be developed by USDA taking into account:

* ***outcome-based factors*** including the natural resource and environmental benefits expected from adopting, maintaining, and improving practices;

* ***practice-based factors***, including the number and schedule of management practices established; costs of adopting, maintaining, and improving new practices; costs of maintaining and improving pre-existing practices; extent to which plan/practices meet resource management system criteria; extent to which plan/practices address state and local priorities; extent to which plan/practices exceed requirements under Federal, state, or local laws and regulations;

* **additional cost factors**, including income loss or economic value forgone due to land use adjustments; costs associated with on-farm research, demonstration, or pilot testing components of the plan; costs associated with monitoring and evaluating results; and

* other factors the Secretary determines are appropriate to encourage participation in the program and to reward environmental stewardship.

In addition, **bonus payments** shall be offered if:

* the owner or operator is participating in a watershed or regional land use plan involving at least 75% of the landowners in the targeted area; or

* the owner or operator is a qualified beginning farmer or rancher.

RELATIONSHIP TO OTHER PROGRAMS - With regard to other USDA conservation programs in which the owner/operator may participate, the owner/operator may opt to convert, without penalty, the other contract(s) into a CSP contract or may opt to coordinate joint participation in the CSP and the other program(s), provided the CSP payment is adjusted to reflect participation in the other program(s). However, whole fields enrolled in the Conservation Reserve Program and land enrolled in the Wetlands Reserve Program are not eligible for CSP payments.

WASTE STORAGE FACILITIES - Payments shall not be provided for the purpose of construction or maintenance of animal waste storage or treatment facilities or associated transport and transfer devices for animal feeding operations.

PAYMENT LIMITATIONS - No individual directly or indirectly may receive funds greater than the payment limitation for the tier of participation (i.e., there shall be no three-entity rule or any other payment limitation avoidance technique). If the Secretary determines a scheme or device has been adopted to evade the limitation, the person is ineligible for that year and the following 5 years. If fraud was committed in connection with a scheme or devise, the person is ineligible for that year and the following 10 years.

TECHNICAL ASSISTANCE - For each fiscal year, the USDA shall use Commodity Credit Corporation funds as necessary to provide technical assistance to owner/operators for developing and implementing conservation security plans. Technical assistance may be provided by certified persons not affiliated with the USDA, including farmers and ranchers, through contract with USDA or through payment or voucher provided to participating owner or operator. USDA provides final approval for all plans.

EDUCATION, OUTREACH, MONITORING, AND EVALUATION - For each fiscal year, funds equal to no less than 40% of the funds made available for conservation security technical assistance shall be made available from the CCC for education, outreach, monitoring, and evaluation activities. At least 50% of those funds shall be for monitoring and evaluation. Both USDA and non-USDA persons and entities are eligible for these funds, including networks of producers operating in a local area and non-profit community-based organizations.

PROGRAM EVALUATION - USDA shall maintain data on conservation plans, practices, environmental outcomes, economic costs, and related matters.

CONFIDENTIALITY - USDA shall not release the conservation plan of an owner or operator unless the owner or operator authorizes the release, it is released in anonymous or aggregated form, or release is required by law.

MEDIATION - At the request of an owner or operator, USDA shall provide mediation services or an informal hearing of any adverse decision.

REPORTS - After 18 months, and every two years thereafter, USDA shall submit a report evaluating the scope, quality, and outcomes of the conservation plans and practices and making recommendations for achieving quantifiable improvements for each of the conservation purposes of the CSP.

FUNDING - The CCC shall make sums available as necessary for CSP contract payments. (Under this provision, owner/operators would not be competing for limited funds but instead all eligible participating owner/operators would receive funding.)

STATE TECHNICAL COMMITTEES - State technical committees shall have responsibility for helping determine state and local criteria and priorities for the CSP.

Section 4: **Regulations** – The Secretary shall promulgate regulations necessary to implement the Act.

DOCUMENTS SUBMITTED FOR THE RECORD

JULY 24, 2001

May 1, 2001

The Honorable Richard Lugar
Chairman, Committee on Agriculture
United States Senate
Washington D.C. 20510

Dear Chairman Lugar:

As you undertake the process of reauthorizing the farm bill, we urge you to include a comprehensive competition title.

We appreciate your recognition that the commodity title of the farm bill must be reformed. We believe equal attention should also be given to the issues of market access and competition, since the income of farmers, ranchers and workers, including those affected by the commodity titles of the bill, is dependent on the strength of the markets for their production.

We encourage you to hold the hearings necessary to include a comprehensive competition title in the farm bill, including attention to amendments of existing USDA authorities to address anti-trust enforcement, price discrimination and transparency, protections and bargaining rights for contract producers, and agricultural marketing innovations and alternatives. Representatives of diverse interests from throughout our nation's food and agriculture system should be allowed and encouraged to participate in these hearings.

The trend toward concentration and vertical integration in agriculture has forced competition policy to the top of the list of concerns for many producers. As agribusiness firms consolidate, producers find themselves with a dwindling list of options for marketing their products. For example, the top four processing firms for beef, pork and chicken control from 55 to 87 percent of the U.S. market for their commodity. At the local level, this means a single processing firm is often the only marketing option for a farmer. This lack of competition in the marketplace is of great concern to producers and consumers alike.

The fears are valid. With the spiraling consolidation of both the processing and input sectors, the likelihood of anti-competitive conduct increases sharply. For instance, the sellers of important livestock ingredients such as lysine and certain vitamins have recently been found to collude to increase prices to the detriment of farmers. Consolidated industries also lack the incentive to continue to innovate and to address consumers' desire for an economically and environmentally sustainable food system. With no real competitive threats, these major players refuse to change. The powerful position of large processors also puts them in a perfect position to utilize forceful practices in contracting with producers.

In an effort to insulate themselves from the risks associated with price volatility and shrinking markets, a growing number of producers are giving up their independent operations, and moving toward contract arrangements with vertically integrated agribusinesses. By 1998, over a third of the total value of U.S. agricultural production was under contract agreements, and the percentage continues to increase. This year an estimated 80-85 percent of flue-cured tobacco is being produced under contract as compared with less than 10 percent last year. The percentage of hogs produced under contract has increased significantly over the past five years.

For some commodities, such as poultry, the contract production model is nearly universal, and growers neither own the product they produce nor control the inputs necessary for success. Once entangled in these arrangements, producers find that they have no power to negotiate the terms of their contracts. The debt burdens that they incur in order to build the facilities required by the contracts leave them very vulnerable to abuses. Growers are offered take-it-or-leave-it contracts, and have little choice but to accept highly unfavorable terms or face bankruptcy.

In addition, contract models of production carry with them a reduction in price transparency, as producers are often required to keep their contract terms confidential. For commodities where contract production is predominant, it is impossible to know what a true market price is for that commodity. For commodities produced using a mixture of both independent and contract production, concerns have been raised that processors use the contracted portion of their supply as a tool to manipulate the market price, exerting downward pressure on price for those under contract as well as those who are not. In both cases, contract terms are hidden, and the producers themselves are often kept in the dark regarding the calculation of their pay. In addition, small- and moderate-size producers face discrimination in the prices they receive for their products from processors, unable to receive premiums solely due to their size.

Increased consolidation and lack of competition have negative implications for consumers, as well. Non-competitive markets can lead to increased costs and reduced choices for consumers. When too few companies dominate a market, the long-term result for consumers is negative.

We must stress that without addressing the competitive structure of agriculture, we are concerned that necessary efforts to increase farmers' income will be undermined by the anti-competitive conduct of the few corporations that dominate the domestic and global markets. As long as these few corporations dictate the means and costs of production, the prices paid for farm products, and the prices commanded from consumers, the economic position of our nation's farms, ranches and agricultural communities cannot improve.

We thank you for your attention to this urgent matter, and look forward to working with you during the farm bill reauthorization process.

Sincerely,

American Corn Growers Association
Appalachian Sustainable Development
California Sustainable Agriculture Working Group
Campaign for Contract Agriculture Reform
Cattlemens' Legal Fund
Center for Rural Affairs
Center for Sustainable Systems (Kentucky & Vermont)
Commodity Growers Cooperative Association
Community Alliance with Family Farmers (California)
Community Food Security Coalition
Consumer Federation of America
CROPP Cooperative/Organic Valley
Defenders of Wildlife
Delmarva Poultry Justice Alliance
Evangelical Lutheran Church in America
Evangelical Lutheran Church in America, Office of Rural Ministry
Family Farm Defenders
Family Farmer Organization, Inc. (Montana)
Federation of Southern Cooperatives Land Assistance Fund
Florida Organic Growers
Georgia Organics, Inc.
Georgia Poultry Justice Alliance
Humane Society of the United States
Illinois Stewardship Alliance
Institute for Agriculture and Trade Policy
Iowa Citizens for Community Improvement
Iowa Farmers Union
La C.A.S.A. del Llano
(Communities Approaching Sustainability with Agroecology)
Land Loss Prevention Project
Land Stewardship Project
Lutheran Office for Governmental Affairs
Maine Organic Farmers and Gardeners Association
Minnesota Project
Missouri Rural Crisis Center
National Campaign for Sustainable Agriculture
National Catholic Rural Life Conference
National Contract Poultry Growers Association
National Family Farm Coalition
National Farmers Union
Northeast Organic Farming Association--New York
Nebraska Wildlife Federation
New England Small Farms Institute

New York Sustainable Agriculture Working Group
North Carolina Contract Poultry Growers Association
Northern Plains Resource Council
Organization for Competitive Markets
Pennsylvania Association for Sustainable Agriculture
Presbyterian Church (USA), Washington Office
Red Tomato (Massachusetts)
Rural Advancement Foundation International
Rural Advancement Fund
Rural Coalition/Coalicion Rural
Rural Vermont
Southern Research and Development Corporation (Louisiana)
Southern Sustainable Agriculture Working Group
Sustainable Agriculture Coalition
Union of Concerned Scientists
United Church of Christ, Justice and Witness Ministries
United Methodist Church, General Board of Church and Society
United Poultry Growers (Georgia)
Western Organization of Resource Councils
Western Sustainable Agriculture Working Group

cc:
The Honorable Trent Lott
The Honorable Tom Daschle
Senate Agriculture Committee Members

for organization contact names/numbers, please call:

Chris Campany
National Campaign
for Sustainable Agriculture
845-744-8448

Statement of
UNITED EGG PRODUCERS

Senate Committee on Agriculture, Nutrition, and Forestry
July 24, 2001

The United Egg Producers appreciate the opportunity to comment on the committee's deliberations toward the next farm bill. UEP is a farmer cooperative. Our members account for 80% of all shell egg production in the United States.

Conservation and the Environment

First, we commend and appreciate the emphasis placed by Chairman Harkin, Senator Lugar and other Senators on resource conservation and environmental stewardship. We ask the committee to provide a substantial increase in funding for the Environmental Quality Incentives Program (EQIP) and conservation technical assistance. As you know, regulations under the Clean Water Act and other statutes will impose a growing burden on livestock, poultry and dairy operations in the coming years.

Egg producers have tried to be pro-active in dealing with these issues. Last year, we signed an "XL" agreement with the Environmental Protection Agency – a voluntary agreement by which participating egg producers will take environmental and conservation steps well beyond what is required by regulations. In return, producers will qualify for general permits rather than individual permits, with substantial savings in legal fees, consulting costs and paperwork burden. The XL agreement will be implemented only in those States that choose to do so, and our organization is working closely with State regulators to make the program available in as many States as possible.

Even with the XL agreement, the costs of complying with regulations will be large. These costs will include developing Comprehensive Nutrient Management Plans (CNMPs), building or modifying existing structures, revamping systems for handling manure and waste water, and making arrangements for field application of manure.

Unfortunately, we are looking at the prospect of increased costs at a time when egg producers are losing money on every dozen eggs they sell. Last year, egg producers lost 6 cents a dozen, on average. After a brief period of profitable prices this spring, returns are again negative. In its July 9 issue, *Feedstuffs* magazine reported producer prices of 46-51 cents per dozen in the Midwest. Producers are not making money at these levels. Even though demand is strong, it is overwhelmed by oversupply.

Our industry is trying to deal with the problem of low prices on both the supply and demand sides. As a cooperative, we have urged our producers to implement a voluntary program of supply management. We continue to support the highly successful efforts of the American Egg

Board to expand the demand for eggs through research and promotion. Still, the increased costs of environmental compliance have the potential to make a bad economic situation worse.

There are no price or income supports for the egg industry. But like other segments of the livestock and poultry sector, we believe producers should be eligible for cost-sharing and technical assistance when we implement conservation practices and structures that will have a wide societal benefit. Congress has traditionally determined – and with good reason – that in agriculture, it is appropriate for all of us to share costs that will benefit us all. One fundamental reason is that agricultural producers do not have the ability to pass increased costs along to their customers.

Therefore, we were heartened by the concept paper recently published by the House Agriculture Committee, which evidenced a commitment to expand EQIP and technical assistance. In fact, most reasonable estimates of our future costs would justify greater increases in both categories than the $1.2 billion per year provided in that concept paper. At least in the early years of this farm bill, the livestock, poultry and dairy sectors alone could utilize $1.2 billion a year effectively. Legislation being considered by Senators on this committee contemplates a larger $1.5 billion annual level, and such a meaningful commitment of resources has our wholehearted support. Likewise, we commend all Senators who are advancing concepts that provide support for responsible stewardship in tandem with productive use of the land resource. These concepts may differ in design, but share a central commitment to balanced, economically viable stewardship.

When the committee crafts actual legislative language, we strongly urge that all EQIP and other funds be offered on a non-discriminatory basis. All producers should be eligible for assistance, regardless of size. We realize there will probably be an upper limit on the amount of assistance anyone can get, but no one should be excluded because of size. Producers have grown larger because they have had to do so in order to remain competitive in the face of low prices. Since large operations account for a major portion of total production, it is counterproductive to exclude them from environmental programs. To do so is to allow social policy to stifle environmental progress.

Trade

A second major priority for us is trade policy. Foreign markets are important to the future of the egg industry. As UEP recently had the opportunity to tell the International Trade Commission, we face trade barriers in many markets, but also have important opportunities for exporting both shell eggs and processed egg products. **Many agricultural groups support an expansion of the Market Access Program (MAP), and we share the hope that this cooperative effort can grow.** We have made a commitment to export markets through our cooperative's role in arranging export orders, as well as through our support of the USA Poultry and Egg Export Council. In light of continued European Union export subsidies for eggs and egg products, we also believe a renewal of the Export Enhancement Program for the U.S. egg industry is appropriate.

Research and Education

Another indispensable element in building our future is research. Therefore, **we strongly support the continuation of the Initiative for Future Food and Agricultural Systems.** As you write the actual language of the farm bill, we hope you will consider emphasizing research in two priority areas: first, **food safety**, especially the development and improvement of vaccines, quality assurance systems and other interventions that can reduce pathogen incidence; and second, **human nutrition**, particularly the exploration of benefits inherent in functional foods like eggs.

We need to do a better job of communicating the facts about agriculture to all Americans, especially our children and young people. UEP and other producer groups have supported an innovative curriculum called **Food, Land and People**. Since 1988, this K-12 program has worked to meet classroom needs for high-quality, objective and easily-integrated materials that deal with the complexity and interdependence of agriculture and the environment. UEP believes FLP is critically important to our nation's future, because most children – like most adults – have little or no direct connection to farming or ranching. The attitudes they bring to their future roles as leaders, consumers, activists or business operators will be influenced by the information they absorb in their school years. FLP makes learning about agriculture fun, creative and challenging. **We hope the committee will consider authorizing federal assistance for this important effort,** and would be happy to provide draft language that would accomplish this goal.

Commodity Programs

Finally, we would like to comment about future programs for grains and oilseeds.

We prefer to leave the design of these policies to those directly affected by them. Like other livestock and poultry producers, however, we do ask the committee to **avoid designing other commodity programs in ways that would hurt our industry**. Our basic request is that you allow commodity prices to be determined by the forces of supply and demand. We ask that you authorize price and income supports in such a way that their interference with market signals is minimal.

Our interest in these principles is direct. Feed accounts for almost 60% of the cost of producing eggs. At a time when egg producers are already losing money, they cannot afford government-induced distortions in their feed costs. The government should not seek to artificially short the market. Neither should the government artificially encourage over-production. Although low grain and oilseed prices reduce our production costs in the short run, in the long run they may lead to egg surpluses by encouraging excessive expansion in our industry.

This is why we believe that grain and oilseed programs should be designed so that prices are free to move in response to supply and demand. The market, not the government, should set feed costs.

UEP thanks the committee for considering our views. We commend you for your hard work on the farm bill, and would like to work constructively with you in the challenging tasks that lie before us.

QUESTIONS SUBMITTED FOR THE RECORD

JULY 24, 2001

Questions, Farm Bill Livestock Hearing
Senator Pat Roberts
July 24, 2001

Eric Davis, National Cattlemen's Beef Association
In your testimony, I notice that the National Cattlemen's Beef Association are supportive of provisions allowing grazing on CRP, increase in research funding related to animal health and food safety, a rather substantial increase in funds for the Market Access Program (MAP), in addition to increasing funding for the popular EQIP and WHIP programs. Considering the constraining reality of the budget, what are NCBA's priorities when it comes to programs and funding? Is promotion and trade the main priority? Is increasing participation and funding for EQIP the primary concern?

As our rural communities face the challenges of the 21st century, what role does your organization feel that rural development should have in the next Farm Bill?

What are your organization's suggestions regarding the health and safety of our nation's livestock industry? What percentage of funds and energy should be directed towards research, education, prevention, and planning?

Jon Caspers, National Pork Producer's Council
Your organization supports increases in funding for EQIP, WHIP, and MAP. In addition you support funding for initiatives such as the Global Food Assistance program. With the reality of the budget for agriculture, what are NPPC's priorities for programs and spending?

Beyond technical assistance what does NPPC support in terms of expanded conservation funding?

What should the scope and role of rural development be in the next Farm Bill?

What are your feelings regarding limits on technical assistance for producers and size requirements for EQIP?